aldermore

Aldermore Group PLC
Annual Report and Accounts 2015

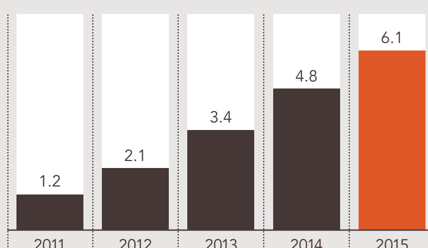
Financial highlights

A proven track record of strong delivery

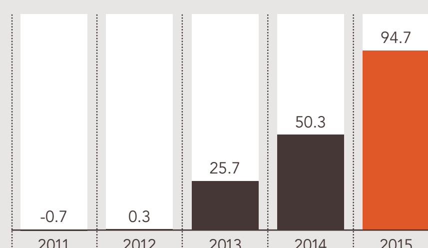
2015 highlights

- Net loans to customers up by 28% to £6.1bn
- Profit before tax up by 88% to £94.7m
- Underlying profit before tax[1] up by 75% to £98.8m
- Underlying return on equity[1] of 20.6%
- Earnings per share up by 75% to 22.7p
- Underlying cost/income[1] ratio reduced to 51%
- Cost of risk at 19bps reflects rigorous approach to risk management
- Listed on the London Stock Exchange, raising £75m of gross primary equity
- CET1 ratio remains strong at 11.8%

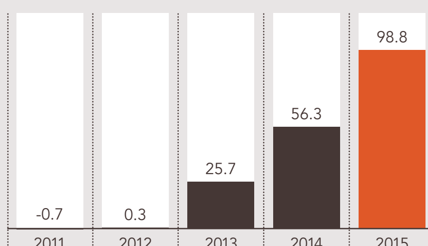
Net loans (£bn)



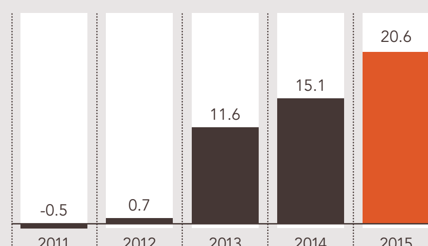
Reported profit before tax (£m)



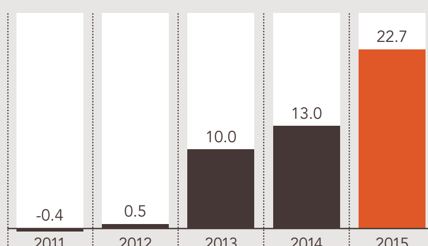
Underlying profit before tax[1] (£m)



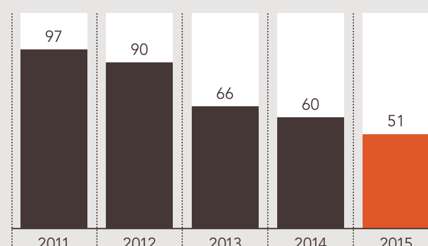
Underlying return on equity[1] (%)



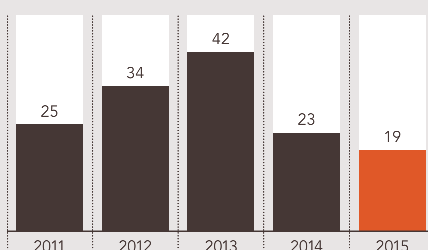
Earnings per share (p)



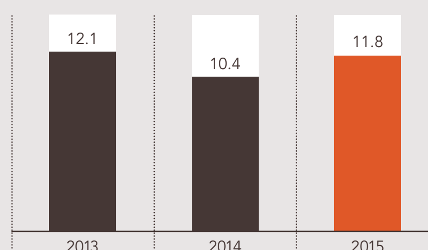
Underlying cost/income ratio[1] (%)



Cost of risk (bps)



CET1 ratio[2] (%)



1 Underlying measures exclude IPO related costs of £4.1 million pre-tax and £3.4 million post tax for 2015 (2014: £6.0 million and £4.6 million).

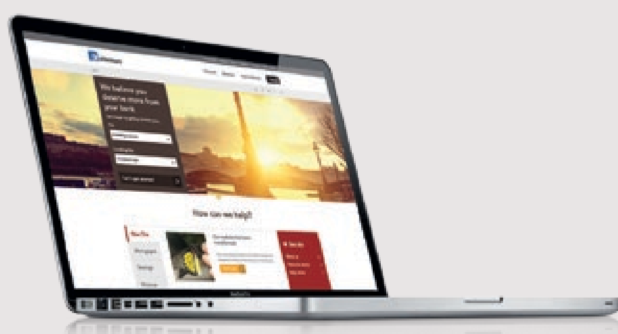
2 Fully loaded CRD IV CET1 ratio was introduced from 1 January 2014, hence only three years of comparative data is presented above.

Introduction

Aldermore is a specialist lender, supporting UK SMEs, homeowners and landlords. Enjoying the advantages of modern, legacy-free and scaleable systems, our expert underwriters are able to make considered credit decisions rather than adopting a "computer says yes or no" approach. We are able to focus on customers who are often under- or poorly served by the wider market.

Diversification is a central theme of our strategy. In our lending portfolio, we focus on prime creditworthy customers across lending lines chosen for their large market sizes, high levels of tangible asset security and attractive risk adjusted returns. Across our funding base, which is anchored by our dynamic online savings proposition, diversification, along with falling interest rates, has been a key driver of our reducing cost of funds in recent years. Through the extension of our distribution capability, we are reaching more customers through multiple channels and aim to differentiate our service by being easy to do business with and making quick, consistent and transparent credit decisions.

Our DNA is to be Reliable, Expert, Dynamic and Straightforward and this informs everything we do, creating the basis of our culture and brand. We have a proven ability to leverage our specialist underwriting capability into adjacent market segments and are confident of achieving our strategic growth and financial objectives while maintaining a prudent risk appetite and strong capital base.



For more information on our business visit

www.aldermore.co.uk

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company/aldermore-bank-plc

AldermoreBank

The consolidated financial statements of Aldermore Group PLC ("the Group") comprise of Aldermore Group PLC ("the Company") and its subsidiary undertakings, including Aldermore Bank PLC ("the Bank").

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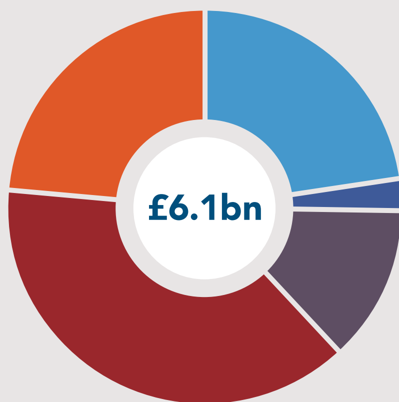
Business overview

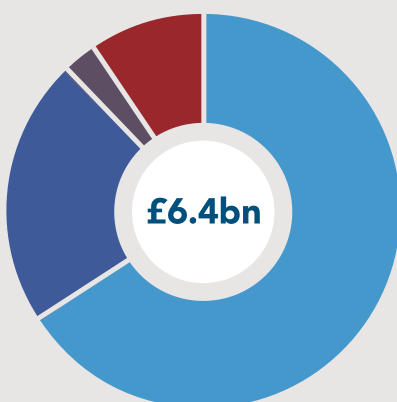
We are a specialist lender and benefit from a diversified funding base

Lending portfolio



- Asset Finance £1.3bn
- Invoice Finance £0.2bn
- SME Commercial Mortgages £0.8bn
- Buy-to-Let £2.4bn
- Residential Mortgages £1.4bn

Funding base



- Retail deposits £4.2bn
- SME deposits £1.4bn
- Corporate deposits £0.2bn
- Wholesale funding £0.6bn

Asset Finance

Asset Finance: We support capital investment in business critical assets. Leveraging our depth and breadth of expertise, we finance a wide array of assets such as plant and machinery, commercial vehicles and cars. This flexibility enables us to meet the needs of customers of all sizes across key industries. In addition, we offer wholesale and block discounting facilities to smaller leasing companies and brokerages enabling them to extend credit directly to SMEs.

Read more on page 26

Invoice Finance

Invoice Finance: We provide working capital solutions for UK SMEs, ranging from vanilla invoice discounting and full service factoring, where we manage the customer's debt collection on their behalf, to more tailored customer solutions requiring the in-house expertise that Aldermore has developed.

Read more on page 28

Commercial Mortgages

SME Commercial Mortgages: We offer mortgages to cover the full life cycle from property development through to purchase and refinancing as well as bridging loans. Our SME Commercial Mortgages business focuses on mortgages for shops, warehouses, industrial units and offices distributed through financial intermediaries and directly with customers.

Read more on page 30

Buy-to-Let Mortgages

Buy-to-Let: We provide a complete Buy-to-Let proposition catering for both individual and corporate landlords, simple to complex properties and from a single property to large portfolio.

Read more on page 32

Residential Mortgages

Residential Mortgages: Within Residential Mortgages we target prime creditworthy customers, including first time buyers, self-employed and professionals, who often fall outside the automated lending criteria of some of the mainstream banks. We were also an early adopter of Government schemes such as the Help to Buy: mortgage guarantee and equity loan schemes.

Read more on page 34

Chairman's and Chief Executive Officer's review

2015 highlights

- Listed on the London Stock Exchange on 13 March 2015
- Entered the FTSE 250 in June 2015
- Profit before tax up by 88% to £94.7m
- Earnings per share increased 75% to 22.7p
- Return on equity increased by 6.2 points to 19.7%
- Net lending up by 28% to £6.1bn
- Record annual loan origination of £2.6bn
- Customer deposits up by 29% to £5.7bn; matching growth in lending
- Strong capital position; CET1 ratio of 11.8%
- 97% of customers providing online feedback would recommend us to friends and family

In our first Annual Report and Accounts as a listed company, we are pleased to report another year of strong lending growth and record levels of profitability.

The past year has been one of tremendous achievement for Aldermore. This report provides considerable detail about this and about our governance, strategy, remuneration, risk and financial results.

Another year of strong performance

At IPO, we described our journey to generate both further scale and strong, sustainable returns for our shareholders. 2015 marks another year of significant progress with lending to customers now at £6.1 billion and the Group already generating what we believe are attractive and sustainable returns. Our financial performance reflects the successful execution of our strategy and the strength of our business model. We remain confident that we are well positioned for further success.

Profit before tax on a reported basis increased by 88 per cent to £94.7 million. We generated earnings per share of 22.7 pence, up by 75 per cent compared with 2014 and our return on equity increased by 6.2 per cent to 19.7 per cent.

Once again, we lent more than ever to UK SMEs, homeowners and landlords. Driven by record organic origination of £2.6 billion, net loans increased by 28 per cent to £6.1 billion. Although marginally below our target, this represents a strong performance supported by net loan growth in SME Commercial Mortgages of 50 per cent, Residential Mortgages of 42 per cent, Asset Finance of 29 per cent and Buy-to-Let of 18 per cent.

We also continue to benefit from a diversified funding base with our innovative, online savings franchise at its core. Matching the increase in our lending to customers, we have grown deposits by 29 per cent to reach £5.7 billion. Once again, within this, our SME deposits business has delivered excellent growth, with total balances of £1.4 billion up by 37 per cent in the year, and forms a key plank of our ongoing diversification strategy.

Across the business, we now support around 195,000 customers who we continue to impress, with 97 per cent of customers who posted feedback via our website saying they would recommend us to friends and family. Our Net Promoter Score, which measures customer loyalty, is 22, remains consistently strong and well above the UK banking industry average of 2.

Strong balance sheet

Through our IPO, we built our capital position to ensure that we continue to remain well ahead of our minimum regulatory requirements as we fund the Group's growth. Our fully loaded CRD IV CET1 ratio at 11.8 per cent remains ahead of both regulatory requirements and our target of around 11 per cent.

Our loan to deposit ratio remained broadly stable at 107 per cent as we continue to manage the balance between wholesale and deposit funding to drive an efficient cost of funds. Our funding is very well diversified by type and by size of individual depositor.

Chairman's and Chief Executive Officer's review

continued

Rigorous focus on prudent risk management

Prudent risk management is central to our operations and 2015 saw further ongoing enhancements.

Our approach to credit is prudent. The vast majority of our loans are well secured with tangible collateral and affordability tests applied on origination where applicable, with the portfolio being regularly stress tested thereafter. Albeit in a relatively benign interest rate environment, we have experienced low levels of arrears and our cost of risk has fallen to 19 basis points in 2015. Within our chosen lending lines, we avoid any undue concentration risks including by size of borrower, geography and industry.

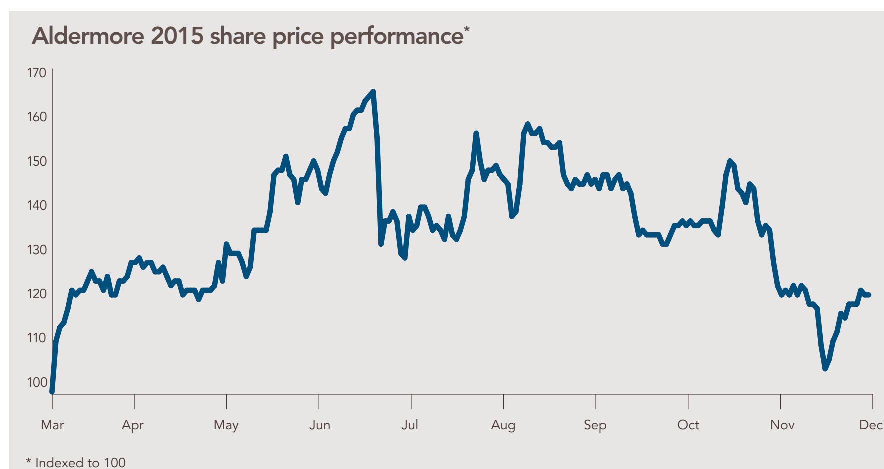
We also overhauled our Risk Management Framework to respond to the increasing scale and sophistication of our business and to meet best practice industry and regulatory standards. We considerably expanded our risk management resources in 2015 following an earlier investment in 2014.

Financial crime and cyber security is a growing threat in today's world. In 2015, we invested significantly to improve our defences and will continue to do so in the coming year.

Continued investment and innovation

To remain competitive and to ensure sustainability, we are continuously investing in our core systems and our digital capabilities. In 2015, we further enhanced our core systems to expand capacity, improve functionality, efficiencies and control. We delivered a new asset and liability management system which enhances our dynamic modelling capability enabling us to more efficiently manage liquidity and interest rate risk. We initiated the upgrading of our Asset Finance back office and our Mortgages platforms, investments which continue into 2016. Across the Group, we outsourced our IT infrastructure support to enhance our round the clock support capability and allow our strengthened internal team to focus on delivering our technology strategy to enhance our enterprise architecture, security and digital capability.

We paved the way for further transparency in the industry when, three years ago, we became the first bank in the UK to allow customers to rate and review our services online. In 2015, we continued to set standards by launching our SME Rate Checker tool, which enables business owners to check the rates of over 90 savings institutions to see the current rate of interest being earned on their current or business savings account.



A successful IPO

As noted above, we listed Aldermore in March 2015. Just over three months later, we were delighted to be admitted to the FTSE 250.

The listing allowed us to raise gross primary capital of £75 million to ensure that we continue to remain well ahead of our minimum regulatory requirements as we fund the Group's growth. Going forward, as we build further scale, retained profits will fund our incremental CET1 requirements organically. As we said at the time of the IPO, we will consider paying an initial dividend from 2017 taking into account the growth opportunities available to the Company at the time and the associated capital requirements. This continues to be our intention.

The IPO also enabled our principal shareholders, collectively AnaCap Financial Partners LP, AnaCap Financial Partners II, LP, AnaCap Derby Co-investment (No.1) LP and AnaCap Derby Co-investment (No.2) LP, to reduce their equity interest in Aldermore to 53 per cent. As is natural for private equity, our principal shareholders continued the transition of Aldermore to public ownership and this interest was further reduced to 40 per cent in September 2015. The liquidity in our stock, therefore, has improved as a result.

An evolving regulatory landscape

The chart on the left shows the movement in the Aldermore share price, indexed to 100, from our listing in March until the end of 2015. As can be seen, our share price performed strongly in the initial months after IPO but since then has experienced significant volatility. In the period from float to the end of the year, our share price rose from 192p at the pricing of our IPO to close at 231.5p on 31 December, having closed as high as 316p during July.

As can be seen in the chart overleaf, the volatility in our share price and across the wider financial markets continued throughout the first two months of 2016. However, more recently, we seen some recovery with the share price closing at 224.3p on 4 March 2016.

The disconnect between the continued strong financial and operational performance of the business, which has delivered a 75 per cent increase in EPS during 2015, and the share price performance is clear. Your Board of Directors is disappointed by the impact on shareholder value of the share price movement and so it is appropriate to consider the main causes and our perspective on these.

Having discussed this at length with our major shareholders and advisers, we believe that this disconnect comes down to the market's changing perception of the business risk to our future growth prospects. Broadly speaking, there are two major themes at play: the evolving regulatory landscape in which we operate and global financial markets' volatility in 2016.

Firstly, the impact of the following regulatory announcements made in the second half of 2015:

- A new corporation tax surcharge of 8 per cent on all UK banking profits above £25 million applicable from 1 January 2016
- Measures by the UK Government to dampen the buy-to-let market by restricting relief on mortgage interest payments to the basic rate of income tax from 2017 and by adding an extra 3 per cent stamp duty on buy-to-let and second home purchases from April 2016
- Possible additional powers to be granted to the Financial Policy Committee of the Bank of England to further dampen buy-to-let by placing limits on loan-to-value ratios and interest coverage ratios
- A Basel Committee consultation paper that proposes raising standardised risk weightings on buy-to-let mortgages which is expected to be effective from 2019 if agreed upon

The bank surcharge will impact our returns and, as a result, we now believe our percentage return on equity will be in the high-teens going forward. However, buy-to-let remains a key element of UK housing stock with continuing demand expected to be driven by factors including net migration into the UK, the reduced availability of social housing and affordability pressures on potential owner occupiers. We represent a small part of the overall market and believe that this lending segment remains attractive from both a growth and return perspective. The Basel Committee proposals are still only at a consultation stage but we have already started work to understand the requirements to transition to an IRB approach and use our own internal credit models rather than standardised risk weightings.

The second theme has arisen in the early part of 2016 and hit the entire European banking sector without discrimination. Bank share prices were subject to increased volatility as a result of heightened fears about slowing global growth and the limited policy responses available to address this, with a particular concern about the use of negative interest rates that would hurt bank margins. As the UK economy appears to be in better shape than most other developed economies, (albeit with Brexit raising uncertainties), Aldermore, as a robust UK-focused business, should be somewhat insulated from these concerns. Certainly, at present, we are not seeing any loss of confidence in our customer base.

In conclusion, we continue to focus on building Aldermore's track record of delivery and remain confident of our ability to deliver continued nominal net loan growth in line with recent run rates and strong, sustainable returns.

A differentiated and diversified strategy

Aldermore is a diversified specialist lender focused on segments of large, growing markets which are under- or poorly served by the wider market and which provide numerous opportunities to deliver strong profitable growth. Our business model gives us significant operational leverage as we distribute primarily via specialist broker intermediaries, rather than through a costly branch network, and we have modern, scaleable systems and digital capability. As we have grown in size, our income growth is exceeding our cost growth and we are making good progress towards our cost/income ratio target of less than 40 per cent by the end of 2017.

Chairman's and Chief Executive Officer's review

continued

We have a clear strategy for delivering further profitable growth based on the following high level drivers:

- We have a diversified lending portfolio which gives us multiple options for growth. As our 2015 results demonstrate, we are not reliant on any one business
- We have small shares of our addressable markets which provides ample opportunity for growth as we drive incremental increases in market share
- We continued to extend our distribution reach and mix, deepening relationships with existing brokers, establishing new relationships and, in tandem, developing our direct distribution capability
- We continue to invest in technology to improve our customers' experience of doing business with us and our ability to innovate, which helps us to both attract new customers and retain existing ones
- We have proven our ability to leverage our specialist underwriting capability into adjacent market segments, for example IT and telephony assets in Asset Finance and Bridging loans in Mortgages.

These factors taken together are hugely supportive of our future growth potential and we are confident therefore that this business will continue to deliver nominal net loan growth in line with recent run rates.

Corporate governance

As a public company and regulated banking business, we strongly believe that effective corporate governance is fundamental to our business success. We have been fully compliant with the UK Corporate Governance Code 2014 from the date of our listing. Your Board of Directors has ensured that best practice governance standards have been fully embedded. Towards the end of 2015, we undertook a Board effectiveness review, overseen by our Senior Independent Director and Company Secretary, to validate our effectiveness.

In June 2015, we further strengthened the Board with the appointment of Robert Sharpe as an Independent Non-Executive Director and member of the Risk and Audit Committees. Robert brings a wealth of experience in retail banking with a particular focus on mortgage lending and, as such, he complements the broad expertise we are able to draw upon as a Board.

We would particularly like to thank Mark Stephens, Deputy CEO and Group Commercial Director, who left during 2015, for his enormous contribution to Aldermore. We had strong succession plans in place and Mark's departure saw us welcome Carl D'Ammassa, as Group Managing Director of Business Finance, and Charles Haresnape, as Group Managing Director of Mortgages, to the Executive Committee.

Customers and communities

Our customers and communities are key to our success and our strong relationship with these groups is discussed in detail on page 22.

We recognise that we have a responsibility to play our part in the UK's financial services community, which includes taking part in Government schemes to support SMEs, homeowners and savers. We continue to be one of the most active lenders in the Funding for Lending Scheme (FLS) and were pleased to be the third largest net lender to SMEs under FLS in 2015.

Our support for the Help to Buy scheme also goes back several years. We were one of the first lenders to take part in the Government's Help to Buy scheme and the first to allow borrowers to remortgage onto Help to Buy products. In late 2015, we were pleased to be one of the first organisations to offer the Help to Buy: ISA.

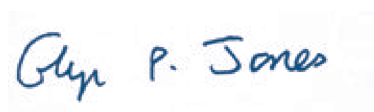
Outlook

As described earlier, the global economy has been full of gloomy news in the first two months of 2016. The UK economy, however, looks to be one of the more resilient developed economies notwithstanding that more recently, the Brexit in/out debate and referendum is introducing risk and uncertainty and we have seen sterling under pressure as a result. The UK also continues to experience a period of stable, low interest rates with current market expectations for the first interest rate rise now pushed out to 2018.

We are a purely UK-focused bank and our customer base remains positive. SME confidence continues to be resilient, with recent surveys showing that almost half of SMEs intend to grow in 2016[1]. As discussed, we believe underlying demand in buy-to-let will remain resilient to regulatory changes and in the residential mortgages market, the UK Government is supporting various initiatives to encourage first time buyers which should stimulate further growth in this segment.

Looking forward to 2016, there are risks and uncertainties that will challenge us, but we have a proven strategy and business model and a capacity to be fast and agile, so we are confident that we will continue to deliver further growth and increasing profitability.

We would like to thank our staff for their dedication and commitment, our customers for their valued business and our shareholders for their ongoing support.



Glyn Jones
Chairman

Phillip Monks
Chief Executive Officer

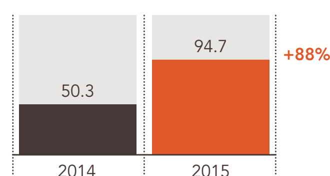
[1] BDRC Continental, SME Finance Monitor Q3 2015.

Chief Financial Officer's review

2015 highlights

- Net loans to customers up by 28% to £6.1bn
- Customer deposits up by 29% to £5.7bn
- Reported profit before tax up by 88% to £94.7m
- Underlying profit before tax[2] up by 75% to £98.8m
- Underlying return on equity[2] increased to 20.6% (2014: 15.1%)
- Net interest margin of 3.6% in line with expectations
- Underlying cost/income ratio[2] improved by 9pts to 51%
- Cost of risk improved to 19bps
- Issued £75m of gross primary equity at IPO
- Strongly capitalised with a total capital ratio of 15.1%

Profit before tax (£m)



Balance sheet – key items	2015 £m	2014 £m	% change
Net loans	**6,144.8**	4,801.1	28
Cash and investments	**805.6**	706.7	14
Intangible assets	**24.0**	22.6	6
Fixed and other assets	**34.1**	34.8	(2)
Total assets	**7,008.5**	**5,565.2**	**26**
Customer deposits	**5,742.0**	4,459.0	29
Wholesale funding	**635.8**	620.7	2
Other liabilities	**97.1**	106.6	(9)
Total liabilities	**6,474.9**	**5,186.3**	**25**
Ordinary shareholders' equity	**459.6**	305.2	51
AT1 capital	**74.0**	73.7	–
Equity	**533.6**	**378.9**	**41**
Total liabilities and equity	**7,008.5**	**5,565.2**	**26**

Key metrics	2015	2014	% change
Net loan growth (£m)	**1,344**	1,427	(6)
Loans to deposits ratio (%)	**107%**	108%	1
Liquid assets/deposits (%)	**14%**	16%	(2)
Fully loaded CRD IV total capital ratio (%)	**15.1%**	14.8%	0.3

2015 was another excellent year financially for the Group. We delivered record levels of profitability, with reported profit before tax up by 88 per cent to £94.7 million, and continued strong lending growth.

Net loans of £6.1 billion

We continued to support UK SMEs, homeowners and landlords and increased our net lending to customers by over £1.3 billion or 28 per cent to £6.1 billion (31 December 2014: £4.8 billion). Although marginally below our target, this strong performance was driven by excellent organic origination of £2.6 billion, up 10 per cent on the prior year.

Total assets exceeded £7 billion, an increase of 26 per cent on 2014.

Continued funding diversification

We remain primarily deposit funded but continue to diversify our funding base through wholesale sources including the Bank of England's Funding for Lending Scheme (FLS), RMBS and a small amount of Tier 2 debt securities.

[2] Excludes IPO-related costs of £4.1 million pre-tax and £3.4 million post tax in 2015 (2014: £6.0 million and £4.6 million).

Chief Financial Officer's review

continued

Our savers continue to be attracted by our innovative online proposition and we grew total deposits by 29 per cent to £5.7 billion during 2015. We continued to diversify our deposit base, growing our SME deposits strongly by 37 per cent to £1.4 billion. Corporate deposits, which we launched in December 2014, now total £156 million and we are pleased by this progress.

Our loans to deposits ratio is 107 per cent, broadly in line with the position at the end of 2014 and reflects our ability to match lending and deposit growth.

As at 31 December 2015, Wholesale funding includes £0.4 billion of FLS, where we were pleased to be the third largest net lender to SMEs under this scheme in 2015, £0.2 billion of RMBS, reflecting the outstanding balance on our April 2014 issuance, and a small amount, around £38 million, of Tier 2 debt securities, which are callable in May 2017.

As a result of the above, total liabilities grew by 25 per cent to £6.5 billion (31 December 2014: £5.2 billion).

Income statement – key items	2015 £m	2014 £m	% change
Interest income	**300.4**	227.8	32
Interest expense	**(101.5)**	(87.6)	(16)
Net interest income	**198.9**	**140.2**	**42**
Net fee and other operating income	**25.6**	26.0	(2)
Net derivatives income and gains on disposal of debt securities	**0.2**	(1.2)	–
Operating income	**224.7**	**165.0**	**36**
Expenses, depreciation and amortisation	**(115.5)**	(99.1)	(17)
IPO costs	**(4.1)**	(6.0)	32
Impairment losses	**(10.4)**	(9.6)	(8)
Profit before tax	**94.7**	**50.3**	**88**
Tax	**(16.4)**	(11.9)	(38)
Profit after tax	**78.3**	**38.4**	**104**
Key metrics			
Net interest margin (%)	**3.6%**	3.4%	0.2%
Underlying cost/income ratio[1] (%)	**51%**	60%	9%
Cost of risk (bps)	**19bps**	23bps	4bps
Underlying return on Equity[1] (%)	**20.6%**	15.1%	5.5%

Raised £75 million of gross primary equity

As at 31 December 2015, total equity was £534 million, an increase of 41 per cent on the prior year due primarily to the increase in retained earnings driven by profit after tax for the year of £78.3 million and the issuance of £75 million of gross primary equity at our IPO in March 2015 (£72.3 million net of costs).

Interest income reflects continued loan growth

The 28 per cent growth in net lending drives the 32 per cent growth in interest income to £300.4 million for 2015 (2014: £227.8 million). We are particularly pleased to have achieved this growth whilst maintaining the overall gross interest margin broadly constant at 5.5 per cent (2014: 5.6 per cent).

As described above, we continued to diversify our funding base and as a result, of this and further movement in market deposit rates, our cost of funding reduced to 1.9 per cent (2014: 2.1 per cent). Interest expense has therefore only grown at 16 per cent to £101.5 million (2014: £87.6 million).

As a result, we delivered a 42 per cent increase in net interest income to £198.9 million (2014: £140.2 million) whilst also driving the expected 0.2 percentage point improvement in the net interest margin to 3.6 per cent (2014: 3.4 per cent).

Stable net fee and other operating income

Net fee and other operating income was broadly flat on the prior year at £25.6 million (2014: £26.0 million) with fee and commission income down by 5 per cent to £25.2 million (2014: £26.4 million) and a reduction in fee and commission expense of 10 per cent to £7.0 million (2014: £7.8 million) driven predominantly by Invoice Finance but partially offset by increased Asset Finance fees as this business has grown. Other operating income is mainly related to Invoice Finance and is in line with 2014 at £7.4 million for both years.

[1] Excludes IPO-related costs of £4.1 million pre-tax and £3.4 million post tax in 2015 (2014: £6.0 million and £4.6 million).

"We delivered record profitability and continued strong growth in 2015."

James Mack, Chief Financial Officer

Net investment income

Net derivatives income and gains on disposal of debt securities shows a profit of £0.2 million (2014: £1.2 million expense) with a £2.1 million net expense from derivatives offset by a £2.3 million gain on disposal of the related debt securities.

Operating income

As a result, we delivered a 36 per cent increase in operating income to £224.7 million (2014: £165.0 million).

Leveraging our operating platform

We have modern systems which we continue to invest in to maintain scaleability, improve functionality and cost efficiency. These systems, plus variabilising distribution costs via broker distribution plus avoiding expensive branch networks, has enabled us to grow revenues more quickly than costs. Total underlying expenses, excluding IPO costs, totalled £115.5 million (2014: £99.1 million) an increase of 17 per cent on the prior year and in line with our previous guidance of mid-teens per cent growth for the year.

The components of the cost base are shown in the table above. Other administrative expenses have grown by 18 per cent to £107.9 million (2014: £91.6 million) mainly due to a 24 per cent increase in staff costs as we increased the average number of employees by 12 per cent to 845.

A more detailed split of administrative expenses including provisions and IPO related costs can be found in Note 11 of the financial statements.

Provisions predominantly reflect the levy for the UK Government's Financial Services Compensation Scheme (FSCS) which offers protection to individual deposit holders on amounts up to £75,000. The levy for 2015 was £2.2 million (2014: £ 2.6 million).

The Group listed on the London Stock Exchange on 13 March 2015 and the related costs charged to the income statement for 2015 were £4.1 million (2014: £6.0 million).

Operating expenses	**2015 £m**	2014 £m	% change
Other administrative expenses	**107.9**	91.6	(18)%
Provisions	**2.3**	3.6	36%
IPO related costs	**4.1**	6.0	32%
Depreciation and amortisation	**5.3**	3.9	(36)%
Total operating expenses	**119.6**	**105.1**	**(14)%**
Operating expenses excluding IPO related costs	**115.5**	99.1	(17)%

Depreciation and amortisation was £5.3 million (2014: £3.9 million) with the increase over 2014 due to increased levels of amortisation on computer software reflecting the higher opening balance and additions during the year.

Improved cost/income ratio

We continue to make good progress towards our target cost/income ratio of less than 40 per cent by the end of 2017 with a 9 percentage point reduction during the year in our underlying cost/income ratio to 51 per cent (2014: 60 per cent) which excludes IPO costs.

Rigorous credit risk management

Our continued focus on prudent credit risk management, as well as the benefit of the relatively benign credit environment, is reflected in the strong cost of risk of 19bps (2014: 23bps). Impairment losses increased by 8 per cent to £10.4 million (2014: £9.6 million) reflecting growth in the portfolio and low levels of arrears.

In 2015, the cost of risk benefitted from a relatively benign credit environment as well as low levels of arrears across the portfolio. We continue to believe that, over the cycle, the normalised cost of risk for the business will be in the mid to high 30s basis points.

Significant increase in profitability

In 2015, we generated profit before tax of £94.7 million, an increase of 88 per cent over 2014 profit before tax of £50.3 million. Excluding IPO related costs, the underlying profit before tax is £98.8 million (2014: £56.3 million), an increase of 75 per cent.

Tax

The tax charge for the year increased by 38 per cent to £16.4 million (2014: £11.9 million) reflecting the Group's increased profitability. However, the Group also benefitted from a one-off revaluation of deferred tax assets following the announcement of the introduction of the 8 per cent bank tax surcharge from 1 January 2016. As a result, the effective tax rate for 2015 was unusually low at 17.3 per cent (2014: 23.7 per cent). Going forward, we would expect our effective tax rate to move towards the mid-20s percentages as we apply the UK statutory tax rate on all taxable profits and the additional 8 per cent surcharge on taxable banking profits above £25 million.

Profit after tax

Profit after tax for 2015 more than doubled to £78.3 million (2014: £38.4 million). Excluding IPO costs, the underlying profit after tax increased by 90 per cent to £81.7 million (2014: £43.0 million).

Delivering strong, sustainable returns

Our continued strong improvement in profitability drove an improved return on equity of 19.7 per cent (2014: 13.5 per cent). On an underlying basis, excluding IPO related costs, the return on equity was 20.6 per cent (2014: 15.1 per cent). Return on equity is calculated as returns to ordinary shareholders, i.e. profit after tax less the post tax AT1 coupon, divided by average ordinary shareholders' equity.

Both RoE measures benefit from the one-off deferred tax asset revaluation described above which is worth just less than 1 percentage point.

Chief Financial Officer's review

continued

Strong performance across the business

2015 (£m)	Asset Finance	Invoice Finance	SME Commercial Mortgages	Buy-to-Let	Residential Mortgages	Central Functions	Total
Net loans to customers	1,346.7	160.8	829.2	2,417.9	1,390.2	n/a	6,144.8
Average net loans	1,195.5	170.7	690.8	2,231.0	1,185.0	n/a	5,473.0
Origination	893	35	428	673	582	n/a	2,611
Net interest income	51.8	5.3	34.2	73.3	43.8	(9.5)	198.9
Net fees and other income	4.3	15.2	0.8	3.0	2.2	0.3	25.8
Total operating income	**56.1**	**20.5**	**35.0**	**76.3**	**46.0**	**(9.2)**	**224.7**
Administrative expenses	(12.0)	(14.5)	(4.8)	(9.0)	(5.1)	(74.2)	(119.6)
Impairment losses	(4.8)	(1.5)	(2.0)	(1.3)	(0.8)	n/a	(10.4)
Segmental result	**39.3**	**4.5**	**28.2**	**66.0**	**40.1**	**(83.4)**	**94.7**
Net interest margin (%)	4.3	3.1	5.0	3.3	3.7	n/a	3.6
Cost of risk (bps)	40	88	29	6	7	n/a	19

2014 (£m)	Asset Finance	Invoice Finance	SME Commercial Mortgages	Buy-to-Let	Residential Mortgages	Central Functions[1]	Total
Net loans to customers	1,044.3	180.6	552.4	2,044.1	979.7	n/a	4,801.1
Average net loans	882.3	196.3	477.7	1,773.5	757.8	n/a	4,087.6
Origination	740	45	301	726	560	n/a	2,372
Net interest income	36.9	6.0	27.5	57.3	20.2	(7.7)	140.2
Net fees and other income	3.1	17.5	1.1	2.9	1.7	(1.5)	24.8
Total operating income	**40.0**	**23.5**	**28.6**	**60.2**	**21.9**	**(9.2)**	**165.0**
Administrative expenses	(11.9)	(14.7)	(3.0)	(9.3)	(4.1)	(62.1)	(105.1)
Impairment losses	(2.7)	(3.4)	(3.0)	0.3	(0.8)	–	(9.6)
Segmental result	**25.4**	**5.4**	**22.6**	**51.2**	**17.0**	**(71.3)**	**50.3**
Net interest margin (%)	4.2	3.0	5.8	3.2	2.7	n/a	3.4
Cost of risk (bps)	31	173	63	(2)	11	n/a	23

Asset Finance

The Asset Finance business delivered strong growth in 2015, with net loans growing by 29 per cent to £1.3 billion (31 December 2014: £1.0 billion) as we grew customer numbers by 30 per cent to around 42,000 (31 December 2014: c33,000). This growth was also driven by excellent organic origination which increased by 21 per cent to £893 million (2014: £740 million). We continued develop our IT and telephony assets capability, and these assets now comprise around 7 per cent of the portfolio.

We also saw good progress with our stocking proposition which we launched toward the end of 2014.

Net interest income grew by 40 per cent to £51.8 million (2014: £36.9 million) driven by growth in lending with the net interest margin remaining broadly in line with the prior year at 4.3 per cent (2014: 4.2 per cent).

Administrative expenses were also stable at £12.0 million (2014: £11.9 million). We continue to invest to support growth and in upgrading our operating platform.

Impairment charges for the year totalled £4.8 million (2014: £2.7 million) leading to a cost of risk of 40 basis points (2014: 31 basis points). The 2015 charge reflects low levels of arrears whereas 2014 benefitted from one significant recovery.

Asset Finance delivered an excellent bottom line performance with the segmental result increasing by 55 per cent to £39.3 million (2014: £25.4 million).

[1] A £1.6 million write-off in relation to an Asset Finance intangible asset has been recorded within Central Functions as the asset was under development at the time of write-off.

Invoice Finance

Invoice Finance remains the smallest part of the Group at around 3 per cent of the total net loan portfolio. At 31 December 2015, net loans were £0.2 billion (31 December 2014: £0.2 billion). Customer numbers increased marginally, although remain around 1,200. Our trade and construction finance propositions which were launched toward the end of 2014 are starting to gain traction.

Net interest income decreased by £0.7 million to £5.3 million (2014: £6.0 million) driven by a lower average balance during the year with the net interest margin broadly flat at 3.1 per cent (2014: 3.0 per cent). Net fee income was down 13 per cent to £15.2 million (2014: £17.5 million) due to smaller average facility sizes and improvements in the credit performance of the portfolio leading to lower collect out fees. However, the latter was offset by improvements generated on impairments. The net revenue margin also remained constant at 12.0 per cent (2014: 12.0 per cent).

We maintained our focus on cost management and expenses were £14.5 million (2014: £14.7 million).

In addition to a number of fully provided loans being written off, we continue to benefit from actions previously taken to enhance credit and fraud controls and our non-performing loans ratio has reduced by 1.61 per cent to 1.51 per cent since the start of the year. These actions have also led to the improved credit performance of the business with impairments down by 56 per cent to £1.5 million (2014: £3.4 million) leading to a 85 basis points improvement in the cost of risk to 88 basis points (2014: 173 basis points).

The segmental result decreased by £0.9 million to £4.5 million (2014: £5.4 million).

SME Commercial Mortgages

In 2015, our SME Commercial Mortgage business grew net loans to customers by 50 per cent to £0.8 billion (31 December 2014: £0.6 billion) as we grew customer numbers by 38 per cent to around 1,500 (31 December 2014: c1,100). Growth was supported by good organic origination, up by 42 per cent to £428 million (2014: £301 million). We delivered strong growth in the Commercial Investment portfolio where we focus on multi-let developments. We were also particularly pleased by the growth in the Property Development portfolio, with brokers attracted by our high quality service and national coverage.

The continued momentum is reflected in the increasing net interest income, up by 24 per cent to £34.2 million (2014: £27.5 million). The net interest margin reduced by 0.8 percentage points to 5.0 per cent (2014: 5.8 per cent) as a result of the strong growth in the relatively lower margin Commercial Investment product.

The Mortgages division is run as one business with common platforms and some shared teams. We have allocated expenses to the three portfolios, with front office costs allocated using origination activity and back office costs allocated on the basis of average loan balances. The increase in administration expenses of £1.8 million therefore predominantly reflects increased origination compared with 2014 as well as the underlying 15 per cent increase in the overall cost base as we continued to invest in the business.

As at 31 December 2015, the non-performing loans ratio was 0.83 per cent. Impairment losses decreased by 33 per cent to £2.0 million (2014: £3.0 million), despite the growth in the portfolio, reflecting the low levels of arrears in the current relatively benign credit environment. As a result, the cost of risk has reduced by 34 basis points to 29 basis points (2014: 63 basis points).

The segmental result was strong, growing by 25 per cent to £28.2 million (2014: £22.6 million).

Buy-to-Let

In 2015, our Buy-to-Let mortgage business grew net loans to customers by 18 per cent to £2.4 billion (31 December 2014: £2.0 billion) as we grew customer numbers by 15 per cent to around 16,000 (31 December 2014: c14,000). Growth was supported by robust organic origination of £673 million (2014: £726 million).

Net interest income increased by 28 per cent to £73.3 million (2014: £57.3 million) and the net interest margin remained broadly constant at 3.3 per cent (2014: 3.2 per cent).

The reduction in the allocated administration expenses of £0.3 million predominantly reflects the impact of reduced origination compared with 2014 offset by the underlying 15 per cent increase in the overall cost base.

As at 31 December 2015, the non-performing loans ratio was 0.21 per cent. Impairment losses increased by £1.6 million to £1.3 million (2014: £0.3 million benefit) as 2014 benefitted from one unusually large recovery and the cost of risk was 6 basis points (2014: 2 basis points benefit).

The segmental result was excellent, growing by 29 per cent to £66.0 million (2014: £51.2 million).

Chief Financial Officer's review

continued

Residential Mortgages

In 2015, Residential Mortgages grew net loans to customers by 42 per cent to £1.4 billion (31 December 2014: £1.0 billion) as we grew customer numbers by 40 per cent to around 10,000 (31 December 2014: c7,000). Growth was driven by organic origination, up by 4 per cent to £582 million (2014: £560 million) and was supported by a strong performance in Help to Buy.

Net interest income grew by 117 per cent to £43.8 million (2014: £20.2 million). The net interest margin improved by 1 percentage points to 3.7 per cent (2014: 2.7 per cent) due to the increased levels of Help to Buy which, by design, is higher loan-to-value lending and attracts higher margins.

The increase in allocated administration expenses of £1.0 million predominantly reflects increased origination compared with 2014 as well as reflecting the increased scale of the business.

As at 31 December 2015, the non-performing loans ratio was 0.29 per cent. Impairment losses were unchanged at £0.8 million (2014: £0.8 million) despite the growth in the portfolio, reflecting the low levels of arrears in the current relatively benign credit environment. As a result, the cost of risk improved to 7 basis points (2014: 11 basis points).

The segmental result was excellent, growing by 136 per cent to £40.1 million (2014: £17.0 million).

Central Functions

Central Functions includes the Savings division and the Group's Treasury function as well as common costs which are not directly attributable to the business lines. Common costs include central support functions such as Finance, IT, Legal & Compliance, Risk and Human Resources.

Net interest income includes the interest expense relating to the Tier 2 subordinated notes and the net interest income or expenses element arising from derivatives held at fair value in hedging relationships, neither of which are recharged to the business lines.

Net fees and other income predominantly includes the net expense or income from derivatives not in hedging relationships and other financial instruments at fair value through profit or loss and gains on disposals of available for sale debt securities.

Central administrative expenses, excluding IPO costs, increased by 25 per cent to £70.1 million (2014: £56.1 million) mainly driven by an increase in the number of head office employees as we invested in the central functions ahead of the IPO to support life as a listed company and to support the growth of the business.

Total IPO costs incurred in 2015 were £6.8 million (2014: 6.0 million) of which £4.1 million (2014: 6.0 million) was charged to the P&L with the remainder charged to equity.

The segmental result was a charge of £83.4 million (2014: charge of £71.3 million)

Capital position

The Group maintains a strong capital position and its fully loaded CRD IV total capital ratio as at 31 December 2015 was 15.1 per cent (31 December 2014: 14.8 per cent). Within this, the Group's fully loaded CRD IV CET1 ratio was 11.8 per cent (31 December 2014: 10.4 per cent). Our total capital increased by 39 per cent to £558.2 million due to retained earnings of £78.3 million for the year and the £72.3 million of net primary equity raised at IPO. At the same time, our capital requirement increased as we grew RWAs by 37 per cent.

The Group's leverage ratio remains comfortably above the required minimum of 3 per cent at 7.3 per cent, up from 6.3 per cent at the end of 2014 due to retained earnings for the year as well as the equity raised at IPO.

Outlook

We are confident about the prospects for the Group. We continue to focus on balancing risk and return and remain committed to delivering profitable growth and strong, sustainable returns to shareholders while maintaining our prudent and disciplined approach to risk management.

Specifically, in 2016, we expect to deliver:

- nominal net loan growth in line with recent run rates
- a broadly flat net interest margin, reflecting the low and stable UK interest rate environment
- a return on equity percentage in the high teens.
- a fully loaded CRD IV CET1 capital ratio of around 11 per cent.

James Mack
Chief Financial Officer

Capital position

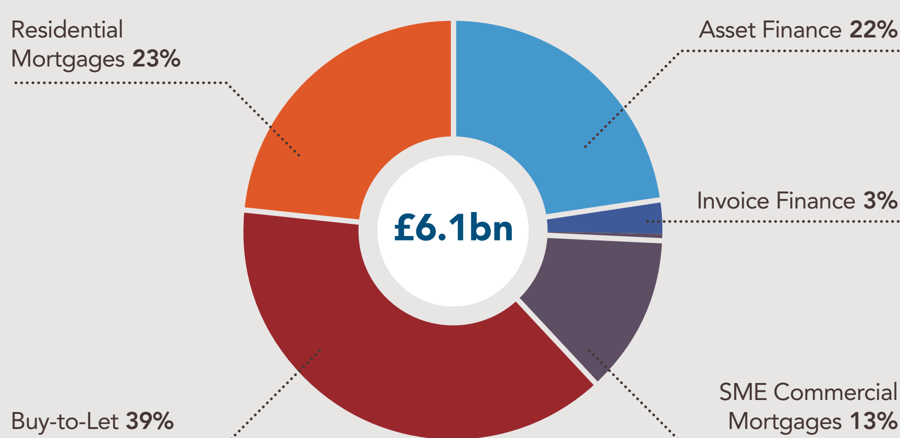
	2015 £m	2014 £m	% change
Common Equity Tier 1 capital	**435.6**	281.2	55%
Additional Tier 1 capital	**74.0**	73.7	–
Tier 2 capital	**48.6**	45.3	7%
Total capital	**558.2**	**400.2**	**39%**
Risk Weighted Assets (RWAs)	**3,693.0**	**2,702.0**	**37%**
Fully loaded CRD IV capital ratios (%)			
CET1 ratio (%)	**11.8%**	10.4%	1.4%
Total capital ratio (%)	**15.1%**	14.8%	0.3%
Leverage ratio (%)	**7.3%**	6.3%	1.0%

Investment highlights

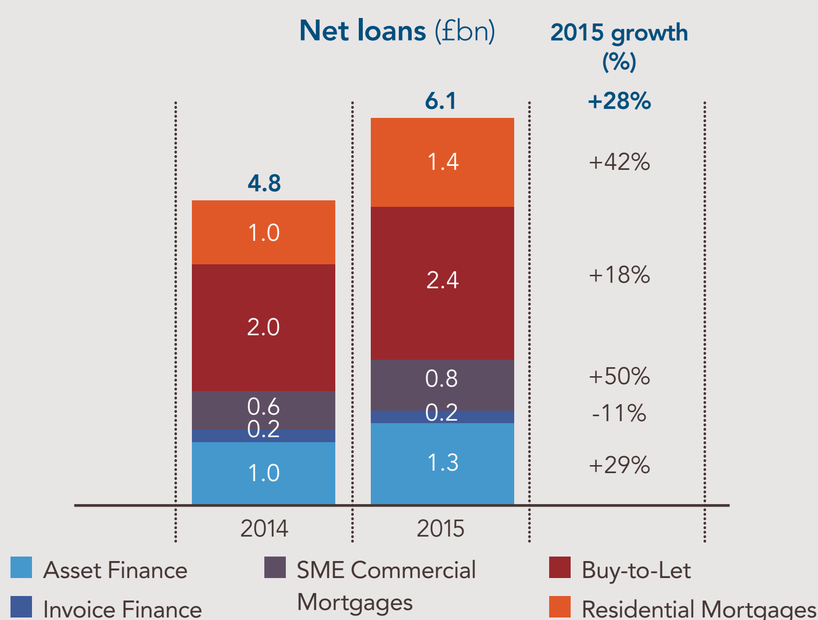
Aldermore is a diversified, specialist lender.

We support UK SMEs, homeowners and landlords, who are often under- or poorly served by the wider market.

Loan portfolio as at 31 December 2015



We continue to strongly grow net lending which was up by 28% in 2015. Our diversified lending portfolio provides multiple avenues for continued significant growth.



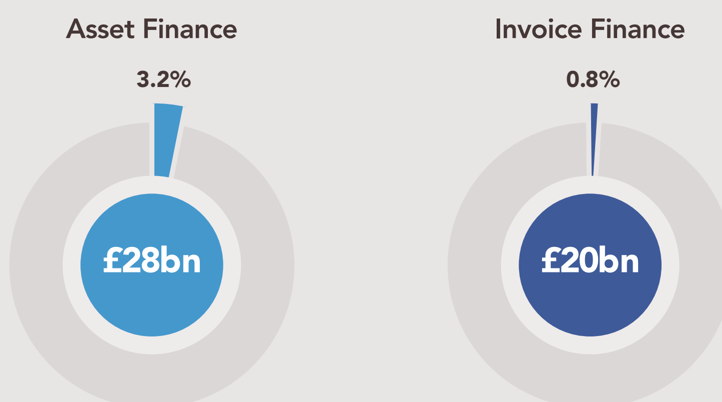
Read more about our businesses on pages 26 to 35

Investment highlights

continued

Our specialist lending lines are deliberately selected for their common characteristics.

Market size[1] (£bn) **and current market share** (%)



Specifically we operate in subsegments of large markets, which are largely backed by tangible collateral and delivering attractive risk-adjusted returns.

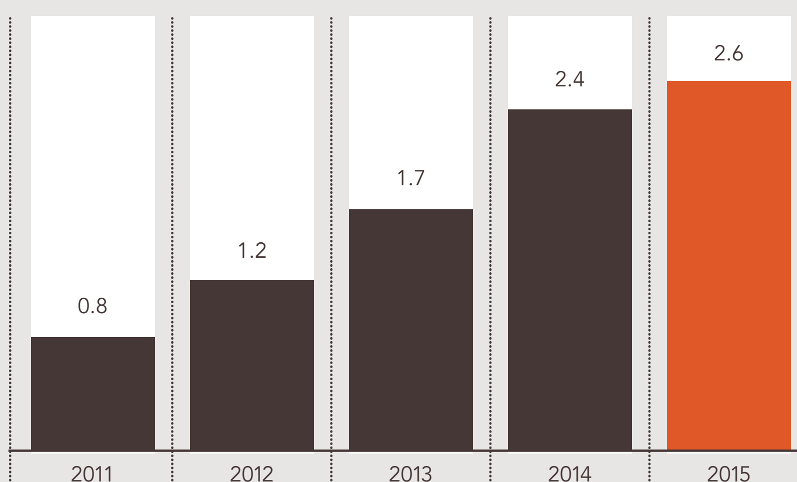
Read more about our markets on pages 24 to 25

[1] All market size data is based on annual loan origination, except for Invoice Finance which represents year end advances. See pages 24 to 25 for further details.

We adopt a targeted human underwriting approach within a prudent risk appetite.

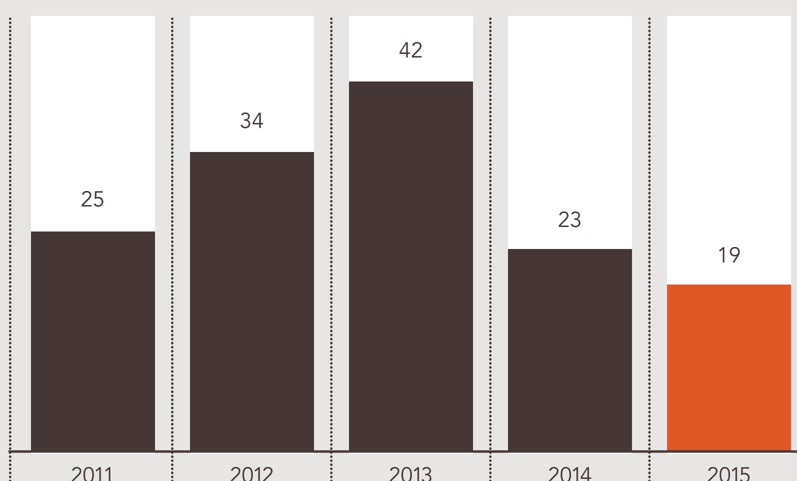
We combine targeted human credit underwriting with speedy decision-making and great customer service. Our modern systems do the hard work, supporting our underwriters and creating a scaleable advantage.

Annual loan origination (£bn)



Our differentiated approach has enabled strong growth within our prudent risk appetite. Aided by a relatively benign environment, our credit losses have been consistently modest.

Cost of risk (bps)



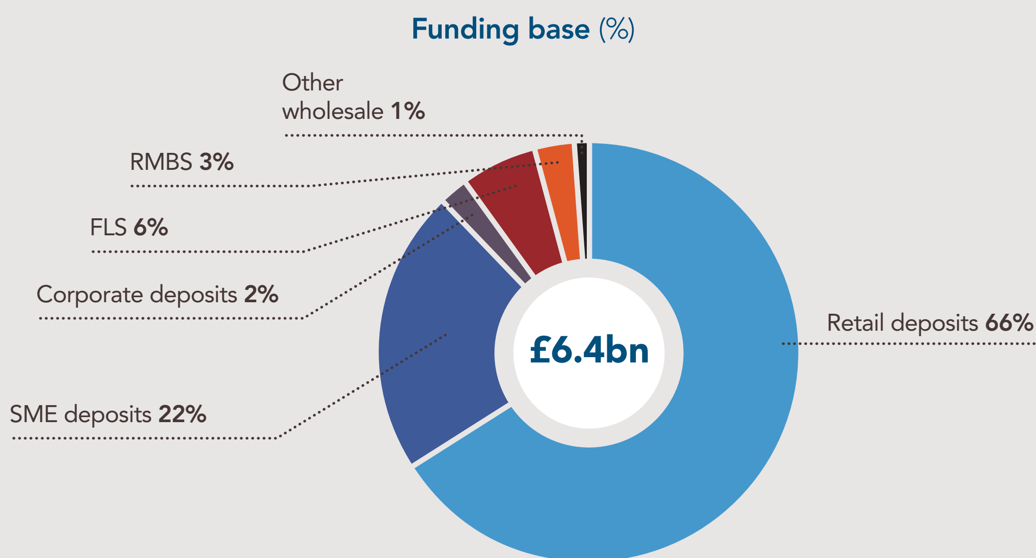
Read more about our businesses on pages 26 to 35

Investment highlights
continued

We benefit from a diversified funding base.

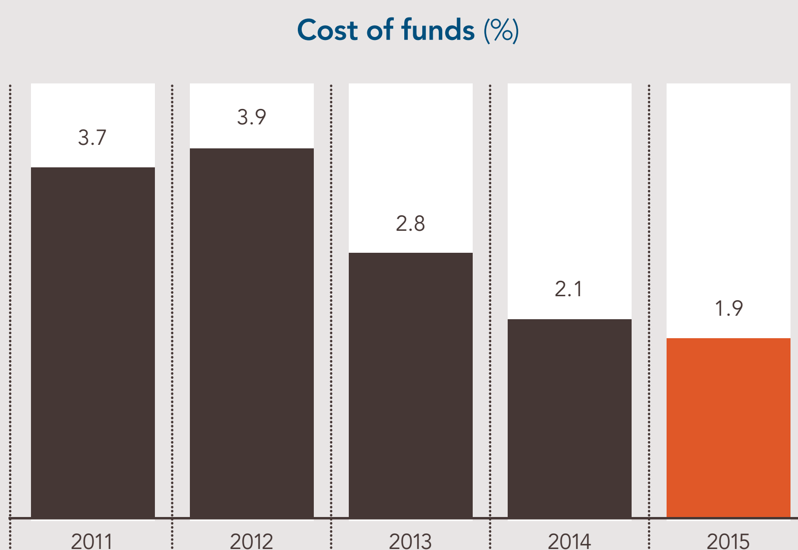
Our lending is funded by a strong and well diversified online retail and SME deposit franchise together with a growing amount of wholesale funding.

Funding base (%)



This diversification, along with falling interest rates, has been a key driver of our reducing cost of funds in recent years.

Cost of funds (%)

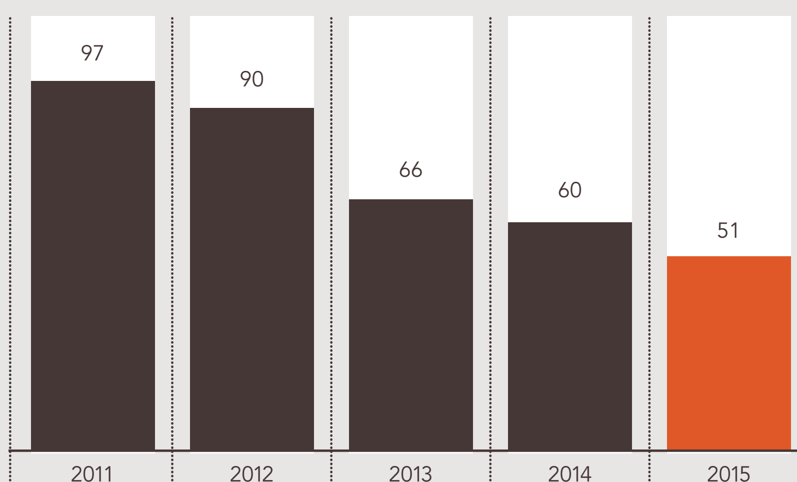


Read more about our savings business on pages 36 to 37

We leverage our operating platform to help deliver strong sustainable returns.

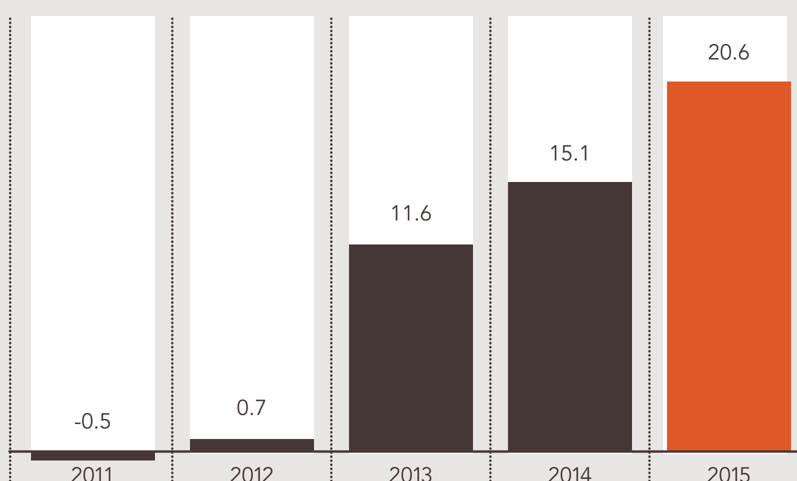
We continue to leverage our operating platform to drive efficiency.

Underlying cost/income[1] ratio (%)



And are building a strong track record of delivery.

Underlying return on equity[1] (%)



Read more about our business model on page 20

[1] Excludes IPO related costs of £4.1 million pre-tax and £3.4 million post tax in 2015 (2014: £6.0 million and £4.6 million).

Strategic objectives

Another year of strong delivery

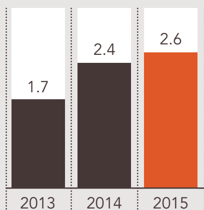
Strategic objective	Our progress in 2015
Serving customers' needs Aldermore focuses on specialist lending across large lending segments which were deliberately chosen for their strong collateral characteristics, attractive risk-adjusted returns and growth potential. We look to leverage the strong market positions we have built, with distinctive customer propositions in chosen segments while maintaining excellent asset quality.	• We originated £2.6 billion of new loans in 2015 with net loans to customers reaching £6.1 billion at the end of 2015 • We maintained our average rating from customers leaving feedback via our online "Ratings and Reviews" service at 4.6 out of 5
Deliver strong, sustainable returns to shareholders The Group leverages its scaleable, efficient and legacy-free operating platform to grow revenues more quickly than its cost base and deliver long-term, sustainable profitability.	• We continue to invest in our business to ensure its sustainability and to leverage our modern and scaleable operating platform. Our underlying cost/income ratio[1] further improved by 9 percentage points to 51 per cent in 2015 despite continued investment • Growth in our balance sheet along with a falling cost/income ratio and a strong credit performance are driving the Group's profitability, return on equity and earnings per share. Underlying return on equity[1] was 20.6 per cent in 2015, an increase of 5.5 percentage points over 2014
Maintain prudent risk appetite, capital and funding positions We take a prudent approach towards maintaining a capital base that supports the Group's growth aspirations and exceeds regulatory requirements at all times. Our funding base is expected to remain predominantly deposit-led from retail and SME customers. However, in addition, we utilise wholesale sources such as the Bank of England's Funding for Lending Scheme, our Residential Mortgage Backed Securitisation (RMBS) and a small amount of Tier 2 funding.	• Our cost of risk during the year was 19 basis points due to our rigorous focus on credit management leading to low levels of arrears in our loan book and was aided by a relatively benign credit environment • Aldermore holds at all times, regulatory capital in excess of the requirements set by the Prudential Regulation Authority (PRA) • As at 31 December 2015, our fully loaded CRD IV Total Capital Ratio was 15.1 per cent and our CET1 ratio was 11.8 per cent compared with our target of around 11 per cent • The increase in capital ratios was primarily driven by profit after tax for the year of £78 million and the £75 million of gross primary capital issued at IPO, partially offset by an increased capital requirement due to growth in lending • At 31 December 2015, our loans to deposits ratio was 107 per cent, in line with management expectations and the end of 2014
Continue to build an engaged and committed team We recognise that for us to be successful, it is important to attract and retain a talented workforce. The Group aims to hire people who fit culturally and have the right competencies. We then empower managers with the tools and support they need to increase employee engagement.	• 2015 has been an exceedingly busy year for our team who have driven the continued operational success of the business whilst simultaneously undertaking a listing on the London Stock Exchange and operating in a new public company environment • We have continued to focus on training and engagement and have also introduced changes to pension, maternity and paternity benefits. See page 22 for further details

[1] Underlying measures exclude IPO-related costs of £4.1 million pre-tax and £3.4 million post tax in 2015 (2014: £6.0 million and £4.6 million).

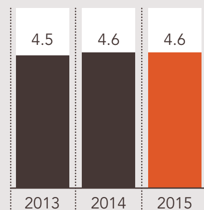
We are committed to supporting UK SMEs, homeowners and landlords who are under- or poorly served by the wider market. We remain excited by the opportunity and confident of delivering continued strong growth and attractive, sustainable returns.

Key performance indicators (2013–2015)

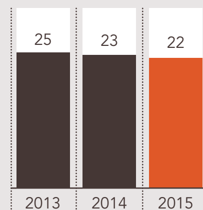
Loan origination (£bn)



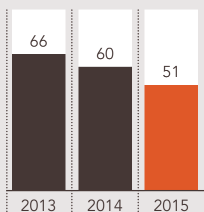
Customer rating



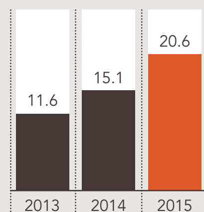
Net promoter score



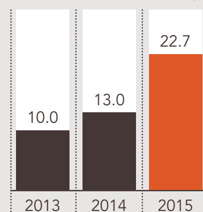
Cost/income ratio[2] (%)



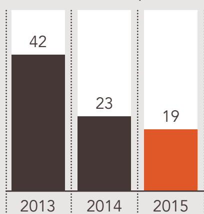
Return on equity[2] (%)



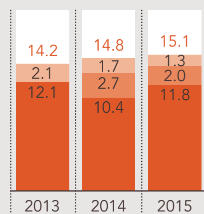
Earnings per share (p)



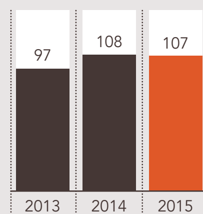
Cost of risk (bps)



Total capital ratio (%)



Loans to deposit ratio (%)



2016 priorities

- Continue to deliver nominal net loan growth in line with recent run rates while maintaining our prudent risk appetite
- Continue to deliver excellent service to customers and intermediary partners
- Continued investment in IT systems to further improve customer journeys and enable enhanced product offerings

- Focus on selected market segments where we have product and industry expertise and so are able to generate attractive returns
- Continue to aim to deliver a cost/income ratio of less than 40 per cent by the end of 2017
- The Group remains committed to continuing to deliver strong, sustainable returns to shareholders

- Maintain prudent and rigorous focus on underwriting and credit risk management
- We aim to maintain our fully loaded CRD IV CET1 capital ratio at around 11 per cent
- We anticipate our loans to deposits ratio reaching the 110 per cent to 115 per cent range as we continue to diversify our funding sources

- We were delighted to retain our "One to Watch" classification in the Sunday Times Best Companies Survey

- We continue to focus on the wellbeing and engagement of our team as we look to further improve upon our "Best Companies" score in 2016

[2] Underlying measures exclude IPO-related costs of £4.1 million pre-tax and £3.4 million post tax in 2015 (2014: £6.0 million and £4.6 million).

Leveraging our business model

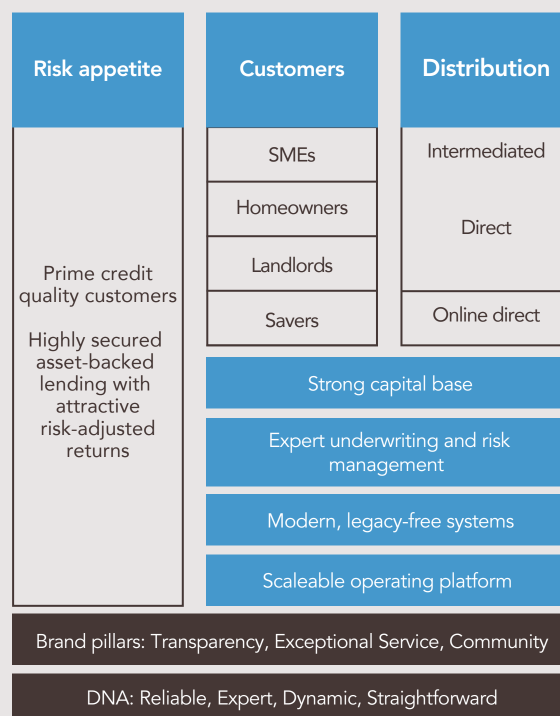
What we do

Our DNA is to be Reliable, Expert, Dynamic and Straightforward – these values inform everything we do, forming the basis of our culture and brand.

We focus on prime creditworthy customers across lending lines chosen for their market size, growth potential, attractive risk adjusted returns and tangible asset security. We distribute to our customers through specialist brokers but have added growing direct distribution capability.

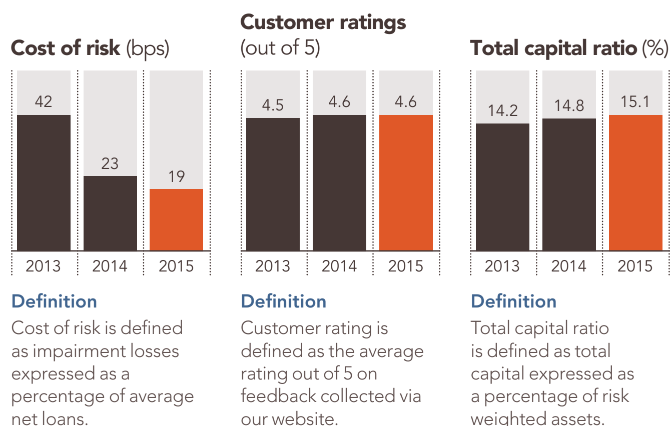
We enjoy the advantages of modern, legacy-free systems which we use to support our expert underwriters in making considered decisions, rather than adopting a "computer says yes or no" approach. Our operating platform is scaleable to support our future growth an we continue our investment in these systems.

We advance loans on which we earn income; these loans are funded via a mix of deposits and wholesale funding, on which we pay interest. The difference is net interest income which grows as we expand our loan book. Our cost base grows more slowly than our net interest income, driving an accelerating profit trajectory. This is what we refer to as "leveraging our business model".



Aligning the KPIs

We have aligned our key performance indicators (KPIs) to the various elements of our business model to provide additional clarity on how we measure and monitor performance and drive the business forward.



Definition
Cost of risk is defined as impairment losses expressed as a percentage of average net loans.

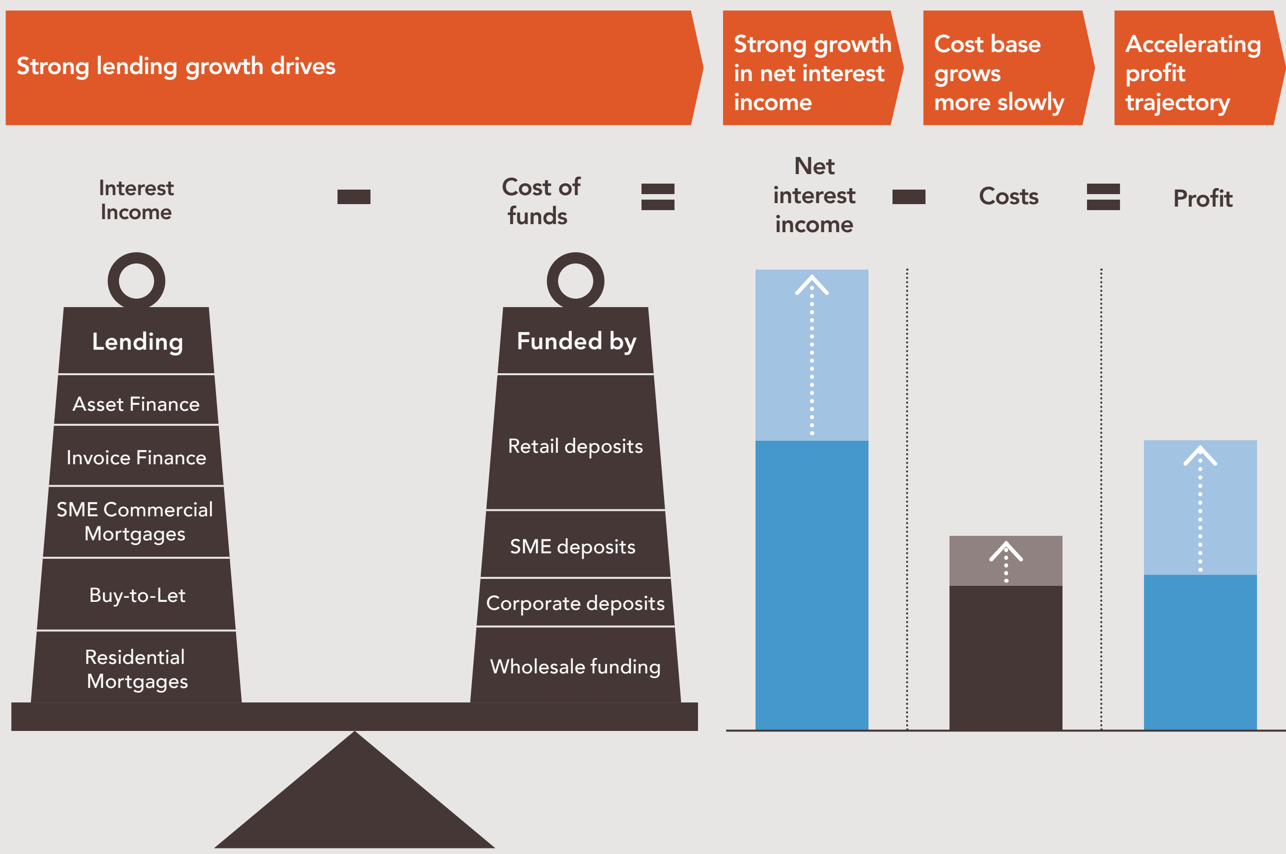
Read more about our strategy on page 18

Definition
Customer rating is defined as the average rating out of 5 on feedback collected via our website.

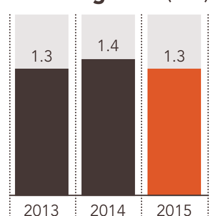
Read more about our strategy on page 18

Definition
Total capital ratio is defined as total capital expressed as a percentage of risk weighted assets.

Read more about our strategy on page 18



Net loan growth (£bn)

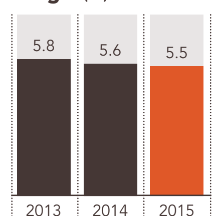


Definition

Net loan growth is defined as the difference between net loans at the end and the start of the year.

> Read more about our strategy on page 18 and remuneration on page 81

Gross interest margin (%)

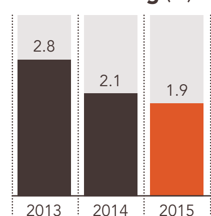


Definition

Gross interest margin is defined as interest income expressed as a percentage of average net loans.

> Read more about our strategy on page 18

Cost of funding (%)

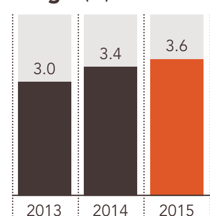


Definition

Cost of funding is defined as interest expense expressed as a percentage of average net loans.

> Read more about our strategy on page 18

Net interest margin (%)

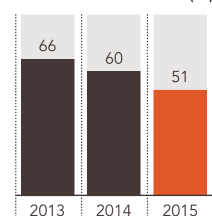


Definition

Net interest margin is defined as net interest income expressed as a percentage of average net loans.

> Read more about our strategy on page 18

Cost/income ratio[1] (%)

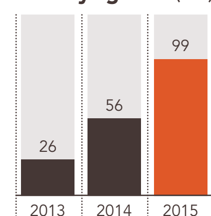


Definition

Cost/income ratio is defined as administration expenses, excluding IPO costs, plus depreciation expressed as a percentage of operating income.

> Read more about our strategy on page 18 and remuneration on page 81

Underlying PBT[1] (£m)



Definition

Underlying profit before tax is defined as profit before tax excluding IPO costs.

> Read more about our strategy on page 18 and remuneration on page 81

[1] Excludes IPO related costs of £4.1 million pre-tax and £3.4 million post tax in 2015 (2014: £6.0 million and £4.6 million).

Customers, people and communities

Our customers, people and communities are an integral part of our business model and key to our success. We realise that by doing our best for those we serve, those who work for us and those who are impacted by our activities, we are contributing to the success of the business and so doing our best for shareholders as well.

Our customers

Our customers are at the centre of our business and underpin everything that we do. We now serve more customers than ever – around 195,000 at the end of 2015 compared with c160,000 at the beginning of the year, an increase of 21 per cent.

We believe in listening to our customers to understand what they think of us. We actively use customer feedback that we receive through our online "Ratings and Reviews" service to improve our offering. During 2015, we received an average rating of 4.6 out of 5, with 97 per cent of customers posting feedback on our website saying they would recommend us, tangibly demonstrating the continued strong performance in our brand and customer advocacy. Further endorsement from our customers, as well as our intermediary partners and the wider industry, came in the form of the 27 awards that we won during the year. We are also pleased with our Net Promoter Score of 22, which remains well ahead of of the UK banking industry average of 2.

Customer care is a key focus and all of our customer service teams are based in the UK. Occasionally, our customers do not enjoy the experience that they expect from us. When we receive a complaint, it is managed and resolved by the relevant business line and the responsible member of our Executive Committee is notified.

Our digital platforms, including our website, form a central part of our customer service proposition. We continue to make enhancements to our mobile friendly, customer-led website.

To improve the customer service we provide we launched a number of new tools and resources during 2015. As described on page 37, we launched our SME Rate Checker which allows SMEs to compare rates from over 90 providers online. To support our landlord community we created a buy-to-let hub on our website which contains a range of resources for both prospective and existing landlords.

Our people

We have a strong performance culture at Aldermore built on the DNA that we established at the very beginning in 2009: to be Reliable, Expert, Dynamic and Straightforward. This culture is one of the many factors that attract people to work at Aldermore.

We are committed to promoting diversity in the workplace and as at 31 December 2015, two or 25 per cent of our Executive Committee and 383 or 47 per cent of total employees were female. Both a "Diversity and Inclusion" policy and a "Dignity at Work" policy were adopted during the year.

In 2015, we improved our employee recognition packages to help us retain our people and bring us in line with listed companies. We improved parental leave for new mothers and fathers, raised the level of pension contributions that we match, and encouraged all employees to participate in our recently launched Sharesave scheme.

We are totally committed to developing people who choose to work at Aldermore. In 2015, we launched our "Empowered Managers" programme, our biggest development initiative to date, as well as "Aspiring Managers" for those employees who would like to take on management positions in the future. Our "Next Generation Leaders" programme, which focuses on leadership capabilities, was also revamped in 2015.

Our "Skill!" programme promotes entrepreneurialism amongst young people.

Aldermore's Community team managed fundraising for Headway our chosen charity for 2015.

We are constantly on the lookout for new talent and increasingly use digital channels for recruitment. Social media has proved to be both efficient and cost-effective with over 25 per cent of our external hires coming as a direct result of our social media presence. We also understand the need to help the next generation of employees enter the workforce and in 2015, recruited our first ever apprentices who joined our Mortgages team in Wilmslow.

Communication plays a big part in maintaining an engaged employee population and our senior leaders place a great deal of emphasis on meeting with and listening to our employees so that their views can be taken into account in making decisions which are likely to affect their interests. Executive Committee roadshows were held in Manchester, Reading and Leicester during 2015, allowing all of our people to interact with our senior team. Having attended these events, 90 per cent of colleagues said they felt proud of working for Aldermore. Outside of these events, we communicate systematically with employees on matters which concern them and to ensure a common awareness of the financial and economic factors affecting the performance of the Group. We also launched our first "Meet the Board" events in 2015 to give people the opportunity to interact with our Non-Executive Directors.

We were proud to be again awarded "One to Watch" status in the Sunday Times "Best Companies to Work For" survey. We view this recognition as an indication that our employee engagement is heading in the right direction.

Our communities

Community is a core pillar of our brand and we are committed to making a contribution to those communities that we operate in, whether by supporting the UK's vital SME community, giving something back to the areas where we operate or acting as a responsible member of the financial services community.

The UK's SMEs play a large part in the country's economic success, and as a lender serving these vital businesses, we recognise that our contribution can extend beyond merely providing finance. This is the reason that we continue to run regular education and networking events for SMEs and our introducers, most notably our Asset Finance training series. During 2015, over a hundred junior members of staff from our broker partners went through this training which introduced the basics of asset finance and the underwriting processes that lenders follow. The programme proved very popular amongst our brokers and is continuing into 2016.

The "SKILL!" programme, our flagship community initiative which promotes entrepreneurialism amongst young people, continued in 2015. For the first time, we held a national SKILL! final for the winning teams from each of the schools where we held events. Appropriately, given that 2015 was the year that we listed, this took place at the London Stock Exchange and coincided with Global Entrepreneur Week who recognised our programme as high impact in providing the support, inspiration and skills to help young people become more enterprising.

We are aware of our impact on the environment and details of our greenhouse gas emissions can be found on page 80.

Headway, the brain injury association, was chosen as our charity of the year in memory of Adam Massen, one of our colleagues who sadly passed away in late 2014. Fundraising for Headway was managed by the Aldermore Community Team.

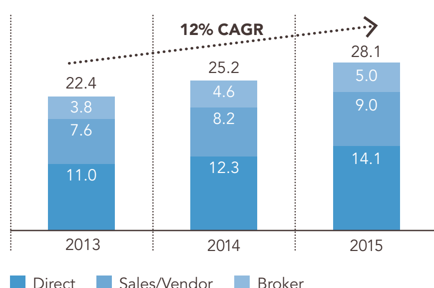
Our chosen charity of the year for 2016, is the Batten Disease Family Association (BDFA) which supports families, raises awareness and facilitates research into the group of fatal neurodegenerative diseases known as Batten disease. The charity was selected through an organisation-wide employee vote.

Were it not for our customers, people and communities, Aldermore would not exist and it is only with their ongoing support that we will thrive.

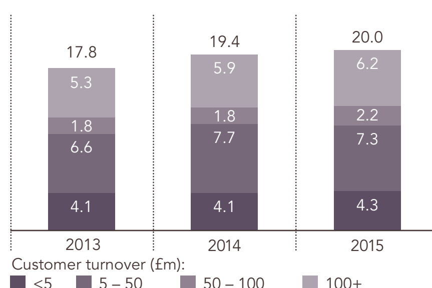
Aldermore's Risk and Internal Audit teams supporting local community initiatives.

Market overview

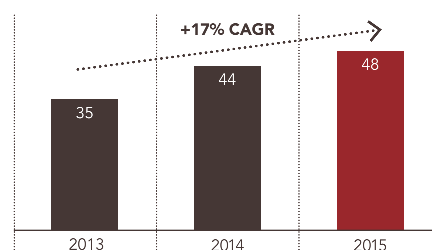
Asset Finance market origination (£bn)



Invoice Finance loan advances by customer turnover (£bn)



Gross commercial mortgage origination (£bn)



Asset Finance

The asset finance market lends money to businesses to purchase new plant, machinery and equipment with the loans secured on the acquired asset.

In 2015, Asset Finance new lending or loan origination in the UK[1] totalled c£28 billion, an increase of 12 per cent over the prior year and an average growth rate of 12 per cent over the last two years.

"Hard assets", which have a strong secondary market, such as plant and machinery, commercial vehicles and cars constitute around 80 per cent of the market while "soft assets", such as IT and telephony equipment which have limited or no residual value, and receivables account for the remaining 20 per cent.

In terms of distribution, in 2015, direct accounted for 50 per cent of all new lending, sales through vendors and dealers about 32 per cent and brokers accounted for the remaining 18 per cent. Strong growth was registered across all channels, with direct growing by 15 per cent, sales through vendors and dealers by 10 per cent and the broker channel by 9 per cent.

Invoice Finance

The invoice finance market provides working capital for businesses by lending against outstanding invoices issued by the borrower to its customers. During 2015, the market has remained fairly stable[2] in terms of both loan advances and customer numbers at around £20 billion and around 44,000 respectively.

Although accounting for only 20 per cent of customer numbers, around 80 per cent of advances by value are to businesses with turnover in excess of £5 million. Here, the market has seen customer numbers grow by c8 per cent with advances up by c2 per cent during 2015.

The remaining 80 per cent of UK invoice finance customers have turnover of less than £5 million. However, smaller companies only represent around 20 per cent of invoice finance lending. During 2015, the market reported an increase in advances of around 5 per cent to customers with turnover of less than £5 million whilst customer numbers remained broadly stable.

Commercial Mortgages

Commercial mortgages are secured against commercial properties such as retail premises, offices, industrial units and commercial investment property.

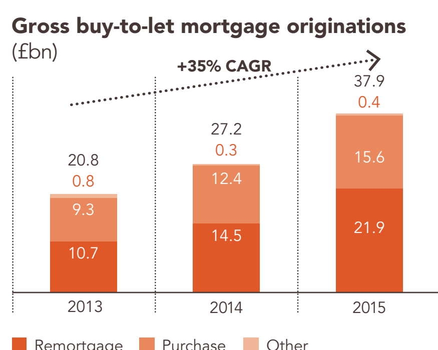
We estimate that the gross mortgage origination in 2015, was around £48 billion[3] growing by around 9 per cent compared with 2014 and by around 17 per cent since 2013.

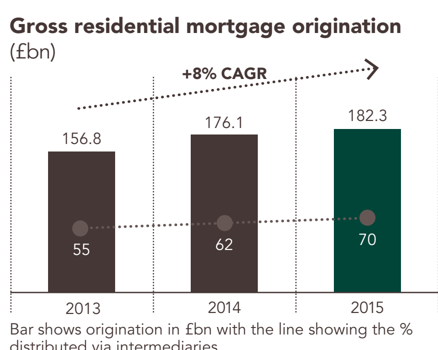
[1] Source: Finance and Leasing Association, excluding High Value.

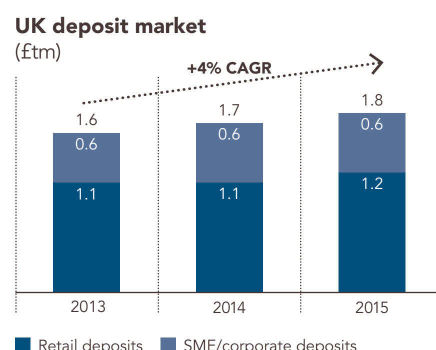
[2] Source: Asset Based Finance Association – data as at September 2015.

[3] Source: The UK commercial property lending market research findings by De Montfort University June 2015 (annualised).

Aldermore supports UK SMEs, homeowners, landlords and savers; customers who are often under- or poorly served by the wider market. We operate in large, growing lending segments which are backed by tangible asset collateral and offer attractive risk adjusted returns.







Buy-to-Let Mortgages

Around £38 billion of buy-to-let mortgages[4] are estimated to have been advanced in 2015, with this segment of the market growing by 39 per cent compared with 2014 and at an average of 35 per cent over the last two years.

In the second half of 2015, the UK Government introduced a number of measures aimed at moderating future growth in buy-to-let and second home ownership. These are discussed in more detail on pages 32 and 42 but include restricting mortgage interest rate relief to the basic tax rate for individual landlords from 2017, a change which will be phased in over four years. An additional 3 per cent stamp duty will be payable on buy-to-let and second home purchases from April 2016. However, it should be noted that, as shown in the chart, currently over half of all mortgages in the buy-to-let market relate to re-mortgaging and attract no stamp duty.

Residential Mortgages

According to the CML, in 2015, residential owner-occupied mortgage loan origination[4] was around £182 billion and is up by 4 per cent over 2014 and by an average of 8 per cent over the last two years.

Within this, advances to first time buyers totalled around £47 billion up 4 per cent on 2014 and new mortgage lending to the self-employed (excluding first time buyers) was up 9 per cent compared to 2014 at £18 billion.

Around 70 per cent of the total residential owner-occupied mortgage market is distributed via intermediaries, with the remainder distributed directly.

Savings

The UK deposit market is enormous[5] at around £1.8 trillion and has grown by around 4 per cent per annum over the last two years.

Although there are an increasing number of new entrants, the market continues to be dominated by the large incumbent banks, with six institutions holding 73 per cent of the UK's savings. Around two-thirds of the savings market is held in "Easy Access" products.

Retail deposits represent around two-thirds of the market at £1.2 trillion, with the remaining third being SME and corporate deposits.

[4] Source: Council of Mortgage Lenders (CML).

[5] Source: Bank of England. UK deposit pool comprises outstanding sterling deposits and repos for individuals (retail) and non-financial businesses (SME/corporate).

Business Finance

Asset Finance

2015 highlights

- Net lending to customers up by 29% to £1.3bn
- Customer numbers up by 30% to c42,000
- Organic origination up by 21% to £893m
- Broker origination up by 21% to £670m
- Direct origination up by 21% to £223m

Awards

- SME Champion Award (2015 Leasing World Awards)
- Leasing & Asset Finance provider of 2015 (NACFB)

Net lending up

29%

to £1.3bn

Business Finance

In the second half of 2015, we created the Business Finance division bringing together the Asset and Invoice Finance business lines under common leadership.

Asset Finance

Aldermore Asset Finance supports capital investment in business critical assets. Leveraging our depth and breadth of expertise, we finance a wide array of assets. This flexibility enables us to meet the needs of customers of all sizes across key industries.

In addition, we offer wholesale and block discounting facilities to smaller leasing companies and brokerages enabling them to extend credit directly to SMEs.

Market and strategy

Please see page 24 for an overview of the UK asset finance market.

We aim to be our partners' "funder of first choice" by being easy to do business with, quick to respond and consistent in our credit decisions.

Our main focus is lending through the broker channel, which as shown on page 24 represents almost 20 per cent of annual lending across the market. We're delighted to have built excellent relationships with our network of around 400 broker partners who have supported us in growing our market share to around 13 per cent in this channel.

From an asset perspective, our primary focus to date has been hard assets. In 2014, we extended our product range into soft, or IT and telephony, assets and these now account for 7 per cent of the portfolio.

Towards the end of 2013, we entered selected segments of the sales/vendor space which, in total, accounts for a further third of annual origination. Although our share of this is small today we see an opportunity though initiatives such as our dealer finance proposition.

On an overall basis, we estimate our 2015 market share to be around 3.2 per cent.

Growth

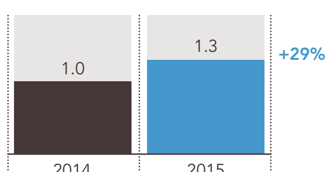
2015 was another excellent year for our Asset Finance business with our portfolio growing by 29 per cent to £1.3 billion and customer numbers now totalling c42,000 (2014: c41,000). We grew organic origination to £893 million, up by 21 per cent over 2014 of £740 million. In October, we launched our new dealer finance proposition which brings together services from both Asset and Invoice Finance, including inventory, retail, working capital and trade finance to better meet our customers' needs.

Continued investment

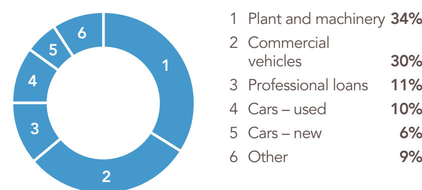
We continued our multi-year investment programme in our technology and digital capability to improve customer experience. In 2015, we began upgrading our back office systems to strengthen their integration with our front office systems. The development of our front office portal, to provide functionality to allow documents to be uploaded, tracking of applications and e-signature capability, was also initiated.

In addition to continuing to invest in our own team, we've launched the "Next Generation Training Initiative" to help develop the UK's new asset finance brokers. We believe it's the first programme of its kind in the industry and, to date, over 100 of our registered brokers have participated in these free workshops.

Net loans (£bn)



Portfolio by product type (%)



"Aldermore were a pleasure to work with. Their flexibility and practical approach at every turn left a lasting impression on the client, their suppliers and our team."

Louise Harris, Head of Interiors at Bluestone Leasing

D B Ramsden, an independent wholesaler, specialising in providing goods and services to the retail sector, was looking for a finance facility to undertake a major office refurbishment and expansion to bring together staff from their four offices into one.

Supporting our customers' ambitions

Efficient and flexible solution

The firm's broker, Bluestone Leasing, approached us to fund demountable partitioning and heat exchanger units. We provided a tax-efficient, flexible solution that utilised the client's unused Annual Investment Allowance and also allowed for stage payments to the contractor.

"The ability to provide and maintain a high level of customer service is key, requiring investment in our people and office environment. Aldermore worked closely with our broker and supplier so I didn't have to deal with issues. We wanted hassle-free financing and that's what we received."

Nick Ramsden,
Group Managing Director, D.B. Ramsden

Easy to do business with

Business Finance

Invoice Finance

2015 highlights

- Provided in excess of £1bn of working capital to UK SMEs
- "Pay and Bill" launched for the recruitment sector
- Trade Finance launched for businesses with overseas suppliers
- Rated 4.7/5 by our customers online
- Now jointly managed with Asset Finance

Awards

- Invoice Finance Provider of the Year (Credit Today Awards 2015)
- Alternative Funder of the Year (Central & North-East Dealmakers)

Supporting UK SMEs with

over £1bn

of financing in 2015

Aldermore Invoice Finance provides working capital solutions for UK SMEs, ranging from vanilla invoice discounting and full service factoring, where we manage the customer's debt collection on their behalf, to more tailored customer solutions requiring the in-house expertise that Aldermore has developed. We will usually lend up to 90 per cent of the value of approved outstanding sales invoices. Given the short-term nature of these loans, with the underlying invoices usually converting to cash within 60 days, our average loan balance is equivalent to providing over £1 billion in working capital finance to UK SMEs each year.

Market and strategy

Please see page 24 for an overview of the UK invoice finance market.
The competitive landscape is split, with four large high street banks controlling around 70 per cent of advances and customer numbers, usually targeting larger clients with whom they hold the primary banking relationship. The remainder of the market is served by a fairly long and diverse tail of lenders, of which Aldermore is part. We estimate our current overall market share to be around 0.8 per cent.

Our customers are typically SMEs with turnover of up to £2 million and we focus on key sectors including Manufacturing, Wholesale, Recruitment and Logistics. We have experienced client relationship managers who understand our customers' businesses and provide expert advice to support their growth aspirations. We continually develop simple and transparent solutions, for example our trade finance product for businesses with overseas suppliers and our "Pay and Bill" product designed specifically for the recruitment industry which offers a simple solution to the funding gap between paying candidate wages and being paid by their customers.

Our distribution channels are supported by local relationship managers based in our seven regional offices. We work with more than 500 intermediary groups at a local and national level.

To ensure we have a sustainable platform for the future, during 2015, we restructured our operating model and sales structure to better serve our clients' needs whilst maintaining our differentiated service proposition.

Portfolio

Invoice Finance represents a useful part of our lending proposition to SMEs rather than a key driver of the Group's growth and remains the smallest part of the Group at around 3 per cent of the total net loan portfolio. At 31 December 2015, net loans were £0.2 billion (31 December 2014: £0.2 billion). Customer numbers increased marginally, although remain around 1,200, with average facility sizes reducing. We continue to support our customers with innovative products such as our construction finance proposition. This was launched toward the end of 2014 and is gaining traction and now accounts for c4 per cent of the portfolio.

Continued investment

During 2015, in addition to upgrading our core operating system, we upgraded our risk systems and framework to allow much earlier visibility of potential credit risk issues. This has both a positive effect on our credit decision process but also allows us to take remedial action much sooner with greater effect.

Portfolio by product type (%)

Portfolio split by sector (%)

“I was particularly impressed with the approach taken by Aldermore. We were also very grateful for the bad debt protection provided which proved extremely valuable when one of our clients fell into administration.”

Lea Kernaghan, DK Concrete Ltd

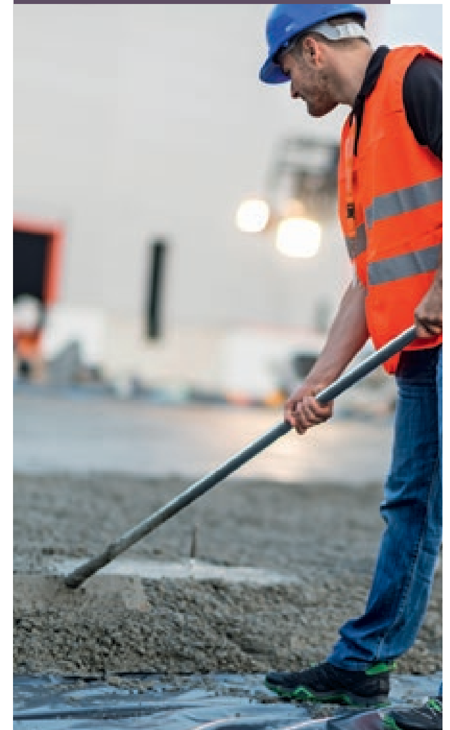
Deep industry expertise

DK Concrete Ltd is a concrete pouring business providing ready mixed concrete and floor screed using volumetric trucks. The company runs a fleet of trucks from its site in Corby, servicing Northamptonshire, Rutland and North Cambridgeshire.

Understanding our customer’s business

Owners, and husband and wife team, David and Lea Kernaghan, were introduced to us by their broker who realised that we would be able to offer them more favourable terms for their invoice discounting facility than their existing major high street lender.

Simple and transparent solution



We also provided bad debt protection. In partnership with David and Lea, we reduced the exposure to one client who ultimately went into administration owing money to the firm. As we had reduced the potential loss, we were able to return a significant proportion of the outstanding amount to the firm.

Mortgages

SME Commercial Mortgages

2015 highlights

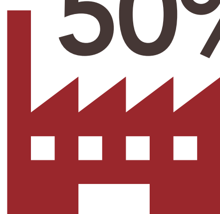
- Net lending to customers up by 50% to £0.8bn
- Customer numbers up by 38% to c1,500
- Organic origination up by 42% to £428m
- Direct origination up by over 200%

Awards

- Best Development Finance Provider (Business Moneyfacts)
- Best Service from a Commercial Mortgages Provider (Business Moneyfacts)

Net lending up by

50% to £0.8bn



Mortgages

Since 2014, the Mortgages division has been run as an integrated business and one team under the leadership of Charles Haresnape. We've built an award-winning, innovative and comprehensive proposition based on the foundations common across all of our lending lines, namely our ability to use our modern, flexible systems to enable our expert underwriters to make considered credit decisions and our responsive service culture.

In line with our operating model and to provide additional transparency, we have restructured our segmental reporting creating a "Buy-to-Let" segment which brings together loans which were previously split across SME Commercial and Residential Mortgages.

SME Commercial Mortgages

Aldermore offers mortgages to cover the full life cycle from property development through to purchase and refinancing as well as bridging loans. Our SME Commercial Mortgages business focuses on mortgages for shops, warehouses, industrial units and offices distributed through financial intermediaries and directly with customers.

Market and strategy

Please see page 24 for an overview of the UK commercial mortgage market of which we estimate our overall share to be around 0.9 per cent.

We look to build on our ability as one of the few lenders who can offer a full spectrum of products from property development to commercial investment and commercial owner occupied. We work closely with our panel of around 800 brokers to ensure we are easy to do business with and engage in a proactive dialogue particularly around more complex cases. Our direct business has also grown rapidly in recent years and now accounts for 26 per cent of origination.

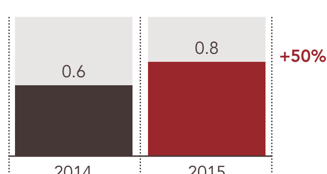
Growth

Our SME Commercial Mortgage portfolio grew by 50 per cent to £0.8 billion (2014: £0.6 billion) driven by strong new lending levels which at £428 million represented an increase of 42 per cent compared with 2014 of £301 million.

Gross new lending via brokers grew by 20 per cent to £318 million with direct distribution growing by over 200 per cent.

We were particularly pleased with the growth in our Commercial Investment portfolio, where we focus on multi-let developments, as well as significant traction gained by both the Property Development business, as we continue to support experienced regional developers, and by our commercial Bridging product, which is making good progress following its launch in June 2014.

Net loans (£bn)



Portfolio by property type (%)

"Relationships are so important, especially because we are the 'S' of the 'SME'. Aldermore's team has been great and so enthusiastic. I can honestly say that Aldermore has been a pleasure to work with."

Anthony McCourt, Director at Gethar Ventures

A unique development project

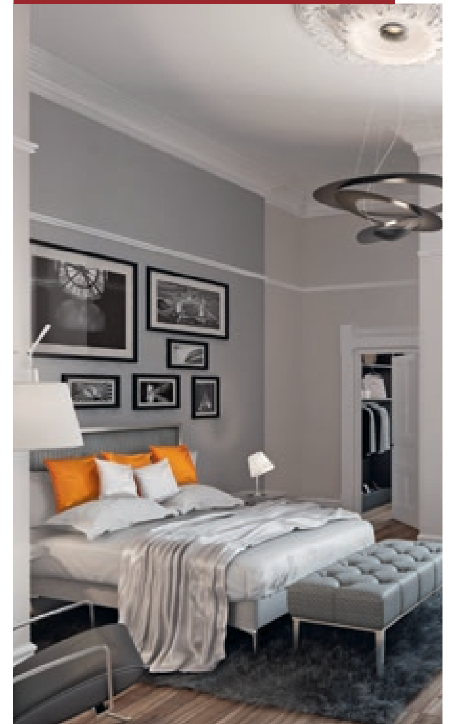
A Grade II listed Victorian building in the West Midlands provided Gethar Ventures with a unique development project. However, funding the purchase was complex as there were caveats such as the need to retain the historic façade.

"It has become easier to get funding in the past two years but the price of the funding can be varied. Getting the right cost of money from the right sort of provider remains challenging."

Anthony McCourt,
Director at Gethar Ventures

Getting the cost of money right

Nearing completion



Work on the building is now at an advanced stage and will be completed in the next few months, while the pre-sales process is progressing extremely well.

Mortgages

Buy-to-Let Mortgages

2015 highlights

- Net lending to customers up by 18% to £2.4bn
- Customer numbers up by 15% to c16,000
- Organic origination of £673m, down 7%
- Direct origination up 10%
- Launched online Buy-to-Let and landlord hubs

Awards

- Best Service from a Commercial Buy-to-Let Mortgage Provider (Business Moneyfacts)

Net lending up by 18% to

£2.4bn

Aldermore provides a complete Buy-to-Let proposition catering for both individual and corporate landlords, simple to complex properties and from a single property to large portfolio.

Market and strategy

Please see page 25 for an overview of the UK buy-to-let market of which we estimate our overall share to be less than 2 per cent.

There have been a number of regulatory changes related to the buy-to-let sector. Firstly, the Summer Budget introduced plans to restrict relief on mortgage interest for individual landlords to the basic rate of income tax from April 2017. This was followed by the introduction, from April 2016, of an additional 3 per cent stamp duty tax on buy-to-let properties over £40,000. We monitor activity in our buy-to-let portfolio closely. However, to date, we have seen no significant shift in customer behaviour and believe that it will be later in the year before we can see any possible impact of these changes on the market. Over half of all buy-to-let mortgages originated across the market each year relate to remortgage rather than purchase transactions and therefore attract no stamp duty. In comparison, around 70 per cent of balances, and annual origination, in our Buy-to-Let portfolio relate to remortgages.

Additionally, in December 2015, the Basel Committee on Banking Supervision issued a consultation paper on risk weights which, if implemented as currently drafted, would, probably from 2019, increase the standardised capital risk weights for a buy-to-let mortgage on a residential property from 35 per cent to 70 per cent for transactions with a loan-to-value of below 60 per cent and 90 per cent for loans-to-value of between 60 per cent and 80 per cent. Although we believe the PRA will continue to determine the appropriate standardised risk weight for UK buy-to-let at a national level, we intend to pursue an IRB approach which would lead to the adoption of our own internal credit model, subject to regulatory approval, rather than standardised risk weights.

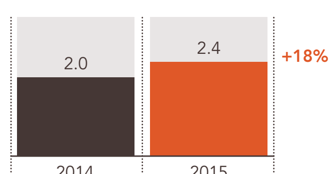
Buy-to-let remains a key element of UK housing stock with the underlying demand continuing to grow. We represent a small part of the overall market and, as such, believe that this lending segment remains attractive from both a growth and return perspective.

During 2015, we significantly enhanced our Buy-to-Let offering creating a seamless proposition for amateur to professional landlords. We streamlined our product range, launched Buy-to-Let and landlord hubs on our website, providing enhanced buy-to-let calculators and additional information for brokers and customers.

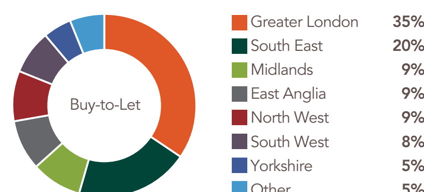
Growth

In 2015, our Buy-to-Let business grew net loans to customers by 18 per cent to £2.4 billion (31 December 2014: £2.0 billion) as we grew customer numbers by 15 per cent to around 16,000 (31 December 2014: c14,000). Growth was supported by origination of £673 million (2014: £726 million) which although down by 7% remains robust. We were pleased with the 10 per cent growth in direct distribution which now accounts for 19% of annual origination.

Net loans (£bn)



Geographic distribution



"I was bowled over. I had battled for two years to find a provider. The relationship I have with Aldermore is terrific and the process is simple, hassle-free and the communication I have with the team is second to none."

Chris Symons, professional property investor

When Chris Symons came to remortgage some of his buy-to-let properties to expand his portfolio, a County Court Judgement against his previous limited company was identified and his previous high street lenders refused to help.

Facing challenges

A detailed review

Our underwriters took a detailed look at his wider circumstances, reviewing his application on its own merits and providing him with the support he needed. Chris' business is thriving. He has remortgaged five other properties and has a commercial mortgage with us.

"Speaking to Aldermore was like a breath of fresh air. I explained my situation to one of the advisers and she immediately said, "Yes we can help. How many properties are you looking to remortgage?"

Chris Symons, professional property investor

Problem solved

Mortgages

Residential Mortgages

2015 highlights

- Net lending to customers up by 42% to £1.4bn
- Customer numbers up by 40% to c10,000
- Organic origination of £582m up by 4%
- Direct origination up 33%
- Launched Help to Buy Equity Loan product

Awards

- Best Specialist Lender (Mortgage Strategy Awards)
- Best Specialist Lender (Financial Reporter)
- Service Standard Award (What Mortgage Awards)
- Best Specialist lender (What Mortgage Awards)
- Best Non Mainstream lender (Mortgage Force)
- 4 star service award (FT Adviser)
- Best Specialist Lender (Your Mortgage)

Within Residential Mortgages we target prime creditworthy quality customers, including first time buyers, self-employed and professionals, who often fall outside the automated lending criteria of some of the mainstream banks. We were also an early adopter of Government schemes such as the Help to Buy: mortgage guarantee and equity loan schemes.

Market and strategy

Please see page 25 for an overview of the UK residential owner occupied mortgage market of which we estimate our overall share to be around 0.3 per cent.

We aim to get our customers into new homes or remortgage their existing properties as quickly as possible. As in our other business lines, we aim to be easy to do business with, transparent and quick to respond. We benefit from modern technology with our brokers able to apply via an online portal and obtain a decision in principle within 90 seconds. This portal takes the application and links to external systems, automatically completing basic identity, fraud and credit checks and builds an underwriting file highlighting any specific issues to our underwriters. This technology allows us to use a targeted approach to human underwriting in a cost-effective manner to make considered and consistent credit decisions.

We work with around 12,000 brokers via our paperless broker portal. These broker relationships accounted for just over 90 per cent of gross new lending in 2015. We also continue to develop our direct distribution capability which grew by around a third in 2015.

Growth

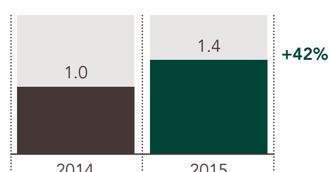
Aldermore's residential owner occupied mortgage portfolio grew by 42 per cent to £1.4 billion (2014: £1.0 billion) as we grew customer numbers by 40 per cent to 10,000. Gross new lending of £582 million was up by 4 per cent on 2014 levels.

We continue to support first time buyers and delivered good growth in Help To Buy, including our launch of Help To Buy Equity Loan product, which increases our support for the new build market.

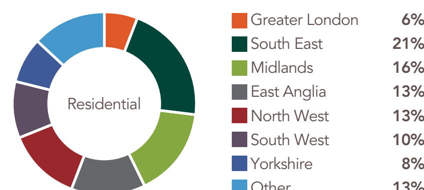
Continued investment

Across the Mortgages division, to support the continued growth of the business we have increased our sales team and back office operations. We are also refreshing our operating platform and continue to invest in our online capability.

Net loans (£bn)



Geographic distribution



"When we heard we had the mortgage we both cried. Owning our own home has been an ambition for us both for such a long time and now we have one. It's amazing!"

Kelly Evison, homeowner

Determined to secure a home for their young family, first time buyers Kelly and Wayne Evison had lived with Wayne's parents for two years so that they could save for a deposit.

Determined first time buyers

Help to Buy

Wayne's self-employed status meant their 10 per cent deposit was too low for some high street lenders. We recommended Help to Buy, a UK Government scheme which enables borrowers with a small deposit to get a mortgage.

"Aldermore made the mortgage application process really easy. If I didn't understand any of the terms or the process I just rang the team and it was explained perfectly and understandably."

Kelly Evison, homeowner

An easy process

Savings

2015 highlights

- Total deposits up by 29% to £5.7bn
- SME deposits up by 37% to £1.4bn
- Corporate savings up by 571% £156m
- Customer numbers up by 18% to 124,000
- Launched SME Rate Checker
- Launched Help to Buy ISA

Awards

- Best Business Variable Rate Deposit Provider (Business Moneyfacts Awards)
- Best Business Fixed Account Provider (Business Moneyfacts Awards)
- Savings Innovation award for Customised Fixed Business Savings Account (Moneynet Personal Finance Awards)
- Best Business Savings Provider (Moneynet Personal Finance Awards)
- ISA Provider of the Year – 5 times Winner (Consumer Moneyfacts Awards 2011 – 2015)
- Savings Innovation Award for Business Customers (Savings Champion Awards)

With our dynamic, online savings platform, we have created a strong customer franchise which provides a stable funding base enabling us to fund our lending to UK SMEs, homeowners and landlords.

We offer a range of award-winning, straightforward saving products to Retail, SME and Corporate customers.

Market and strategy

Please see page 25 for an overview of the UK savings market of which we estimate our market share in retail deposits to be 0.4 per cent and in SME deposits to be 0.2 per cent, providing significant scope for future expansion without the need to target large market shares.

We believe that it should be as simple as possible to save so we make it easy for our customers to use their accounts. Both Retail and SME savers are able to open and fund an account online within 15 minutes as our modern IT systems link with third parties to complete key identity checks.

We publish unedited reviews on our website, allowing us to react to customer feedback, as well as letting potential customers see what other savers think of us. We believe that we are still unique in this transparent approach in the UK banking sector.

Growth

Our savings business delivered another excellent year, matching our growth in lending with total deposits up by 29 per cent to £5.7 billion (2014: £4.5 billion).

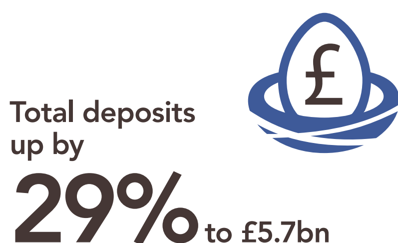
We now support almost 124,000 savers (2014: 105,000 savers). Total retail deposits grew by 23 per cent to £4.2 billion (2014: £3.4 billion). SME deposits have grown very strongly, up by 37 per cent to £1.4 billion (2014: £1.0 billion).

In a little over a year, our corporate deposit portfolio exceeds £156 million. This is an excellent performance and provides further diversification to our deposit base.

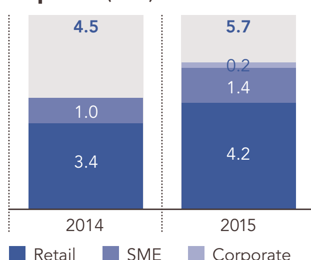
Continued investment

In line with our transparent approach and building on our track record of innovation, we commissioned bespoke research that showed that almost a quarter of SMEs didn't know what interest rate they were receiving on their savings. In response, we've created a new and unique rate checking tool which compares the rate being paid by over 90 providers with that they could expect to earn with Aldermore.

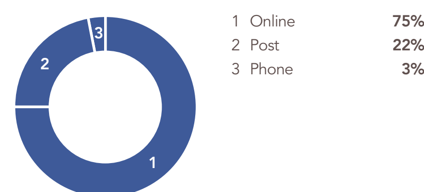
We also recently launched our Help to Buy ISA, supporting the Government scheme specifically designed for people looking to buy their first home. The scheme allows savers to put away up to £200 a month, which the Government will boost by 25 per cent when they buy their home, up to a maximum of £3,000. We are also one of a small number of "ISA wrapper" providers, meaning that we can offer this new ISA to those who have already opened a Cash ISA in this tax year but have not taken advantage of their full ISA allowance.



Deposits (£bn)



Retail deposits distribution[1] (%)



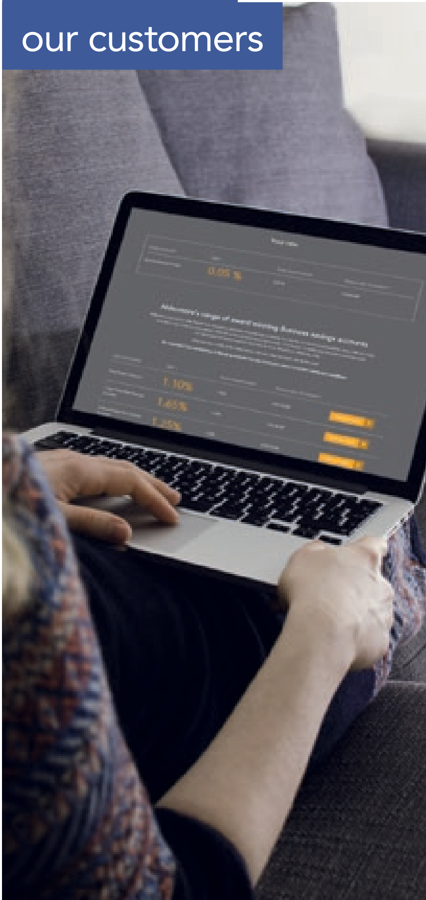
[1] Based on accounts opened in 2015.

"The SME Rate Checker originated from our belief that it should be really easy for time-poor SMEs to find out something as fundamental as their savings interest rate."

Simon Healy, Managing Director of Savings at Aldermore

Talking to SMEs, it became clear that many were not getting the most out of their surplus funds. They found it difficult to find out what interest rate they were earning and were unable to shop around easily.

Listening to our customers



Innovative

In response, we became the first financial institution to offer an independent business savings rate-checking tool to SMEs. Our SME Rate Checker allows SMEs to view the rates of more than 90 savings institutions and provides a comparison rate for a similar Aldermore account.

The SME Rate Checker makes it straightforward for businesses to do in moments what can be an onerous task with some providers.

Transparent

Risk overview

Risk Management Framework

The Risk Management Framework is the collection of tools, processes and methodologies that support the business to identify, assess, monitor and control the risks it faces. This framework outlines the means by which the Board and senior management establish the Group's strategy in relation to its risk appetite and articulates how we identify, measure and manage risk. Senior management ensure that the Risk Management Framework is embedded in its day-to-day management and control activities.

See page 105 for further details.

Risk principles

We manage risk in line with the following principles:

- **Strong risk governance:**
  Risk is managed using the "three lines of defence" principle – separating risk origination from risk oversight and risk assurance, with governance provided by formal committees, including the Board's Risk Committee and Audit Committee. See page 108 for further details
- **Independent risk oversight:**
  Group Risk is the risk oversight function independent of the business with an independent reporting line to the Board Risk Committee. It is the basis of the "Second Line of Defence". See page 108 for further details
- **Defined risk appetite:**
  A clearly defined Risk Appetite Framework is aligned to our business strategy and reflects the Board's prudent approach towards risk taking. See page 106 for further details
- **Risk transparency and control:**
  All risks are measured, monitored, managed and reported. All are subject to appropriate controls and governance. Responsibility for the identification, assessment, measurement, monitoring and management of risks rests with the First Line of Defence, overseen by Group Risk. See page 108 for further details
- **Value preservation:**
  The protection of our reputation is paramount. Everything we do is guided by the principle of putting the customer at the centre of what we do. It informs our business strategy, the way in which we do business and the manner in which we treat our customers and other stakeholders

Risk culture

We have established and maintain a strong culture focusing on empowerment, customer-centricity, risk-awareness and responsibility supported by our brand pillars of exceptional service, transparency and community. Our performance management processes promote sound risk management and incentivise appropriate behaviour in our employees.

Our employees should be risk aware, understand accountabilities and consequences of not adhering to policies and procedures as we aim to strike the right balance between openness, accountability and effective performance management. An understanding of risk and the risk appetites is embedded within business practices alongside a close collaboration with risk and compliance functions.

Effective risk management is a key component of our strategy of supporting UK SMEs, homeowners, landlords and savers. Our approach to risk combines an effective Risk Management Framework with a strong risk management culture.

Achievements in 2015

We continue to deliver against our strategy of delivering for our customers and shareholders while maintaining prudent capital, funding and liquidity positions. In addition to the ongoing process and systems enhancements, our Risk function has played a key role in supporting strategic progress via:

- **Capital position:** Our successful listing in March 2015 provided access to the equity capital markets and enabled us to raise £75m of gross primary equity to support our growth plans. Our fully loaded CRD IV CET1 ratio was 11.8% as at 31 December 2015
- **Risk Management Framework:** Enhanced the overarching approach to the management of risk across the Group. As part of this, the Operational Risk Management Framework has been updated to conform to the Basel Committee on Banking Supervision (BCBS) criteria for the sound management of operational risk
- **Risk Appetite Framework:** A revised Risk Appetite Framework was adopted which links together our business objectives, the overarching risk appetite with detailed key risk indicators and performance metrics
- **Governance structure:** In 2015 an enhanced governance structure was implemented, providing improved focus on risk management at the Board, Executive and Management levels
- **Resourcing:** Further recruitment of risk management resources has helped strengthen risk management in the first line of defence as well as improved oversight capacity in the second line of defence
- **Funding:** Our loans to deposit ratio reduced to 107% as we continued to effectively manage the balance between wholesale and deposit funding to drive an efficient cost of funds
- **Impairment:** As a result of our continued rigorous focus on risk management, together with the relatively benign credit environment, we reduced our cost of risk from 23 basis points to 19 basis points
- **Liquidity:** Implemented international standards for Liquidity Risk Management (LRM) and integrated our wholesale liability management with the savings division
- **Operational risk:** Increased the awareness of operational risk management across the Group through engagement and training. Risk & Control Self-Assessment process enhanced and deployed across the business to provide an accurate assessment of our operational risk profile. Embedded operational risk managers established within first line business units
- **Conduct risk:** Enhanced conduct risk framework by strengthening product governance controls, improving conduct risk metrics across the product life cycle and increasing awareness and understanding of conduct risk management across the Group through engagement and training
- **Regulatory:** Delivered a framework to address the requirements of the Senior Manager and Certification Regime (SMCR) and establish appropriate oversight
- **Financial crime:** Implemented enhanced monitoring and surveillance systems for Anti-Money Laundering and Counter-Terrorist Finance

Priorities for 2016

We expect the risk agenda in 2016 to remain focused on the continually evolving regulatory landscape and ongoing enhancements to our internal risk processes and methodologies including:

- **Further progress of IFRS 9:** Which replaces the "incurred loss" approach to impairment with one based on expected losses
- **SMCR:** Which has a greater focus on decision-making individuals in the top tiers of a firm and came into force in March 2016.
- **Internal Ratings-Based Approach (IRB):** We intend to pursue an IRB approach and have mobilised a team to look at the transition. The initial phase will be to understand the requirements to move over time from a standardised capital model to an advanced approach using internal models
- **Business Assurance Framework:** As part of our ongoing process of continual improvement to risk management, we are reviewing our business assurance framework to align this to the risk and control assessment process and ensure it remains appropriate for our needs
- **Operational risk quantification:** Enhancing the quantification of operational risk to support the Internal Capital Adequacy Assessment Process (ICAAP) and risk appetite reporting for both expected and unexpected operational risks

Principal risks

Principal risks	Mitigation	Key risk measures	Commentary
Strategic and business risk The risks that can affect our ability to achieve our corporate and strategic objectives.	• Remain focused on a sustainable business model which is aligned to the Group's strategy	**Underlying return on equity[1] (%)** 2014: 15.1 2015: 20.6	RoE has improved as we continue to increase lending while improving the net interest margin, driving cost/income ratio lower and delivering a low and consistent cost of risk.
Credit risk The risk of financial loss arising from a borrower failing to meet their financial obligations to the Group.	• Focus on business sectors where we have specific expertise • Limit concentration of exposures by size, geography and sector • Obtain appropriate level of security cover along with affordability testing • Detailed lending policies embedded in all business areas • Portfolio performance against risk appetite regularly reviewed • Stress testing > See page 110 for further information	**Cost of risk (bps)** 2014: 23 2015: 19	Improved cost of risk reflects continued focus on underwriting and credit risk management as well as the relatively benign external credit environment.
Liquidity risk The risk that we are not able to meet our financial obligations as they fall due, or can do so only at excessive cost.	• Maintain a liquidity buffer, which is based on requirements under stressed conditions • Monitor liquidity buffer on a daily basis to ensure there are sufficient liquid assets at all times > See page 123 for further information	**Liquidity coverage ratio (%)** 2014: 270 2015: 235	Liquidity coverage ratio is well in excess of current and expected future regulatory requirements.
Market risk The financial impact from movements in market prices on the value of assets and liabilities.	• We do not seek to take or expose the Group to market risk and we do not carry out proprietary trading > See page 125 for further information	✓	No material risk.

[1] Excludes IPO-related expenses at £4.1 million pre-tax and £3.4 million post tax in 2015 (2014: £6.0 million and £4.6 million respectively).

Principal risks	Mitigation	Key risk measures	Commentary
Interest rate risk The risk of financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates.	• Match interest rate structure of assets with liabilities or deposits creating a natural hedge • Alternatively, we will enter into swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets See page 125 for further information	**Hedged fixed rate assets v liabilities (%)** 2014: 99.5 2015: 100	Percentage un-hedged remains well within our tolerance of 5%.
Capital risk The risk that we have insufficient capital to cover regulatory requirements or growth plans.	• Regulate the volume of loan origination • Monthly forecasting of 12 – 18 month capital outlook • Stress testing and sensitivity analysis See page 126 for further information	**Fully loaded CRD IV CET1 ratio (%)** 2014: 10.4 2015: 11.8	Increase in CET1 ratio driven by 2015 retained earnings of £78m plus £75m of gross primary equity raised at IPO partially offset by growth in risk weighted assets as lending has increased.
Operational risk The risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime.	• Embed and ensure all staff understand and follow the Operational Risk Management Framework • Oversight and challenge from Group Risk • Monitoring of the operational risk profile • Strengthened cyber security See page 129 for further information	✓	We agree a tolerated level of losses arising from operational risk events. During 2015, we have operated within risk appetite.
Conduct risk The risk of causing unfair outcomes and detriment to our customers, regulatory censure and/or undermining market integrity as a result of our behaviour, decision-making, activities or processes.	• Conduct Risk Framework • Product Governance Framework • Conduct Risk built into Risk & Control Self-Assessment process • Monitor first line conduct risk metrics covering the product life cycle • Oversight and challenge from Group Risk See page 130 for further information	✓	We utilise a composite metric which takes into account a number of factors including customer complaints and customer detriment suffered as a result of product design, product sales and post-sale processes. This includes actual detriment or emerging issues which may lead to detriment. During the year, we remained within our overall risk appetite.

Current strategic risks

The Group's current strategic risks are detailed as follows. These may have a potential future impact on the strategic plans for the business and its future financial performance.

Compliance and competition regulation

The banking sector is currently subject to a large volume of actual and potential regulatory change arising from European regulation and from the PRA and FCA. We actively manage a number of regulatory review and change activities.

Buy-to-Let

There have been a number of actual and proposed regulatory and legislative changes related to the buy-to-let sector.

Firstly, the Summer Budget introduced plans to restrict relief on mortgage interest for individual landlords to the basic rate of income tax from April 2017. This was followed by the introduction, from April 2016, of an additional 3 per cent stamp duty tax on buy-to-let properties over £40,000. It should be noted, that around half of all buy-to-let mortgages across the market relate to remortgage rather than purchase transactions and attract no stamp duty. We represent a small part of the overall market and, as such, believe that this lending segment remains attractive from a growth and return perspective.

In addition to the powers of recommendation already granted, the UK Government is currently consulting on whether to grant the Financial Policy Committee (FPC) powers of direction to the PRA/FCA in relation to restrictions to the buy-to-let market. We consider our current underwriting criteria to be prudent. We stress all loans at origination to ensure that the mortgage is still affordable in a rising interest rate environment.

Additionally, in December 2015, the Basel Committee issued a consultation paper on risk weights which, if implemented as currently drafted, would, probably from 2019, increase the standardised capital risk weight for a buy-to-let mortgage on a residential property.

Although we believe the PRA will continue to press for the right, which it currently exercises, to determine the appropriate standardised risk weight for UK buy-to-let, given it is a mature and efficient market, we intend to pursue an IRB approach.

Interest rates

We are cognisant of the very low interest rate environment at present, with inflation and unemployment remaining low, despite global economic uncertainty and financial market turmoil. Predictions for an interest rate rise are highly uncertain but are currently indicating a rise sometime in 2018. However, the risk of an interest rate rise and the associated potential impact on our customers' ability to repay is recognised and is mitigated through a range of measures, including stress testing and the use of affordability criteria which measure the ability of customers to service loan payments at higher interest rates.

Political risks

There are ongoing political risks, including the UK's membership of the EU. The impact of leaving the EU is uncertain but could affect exports and the position of London as a major financial centre. There could also be changes in taxation or regulation which may prove to be disadvantageous to our customers. We are solely a UK-focused business and seek to mitigate these by working closely with banking regulators and Government authorities.

Economic risks

The UK economic outlook remains relatively benign, with growth expected to continue, a stable property market and very gradually rising interest rates. Although there are some sub-sectors which have some risks (oil and gas and steel sectors), we have only limited exposure to these areas.

The international economic and political environment also contains risks. These include structural and deflationary concerns in the EU, worsening geopolitical risks in Russia and the Middle East, and a continued slowing of the economy in China, putting pressure on global financial and commodity markets.

To date, the UK economy has remained robust in the face of these global headwinds and as a UK- focused business we have not felt any adverse consequences. The medium-term impact is unclear and there remains a possibility that material international events could adversely affect the UK and act as a drag on the UK economy and sectors in which we lend. We aim to manage these risks by maintaining a well-diversified product base, and remaining focused on the UK.

Cyber-crime

Financial cyber-crime has become a major issue in our increasingly interconnected world and exposes our business to both financial and reputational damage. During 2015, we continued to strengthen our defences against cyber-crime. Notwithstanding this, we plan to make further security improvements during 2016 and to ensure that the measures in place are in line with best practice standards. Additionally, we have plans in place to identify and respond to a cyber risk event on a timely basis, ensuring that there is a practical approach to actions and escalation to help minimise any potential impact.

Impact of accounting standards

New reporting requirements under IFRS 9 introduce forward looking credit models which will lead to changes in the timing of impairment recognition. We continue to assess the impact of IFRS 9 and have implemented a project plan to ensure compliance with this new standard well ahead of its proposed implementation date of 1 January 2018.

Competition

The competitive landscape contains risks from new entrants, increased competition from incumbent lenders and disruptive products/software solutions potentially affecting both lending and deposit taking activities. The effect of this could result in lower volume, higher customer attrition and/or lower net interest margins. The risk of competition has been recognised in our future planning process but is constantly monitored.

Risk management, internal control and viability reporting

Assessment of principal risks

As described further in the Risk Report, the Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives. The Board is also ultimately responsible for maintaining sound risk management and internal control systems. In line with the Code requirements, the Directors have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The principal risks are further described on pages 40 to 41 and the current strategic risks are described on page 42.

Risk management and internal controls

The Board monitors the Group's risk management and internal control systems. A review of the effectiveness of the systems has been performed incorporating all material controls, including financial, operational and compliance controls.

The Group's risk management and internal control systems are designed to identify, manage, monitor and report on risks to which the Group is exposed. It can therefore only provide reasonable but not absolute assurance against the risk of material misstatement or loss. Further details of the processes and procedures for managing and mitigating these risks are provided in the Risk report from page 110.

The effectiveness of the internal controls was regularly reviewed by the Board, Audit Committee and Risk Committee during the year. This involved receiving reports from management including reports from Finance, Risk, Compliance, Internal Audit and the business lines. The Audit Committee also receives reports on internal controls from the Group's External Auditor. Where recommendations are identified for improvements to controls these are monitored by Internal Audit who report the progress made in implementing them to the Audit Committee.

Based on the review performed during the year, and the monitoring and oversight activities performed, the Audit Committee, in conjunction with the Risk Committee, concluded that the Group's risk management and internal control systems were effective and recommended a statement to this effect to the Board.

Based on this assessment, the Board are satisfied with the effectiveness of the Group's risk management and internal control systems.

Viability

In accordance with provision C.2.2 of UK Corporate Governance Code, published by the Financial Reporting Council in September 2014 ("the Code"), the Directors have assessed the prospects of the Group over a three-year time horizon to 31 December 2018.

The Directors concluded that a three-year time horizon is an appropriate length of time to perform the assessment over because this is the period over which financial forecasts have a greater level of certainty. The Board monitor a longer term strategic plan which extends beyond the three-year horizon. This longer term strategic plan provides less certainty of outcome, but provides a robust planning tool against which strategic decisions can be made.

In the assessment of the viability of the Group, the Directors considered each of the Principal risks set out on pages 40 to 41 of the Strategic report. In addition, the assessment has been performed with reference to the Group's current position and strategy. Details of the Group's financial performance, capital management, business environment and outlook are set out on pages 3 to 37.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources. The information considered includes a wide range of stress testing which is performed as part of both the ICAAP and ILAA processes as further described in the Risk report on page 109.

Based on the above assessment, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

This Strategic report was approved by the Board and signed on its behalf by

Phillip Monks
Director

9 March 2016

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UK Corporate Governance Code 2014 ("the Code") – statement of compliance

The Board is committed to the highest standards of corporate governance. Prior to the IPO in March 2015, the Group was not required to follow the Code although it did take account of its principles. The Board confirms that from the IPO to the date of this report the Group has complied with the requirements of the Code, which sets out principles relating to the good governance of companies.

The Code is available at www.frc.org.uk

This corporate governance report describes how the Board has applied the principles of the Code and provides a clear and comprehensive description of the Group's governance arrangements.

Chairman's introduction

Dear Shareholder

On behalf of the Board, I am pleased to introduce our report on corporate governance. We have taken into account the main principles in the Code in relation to Board leadership and effectiveness, accountability, relations with shareholders and remuneration. In this report we describe our corporate governance arrangements in each of these areas along with the work which the Board and its Committees have undertaken. Whilst we are required to make various compliance statements we have tried to avoid describing these only in formal terms.

The Board believes that a robust governance framework is integral to the delivery of the Group's strategic and financial objectives within its risk appetite. Strengthening our corporate governance arrangements was a key area of focus prior to listing. Our Committees have played a critical role in supporting the Board in implementing and embedding the policies and processes that are commensurate with operating in a listed and regulated banking environment, and I have set out some key highlights later in this letter.

During 2014 the Board was enlarged ahead of the IPO and on 29 June 2015 we welcomed Robert Sharpe to the Board. Robert has significant retail banking experience, particularly in mortgages, and has further broadened the collective experience on the Board. As reported last year, John Callender stepped down from the Board on 27 February 2015, having served as an Independent Non-Executive Director since the Group was established. I would like to thank John for all his hard work and the invaluable contribution he made during his tenure.

Following this period of change, I am delighted that we have established a strong and well-functioning Board. The Executive Directors manage the business day-to-day, within the strategic direction of the Group shaped by the challenge provided by the Non-Executive Directors. Discussions are open and constructive, and the Directors have a healthy respect for each other's views. I meet regularly with the CEO which provides an opportunity for ongoing dialogue about the business and efficient running of the Board. Information about Board meeting processes and how we spent our time in 2015 is set out on pages 52 and 53.

The Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. However, we do not recommend including a measurable target for gender representation on the Board. All Board appointments are subject to a formal, rigorous and transparent procedure and are made on merit against a defined job specification and criteria, and this was formalised into a Diversity Policy which we adopted in 2015.

During the year we conducted an internal evaluation of the effectiveness of the Board and I am pleased to report that overall the results were very positive. Further information about the evaluation is set out on pages 56 and 57, including agreed priorities which will be monitored over 2016 to further enhance effectiveness. An update on progress against these actions will be provided in the 2016 Annual Report and Accounts.

The Board recognises that an effective risk management culture and framework is fundamental to the Group's sustainability. Therefore, in 2014 we decided to split the combined Audit and Risk Committee into separate Board Committees. This has allowed the Risk Committee to increase the focus on enhancing our Risk Management Framework and ensuring that risk is managed effectively across the Group. The promotion of a culture of risk awareness is integral to ensuring that our strategic objectives are delivered in the right way. The Board is very conscious of its responsibility to set this "tone from the top" consistent with running a prudent banking business.

Ahead of our listing, the Remuneration Committee spent a significant amount of time on developing a Directors' Remuneration Policy that both aligned remuneration with the long-term strategy of the Group and changing regulatory requirements, and that balanced our need to attract and retain the high-calibre individuals that can deliver our strategy with remuneration that is not excessive. The Board strongly endorses these principles, which reflect our approach to remuneration across the Group as a whole.

The Board is committed to maintaining and developing further the high standards of governance that we have already established, and this will be an area of continued focus in 2016. We will hold our first AGM as a listed company on 17 May 2016. I will be joined by all my fellow Directors. We look forward to meeting you on the day and answering any questions you may have.

Glyn P. Jones

Glyn Jones
Chairman

Board of Directors

Chairman

Glyn Jones
Chairman

Appointed:
March 2014

Board Committee membership:

Relevant skills, strengths and experience:
Glyn has previously undertaken a number of senior roles within the financial services industry and has significant leadership experience as former CEO of Thames River Capital LLP, Gartmore Investment Management PLC and Coutts Group, where he was responsible for strategic leadership, business performance and risk management. In addition, Glyn has extensive Board experience and governance knowledge, having served as Senior Independent Director of Direct Line Insurance Group PLC and Chairman of Towry Holdings Limited and Hermes Fund Managers Limited.

Current external appointments:
- Chairman of NY-listed Aspen Insurance Holdings Limited

Executive Directors

Phillip Monks
Chief Executive Officer

Appointed:
May 2009

Relevant skills, strengths and experience:
Phillip was part of the team which founded Aldermore in 2009. He has over 30 years of industry experience, which includes establishing and serving as CEO of Europe Arab Bank PLC and holding various senior roles within Barclays PLC, including CEO of Gerrard Investment Management Limited, Managing Director of Barclays Corporate Banking in London, the Midlands and South East, and Head of Barclays Private Bank in Geneva.

Current external appointments:
- Member of the FCA Smaller Business Practitioner Panel

James Mack
Chief Financial Officer

Appointed:
September 2013[1]

Relevant skills, strengths and experience:
James brings significant financial experience to the Board, having spent six years at Skipton Building Society in capital markets, finance and audit, where he was instrumental in leading the merger with Scarborough Building Society. James began his career with KPMG where he spent 11 years in the firm's financial services audit practice and he has also been Acting CFO of the Co-operative Banking Group Limited.

Current external appointments:
None

[1] Appointed as a Director of Aldermore Bank PLC in June 2013.

Non-Executive Directors

Peter Cartwright
Non-Executive Director

Appointed:
December 2008

Board Committee membership:

Relevant skills, strengths and experience:
Peter has extensive experience in the financial services sector. His previous executive roles include Commercial Director within a speciality insurance services provider backed by a UK-based private equity firm, Sales & Marketing Director and Operations Director of GMAC UK PLC and Operations Director of On:line Finance Limited. Peter is currently Co-Managing Partner and Head of Business Services at AnaCap Financial Partners LLP, where he has personally led the transformation and development of each of AnaCap's portfolio investments to date.

Current external appointments:
- Co-Managing Partner and Head of Business Services at AnaCap Financial Partners LLP
- Holds various Non-Executive and Supervisory Board roles within banks and financial services companies across Europe, including AssurOne Group SA, Brightside Group Limited and Equa Bank a.s.

Neil Cochrane
Non-Executive Director

Appointed:
September 2014

Board Committee membership:
None[2]

Relevant skills, strengths and experience:
Neil brings eight years' strategic financial services experience to the Board. He began his career as a consultant at Oliver Wyman's financial services practice, where he was involved in a broad range of projects for banking and insurance clients within the UK, Europe and the US, including new business launches, strategy development, M&A and risk management. In 2010, he joined AnaCap Financial Partners LLP's Business Services team which saw him take responsibility for day-to-day interaction with the senior management of the business' portfolio companies on strategic and operational development.

Current external appointments:
- Investment Professional at AnaCap Financial Partners LLP

Danuta Gray
Senior Independent Director

Appointed:
September 2014

Board Committee membership:
C R

Relevant skills, strengths and experience:
Danuta brings significant leadership experience to the Board, having spent nine years as CEO of Telefónica O2 in Ireland. Her career in telecommunications spans 26 years, during which time she held numerous senior roles at BT Group PLC, gaining experience in marketing, customer service, communications, technology and sales, and leading and implementing change. She has also served as a Non-Executive Director of Irish Life & Permanent PLC and Aer Lingus PLC.

Current external appointments:
- Non-Executive Director and Chairman of the Remuneration Committee of Old Mutual PLC
- Non-Executive Director of Michael Page International PLC
- Non-Executive Director of Paddy Power PLC
- Member of the Defence Board of the Ministry of Defence

[2] Alternate to Peter Cartwright on .

Key:
- A Member of the Audit Committee
- C Member of the Corporate Governance and Nomination Committee
- R Member of the Remuneration Committee
- R Member of the Risk Committee
- * Denotes Committee Chairman

Non-Executive Directors continued

John Hitchins

Independent Non-Executive Director

Appointed:
May 2014

Board Committee membership:
A* R

Relevant skills, strengths and experience:
John has extensive financial and audit experience having previously been a senior banking partner at PwC, specialising in bank auditing and advisory services for clients including Lloyds Banking Group PLC, the Bank of England, Bank of Ireland (UK) PLC, Barclays PLC and JP Morgan Chase. From 2001 to 2010, John was PwC's banking industry leader and from 2010 until his retirement led the PwC network's global IFRS technical group. John has also carried out a wide variety of advisory work for other banks and on behalf of the regulators covering corporate governance, high-level controls and other regulatory issues.

Current external appointments:
- Trustee and member of the Governing Council of the Centre for the Study of Financial Innovation, a not-for-profit City-based think tank

Robert Sharpe

Independent Non-Executive Director

Appointed:
June 2015

Board Committee membership:
A R

Relevant skills, strengths and experience:
Robert has over 35 years' experience in the banking sector, with a strong focus on mortgage lending. His previous executive roles include Group Operations Director and then CEO of Portman Building Society, where he led the merger with Nationwide Building Society, and CEO, Mortgages at Bank of Ireland (UK) PLC. In 2008, he joined West Bromwich Building Society as CEO to chart and implement its rescue plan. Robert is a seasoned Non-Executive Director with previous appointments including United Arab Bank PJSC, National Bank of Oman SAOG and George Wimpey PLC.

Current external appointments:
- Chairman of Al Rayan Bank PLC
- Executive Chairman of Stonehaven UK Limited
- Chairman of Honeycomb Investment Trust PLC

Peter Shaw

Independent Non-Executive Director

Appointed:
September 2014

Board Committee membership:
A C R R*

Relevant skills, strengths and experience:
Peter brings over 30 years' financial services experience having spent most of his career at The Royal Bank of Scotland PLC and National Westminster Bank PLC where he worked across a number of business areas including retail, SME, private banking, corporate banking, HR and risk. Peter spent many years in senior risk management roles including COO of the risk function at Group Head Office in the UK and CRO for various group businesses within RBS NatWest. In addition, Peter served as Interim CRO at the Co-operative Banking Group Limited.

Current external appointments:
- Non-Executive Director and Chairman of the Risk Committee of Bank of Ireland (UK) PLC

Chris Stamper

Independent Non-Executive Director

Appointed:
February 2014[3]

Board Committee membership:
A R

Relevant skills, strengths and experience:
Chris has 35 years' experience in the asset finance arena, most recently as Director and CEO of ING Lease (UK) Limited. He is a founding Governor of the Leasing Foundation and was Director of the Finance and Leasing Association and a former Chairman of their Asset Finance Division. Prior to this, Chris held senior management roles at Abbey National PLC, where he was responsible for five business units focused on the SME market, and was the Managing Director of Lombard Sales Finance where he spent 21 years.

Current external appointments:
None

Cathy Turner

Independent Non-Executive Director

Appointed:
May 2014

Board Committee membership:
C R*

Relevant skills, strengths and experience:
Cathy has held a number of senior roles within the banking sector during her career, including Chief Administrative Officer at Lloyds Banking Group PLC and Group HR Director at Barclays PLC, where she was responsible for HR, strategy, corporate affairs, brand and marketing. During her time with Barclays PLC she was also Director of Investor Relations for four years. Prior to this, Cathy worked in consultancy with Deloitte & Touche LLP, Ernst & Young LLP and Watson Wyatt Worldwide, Inc managing client relationships with a particular focus on compensation and benefits.

Current external appointments:
- Non-Executive Director and Chairman of the Remuneration Committee of Countrywide PLC
- Honorary Fellow of UNICEF UK
- Associate of Manchester Square Partners
- Council member of the Royal College of Art

Company Secretary

Rachel Spencer

Company Secretary

Appointed:
February 2015

Relevant experience:
Rachel has over 25 years' listed company experience. She was the Deputy Company Secretary at Invensys PLC from 1999 until 2014 on the conclusion of its acquisition by Schneider Electric SA. She was previously with BTR PLC having joined as a trainee chartered secretary. She is a Fellow of the Institute of Chartered Secretaries and Administrators.

Responsibilities:
Rachel acts as secretary to the Board and its Committees and is accountable to the Board (through the Chairman) on all corporate governance matters.

[3] Appointed as a Director of Aldermore Bank PLC in May 2013.

Executive Committee

Executive Committee Members

Phillip Monks, Chief Executive Officer, and James Mack, Chief Financial Officer, are both members of the Group's Executive Committee. Their biographies can be found on page 46.

Steve Barry[1]

Chief Risk Officer

Joined the Group:
August 2009

Relevant skills, strengths and experience:
Steve has over 20 years' financial services experience, with a strong focus on risk management and finance, having held roles including Finance and Risk Director at Beacon Homeloans Limited, Partner for Risk & Liability Management at AnaCap Financial Partners LLP, and CFO and Head of Risk for London Mortgage Company.

Responsibilities:
Steve is responsible for the overall management of credit, operational and treasury risk and the Compliance function for the Group.

[1] Steve is leaving the Group in 2016. A successor to Steve has been identified and, subject to regulatory approval, will join the Group as the new CRO.

Carl D'Ammassa

Group Managing Director – Business Finance

Joined the Group:
October 2013

Relevant skills, strengths and experience:
Carl has spent a number of years in the asset finance industry. Having started his financial services career at GE Capital, he held various financial, operational and general management positions in GE's Equipment Finance, Equipment Services and Restructuring divisions, including the post of CEO of the vehicle rental, plant hire and key leasing businesses. Prior to joining Aldermore he was the Managing Director of Hitachi Capital Business Finance. Throughout his career, Carl has gained experience in challenging turnaround and transformational situations leading significant sales, operational and process improvements.

Responsibilities:
Carl is responsible for the management of the Group's lending activity through the Business Finance Division, which comprises the Asset Finance and Invoice Finance business lines.

Charles Haresnape

Group Managing Director – Mortgages

Joined the Group:
January 2011

Relevant skills, strengths and experience:
Charles has a deep knowledge of the mortgages industry, having worked for a number of household names in the banking and building society sectors, including Nationwide Building Society and HBOS PLC. Charles was Senior Executive, Mortgage Sales and Acquisitions at Nationwide and Managing Director, Intermediary Mortgages at HBOS. In addition, he has previously held roles within the RBS Group where he was responsible for intermediary mortgage lending, and NatWest's branch mortgage sales force. Prior to joining Aldermore, Charles was Group Mortgage Services Director at Connells Limited, one of the UK's largest estate agency groups.

Responsibilities:
Charles is responsible for the management of the Mortgages Division, which comprises Residential Mortgages, Commercial Mortgages and Buy-to-Let business lines.

Vicki Harris

Group Strategy and Marketing Director

Joined the Group:
June 2014

Relevant skills, strengths and experience:
Vicki brings a wealth of business strategy experience, having previously held senior roles with McKinsey & Company and GE Capital, where she was responsible for the successful launch of the European arm of GE Healthcare Financial Services and also held senior roles in GE's private equity arm. She formerly worked for the Rank Organisation with responsibility for M&A and business development. Prior to joining the Group she was the COO of Octopus Investments Limited, a fast growing UK retail fund manager, where she was responsible for scaling the company's operations and customer engagement model.

Responsibilities:
Vicki is responsible for leading the Group's strategy team and developing strategic propositions, as well as identifying and establishing commercial initiatives. She is also responsible for Group Marketing.

Ali Humphries[2]

Group HR Director

Joined the Group:
July 2010

Relevant skills, strengths and experience:
Ali has over 20 years' experience within HR, having held HR Director roles with both HBOS PLC and Nationwide Building Society and spending 11 years in Organisational Development with Zurich Financial Services. Ali also ran her own consulting business, providing interim and project management services to blue-chip companies.

Responsibilities:
Ali is responsible for all aspects of the Group's people agenda including reward, performance management, recruitment and HR Shared Services.

[2] Ali is leaving the Group in 2016. A search is underway for her replacement.

Paul Myers

Chief Operating Officer

Joined the Group:
May 2009

Relevant skills, strengths and experience:
Paul has extensive experience of managing operations within the banking sector, having spent over 20 years in various roles within Barclays PLC, including COO of Business Banking, demonstrating a strong track record of customer service and efficiency improvements. He held a number of other executive positions in marketing and e-commerce at Barclays, along with responsibility for the performance of Barclays Retail Savings products. Prior to joining the Group, Paul undertook a number of independent consulting assignments with blue-chip financial services companies.

Responsibilities:
Paul is responsible for the Group's infrastructure and change agenda which includes IT, operating models and efficiency, management information systems, sourcing and property. In addition, he is responsible for the overall business performance in the Savings Division.

Corporate governance structure

Board and Committee structure

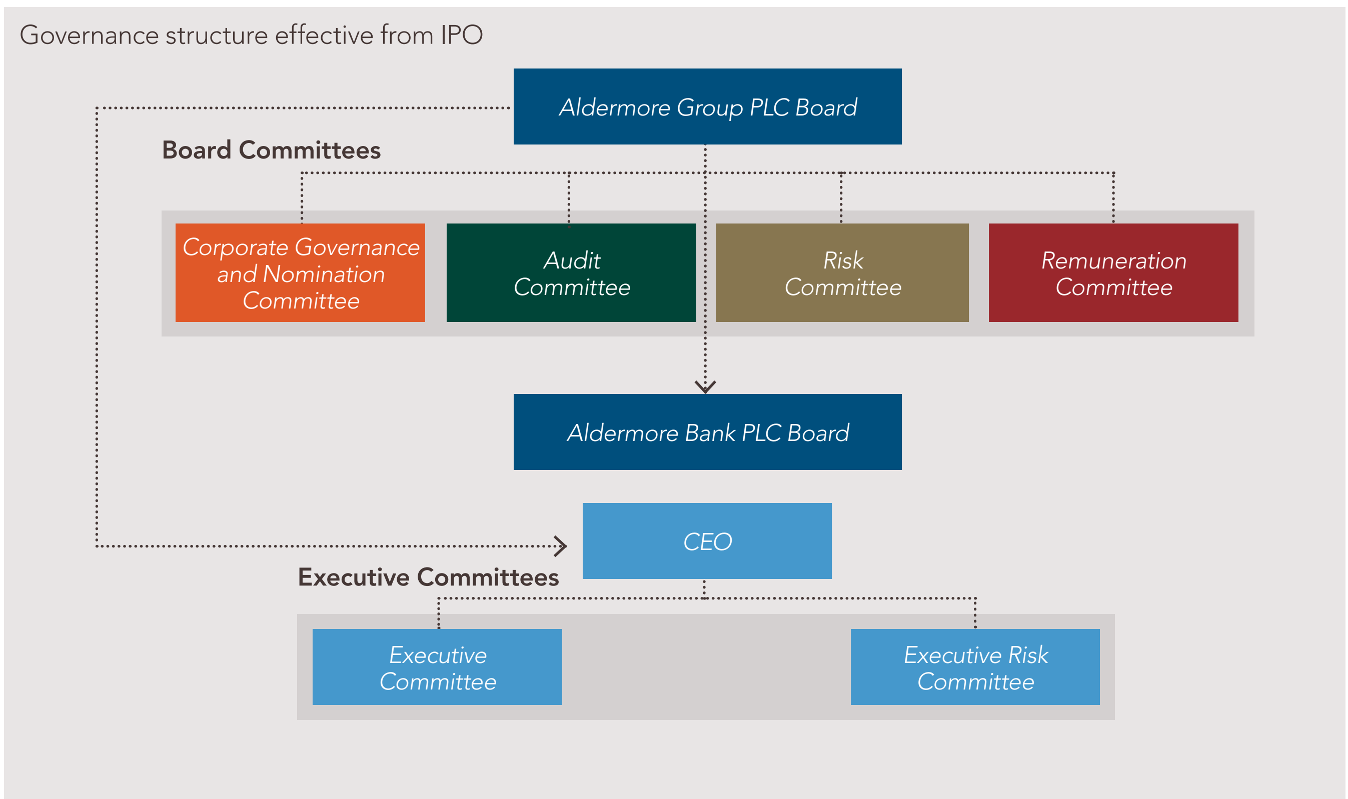
The Board has delegated a number of its responsibilities to Board Committees, which utilise the expertise and experience of their members to examine subjects in detail and make recommendations to the Board where required. This delegation allows the Board to focus more of its time on strategic and other broader matters. The chairs of the Board Committees provide the Board with a verbal update on matters discussed at each meeting, and Board Committee minutes are made available to the whole Board through a secure online system.

In addition to the Board Committees noted on the diagram below, the Board has established two further standing committees:

- The General Purpose Committee, comprising the two Executive Directors, for the purpose of approving routine business matters such as powers of attorney, changes to bank mandates and the execution of agreements which have already been approved in principle by the Board
- The Disclosure Committee, comprising the two Executive Directors and the General Counsel, for the purpose of maintaining procedures, systems and controls for the identification and disclosure of market and price sensitive information

Both Committees have written terms of reference which set out their authority, and the minutes of all meetings of these Committees are included in Board meeting packs for information.

Responsibility for the day-to-day management of the Group is delegated to the CEO, who has established a structure of two executive committees, supported by a number of sub-committees, which oversee the execution of the strategy agreed by the Board, and performance and risk issues. The executive committees and their sub-committees each have their own terms of reference.



Aldermore Bank PLC ("the Bank")

The Bank is a wholly owned operating subsidiary of the Company and it transacts the Group's banking business. It is authorised by the PRA and regulated by the FCA and the PRA. The Board of the Bank mirrors that of the Company and comprises the same Directors. The Bank Board holds separate board meetings immediately following the meetings of the Company's Board.

The Board – roles and processes

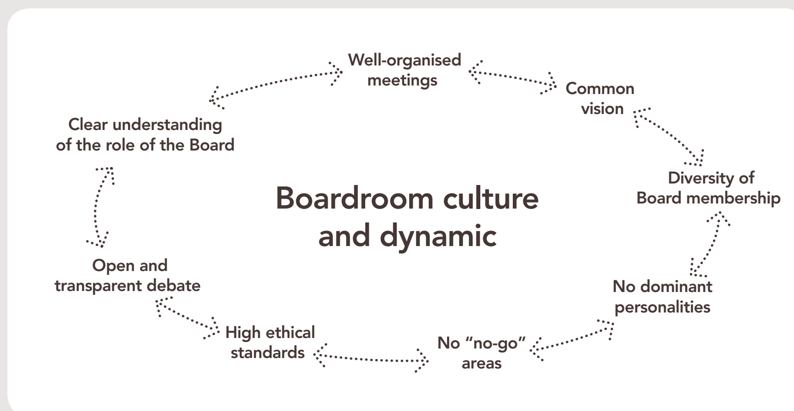
The Board

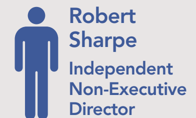
The Board is collectively responsible to shareholders for promoting the long-term success of the Group by directing and supervising the Group's affairs to create sustainable shareholder value. In setting the Group's strategy and related risk appetite, it also takes account of its obligations to other stakeholders including employees, suppliers and the community in which it operates, as well as the regulatory obligations of the Bank, its principal banking subsidiary, and to the Bank's depositors.

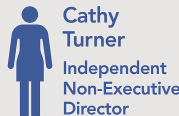
The Chairman leads the Board in its role to provide executive management with entrepreneurial direction, whilst the day-to-day management of the Group and operational matters are delegated to the CEO. The separation of duties between the Chairman and CEO is formally documented. The CEO is supported by his senior management team (the "Executive Committee"). Further information about the role and responsibilities of each Board member can be found on the next page.

The Board's duties are set out in a formal schedule of matters reserved for its decision, as summarised on page 52. This schedule is reviewed annually and is available at www.investors.aldermore.co.uk

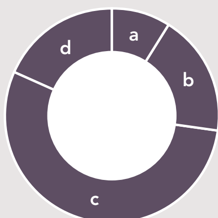
The Group's Corporate Governance Policy Framework, which is reviewed annually by the Board, sets out in detail the way the Group is governed.





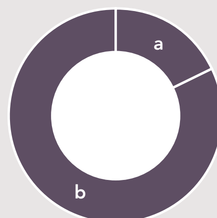


Board structure



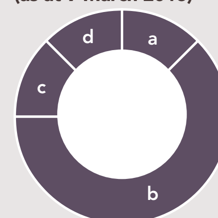
a	Chairman	9.1%
b	Executive Directors	18.2%
c	Independent Non-Executive Directors	54.5%
d	Non-Executive Directors	18.2%

Gender split of Directors



a	Female	18%
b	Male	82%

Non-Executive Director tenure (as at 9 March 2016)



a	0–1 year	12.5%
b	1–2 years	62.5%
c	2–3 years	12.5%
d	4–7 years	12.5%

Roles

Chairman

- Leads the Board and ensures its effectiveness in all areas
- Sets the Board's agenda, with support from the CEO and the Company Secretary
- Promotes the highest standards of corporate governance throughout the Group
- Facilitates the effective contribution of Non-Executive Directors and a constructive relationship between Executive Directors and Non-Executive Directors
- Ensures that the Directors receive timely and relevant information to support sound decision-making
- Responsible for induction, training and development of Directors
- Leads the development of the Group's culture
- Ensures effective communication with shareholders

Chief Executive Officer

- Responsible for the day-to-day management of the Group within the delegated authority and risk appetite approved by the Board
- Recommends the Group's strategy and leads the executive management team in the execution of the strategy approved by the Board
- Ensures the Group's culture is embedded in the business
- Leads the relationship with institutional shareholders and ensures that timely and accurate information is disclosed to the market as appropriate

Chief Financial Officer

- Manages the Group's financial affairs and supports the CEO in the management of the business
- Specifically manages statutory, monthly performance and regulatory reporting; and balance sheet and liquidity management

Senior Independent Director

- Acts as a sounding board for other Non-Executive Directors and the Chairman
- Chairs the Corporate Governance and Nomination Committee when it is considering succession to the role of Chairman of the Board
- Conducts the Chairman's annual performance evaluation, feeding in views from the Non-Executive Directors
- Attends meetings with major shareholders to understand their key issues and concerns, and is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or is inappropriate

Non-Executive Directors[1]

- Provide independent and constructive challenge of the Executive Directors, including to help develop proposals on strategy
- Scrutinise the delivery of the strategy within the risk and control framework set by the Board
- Satisfy themselves on the integrity of financial reporting and the robustness of systems and controls
- Determine Executive Director remuneration

Company Secretary

- Provides key support and acts as a first point of contact for the Chairman and Non-Executive Directors
- Facilitates effective information flows between the Board and its Committees, and between executive management and the Board
- Keeps the Board updated on developments in corporate governance
- Facilitates induction of new Non-Executive Directors and training
- Acts as Secretary to the Board and Board Committees

[1] This includes two Non-Executive Directors proposed by the Principal Shareholders under the Relationship Agreement

The Board – roles and processes

continued

Board meetings

The Board held 13 scheduled Board meetings, two strategy workshops and eight additional ad hoc Board meetings in 2015. The high number of meetings held in 2015 was driven in large part by additional meetings required ahead of the IPO.

Attendance at scheduled Board and Committee meetings is set out below. There are occasions when a Director may be unable to participate in a meeting and if this is the case they are encouraged to provide comments to the Chairman on key items of business in advance of the relevant meeting, so that their views can be shared at the meeting and their opinions taken into account during discussions.

In addition to the meeting programme, Directors meet informally during the year enabling Directors to discuss sensitive key matters in more depth. At least one informal session is held per year, which is attended by the Non-Executive Directors only.

Both the Board and its Committees have a rolling annual programme which aligns to the schedule of matters reserved for the Board and the terms of reference of each Committee. The agendas and time allocation for Board meetings are put together by the Chairman, assisted by the CEO and Company Secretary, based on the annual programme, actions arising from previous meetings and key business priorities. A similar process is followed with the chair of each Board Committee. The Board and Committee agendas include a closed session at the end of meetings from time to time to enable the Chairman/Committee chair to meet privately with the Non-Executive Directors without management present.

The Board monitors the performance of the Group against the approved strategy and annual business plan and within the agreed risk appetite through the following regular reports:

- An update from the CEO on market, customer, strategic and regulatory developments
- A business performance report from the CFO on the financial results of the business lines and the Group as a whole, as well as an investor relations update and various prudential regulatory matters
- A report from the Chief Risk Officer on key emerging risks, risk appetite and regulatory developments, including conduct risk
- A briefing from the Chief Operating Officer on IT, operational and transformation matters, and strategic change projects
- Business deep-dives, which probe the business performance and related key issues, and provide an overview of the competitive landscape

Strategy sessions

The Board is responsible for establishing the Group's strategy and plays a key role in challenging management in developing the strategic plan and objectives.

Each year two Board strategy workshops are held offsite where the CEO, with members of his Executive Committee, present their views of the market and proposed plans, including new initiatives, to be probed and tested by the Non-Executive Directors. The range of experience and expertise that the Non-Executive Directors are able to bring to the debate, along with their independent oversight, is key to building a sustainable strategy. The focus of discussions is not only on how the strategy should evolve, but also on ensuring that the Group has the appropriate resources, skills and competencies to deliver the chosen strategy.

However, given the rapidly changing market and regulatory environment in which the Group operates, the strategy has to be subject to continuous review and, as such, the executive management provides the Board with regular updates on key strategic initiatives as they progress.

2015 Board and Committee attendance at scheduled meetings

Attendance	Board	Audit Committee	Risk Committee	Remuneration Committee	Corporate Governance and Nomination Committee
Glyn Jones	13/13	–	–	3/4	2/2
Phillip Monks	13/13	–	–	–	–
James Mack	12/13	–	–	–	–
John Callender[1]	3/3	2/2	–	–	–
Peter Cartwright	11/13	2/2[3 4]	5/7[4]	2/2[3 4]	1/2
Neil Cochrane	11/13	–	–	–	–
Danuta Gray	12/13	–	–	4/4	2/2
John Hitchins	13/13	8/8	7/7	–	–
Robert Sharpe[2]	5/5	4/4	3/4	–	–
Peter Shaw	13/13	7/8	7/7	4/4	2/2
Chris Stamper	12/13	7/8	6/7	–	–
Cathy Turner	12/13	–	–	4/4	2/2

[1] Stood down on 27 February 2015. [2] Appointed on 29 June 2015. [3] Ceased to be a member from IPO.
[4] Includes meetings attended by Neil Cochrane in his capacity as alternate to Peter Cartwright.

Key matters reserved for the Board

- Strategy
- Corporate and capital structure
- Financial reporting and controls
- Internal controls and risk management
- Material contracts
- Board membership and other appointments
- Remuneration policy
- Corporate governance matters

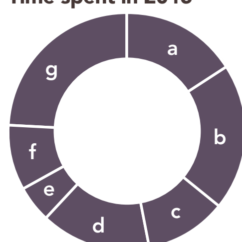
Key
● Reviewed
● Approved

Key topics discussed at Board meetings since 1 January 2015

Month	Key topics	Action
Jan 2015	Consideration of the five-year strategy, including the financial and capital plan forecasts	Approved
Feb 2015	Update on changes to Directors and Committee membership, and appointment of Company Secretary	Approved
	Update on IPO readiness and timescales	Reviewed
Mar 2015	Agreement to proceed with the proposed IPO and equity injection of proceeds into subsidiary	Approved
	Adoption of the 2015 Internal Capital Adequacy Assessment Process ("ICAAP")	Approved
	Finalisation of the Risk Appetite Framework ("RAF")	Approved
	Update on capital requirements following regulatory changes	Reviewed
	Adoption of the Corporate Governance Policy Framework post listing	Approved
May 2015	Review of the financial limits in the Matters Reserved for the Board	Approved
	Appointment of joint corporate brokers	Approved
Jun 2015	Update to the ICAAP to reflect changes to the risk profile and internal capital assessment	Approved
	Amendments to the CEO delegated authorities	Approved
	Appointment of Robert Sharpe as a Director of the Company	Approved
Sep 2015	Proposed capital injection into subsidiary following exercise of share warrants	Approved
	Property strategy and three new property leases	Approved
	Placing of cyber insurance policy	Approved
Oct 2015	Adoption of new Reputational Risk Policy	Approved
	Strategy refresh	Approved
Nov 2015	Non-Executive Director fee review	Approved
	Approach to succession planning for the Chairman and Non-Executive Directors	Approved
	Board Diversity Policy	Approved
Dec 2015	Budget and operating plan 2016, and independent review by Chief Risk Officer of achievability	Approved
	Adoption of Recovery and Resolution Plan	Approved
	Annual review of the Risk Management Framework	Approved
Jan 2016	Review of Corporate Governance Policy Framework	Approved
	Senior Managers Regime implementation	Approved
Mar 2016	Review of culture and 2015 Best Companies results	Reviewed
	Reappointment of external auditor	Approved
	Board effectiveness review and re-election of Directors	Approved
	Annual review of RAF	Approved

In addition, the Board approved the publicly released financial results (including the Annual Report and Accounts) and received regular reports from the CEO, CFO, CRO and COO as detailed on page 52. Quarterly updates were also provided on digital enhancements. The Committee chairs report on proceedings after each Committee meeting on all matters within their duties and responsibilities.

Time spent in 2015



a	Business performance	16%
b	Financial matters and investor relations	20%
c	Governance	11%
d	IT and Operations	15%
e	Regulatory matters	5%
f	Risk Management	9%
g	Strategy	24%

The Board – roles and processes
continued

Appointments

The Corporate Governance and Nomination Committee ("the Nomination Committee") is responsible for making recommendations to the Board regarding the appointment of new Directors.

One new appointment was made in 2015 – Robert Sharpe. The appointment process was overseen by the Nomination Committee and led by the Chairman. An external search consultancy, JCA Group, was appointed to identify suitable candidates. JCA Group does not have any other connection with the Group and is a signatory to the Voluntary Code of Conduct for Executive Search Firms.

JCA Group conducted a search for candidates in the UK and overseas in accordance with an agreed candidate specification. A shortlist of candidates was agreed and candidates were interviewed by a number of Directors. References were taken on the selected candidate who also undertook his own due diligence on the Group. Finally, PRA and FCA approval was obtained prior to formal appointment.

Succession planning

The Nomination Committee reviewed succession planning for both the Chairman and the Non-Executive Directors during the year. Whilst acknowledging that succession planning was key to the sustainability of the Board, the Nomination Committee was also cognisant that the majority of the Non-Executive Directors had been appointed in 2014 when a board was formed which would be suitable to lead the Company in a public environment. In the light of these relatively short tenures, the Nomination Committee set out the principles on which future succession planning should be based.

With regard to succession planning for the Chairman's role in particular, the Nomination Committee agreed that, when the time came, the search for a new Chairman would be led by the Senior Independent Director. Actions agreed include keeping under review, at least annually, the Chairman's possible term; whether there are any internal candidates for Chairman succession; and any development steps that should be considered for such internal candidates.

In order to develop a pipeline of potential successors to executive positions below Board level, the Executive Committee has reviewed the current capabilities and future potential of both their own direct reports and the teams of those direct reports. This has identified employees who would benefit from agreeing development plans to further build on their potential, and gaps where consideration should be given to recruiting potential successors. Executive Committee succession planning (including Executive Directors) will be an area of focus for the Nomination Committee during 2016.

Diversity

The Board embraces the benefits of diversity in the boardroom and believes that it generates effective challenge and decision-making. It strives for diversity in the broadest sense – female representation is just one of the factors that is taken into account and all Board appointments are made on merit against a defined job specification. The Company does not therefore consider it appropriate to set a measurable target for gender representation on its Board. Female membership of the Board currently stands at 18 per cent.

The Board adopted a Board Diversity Policy in November 2015, which is available at www.investors.aldermore.co.uk

Skills, knowledge and experience

As mentioned above, the Board values all aspects of diversity and recognises the benefit of maintaining a balance of skills, experience and knowledge. During the year, the Nomination Committee oversaw an exercise to evaluate the skills and experience on the Board. Each Director was asked to self-assess his/her skills and experience and the results were input into a matrix. The Nomination Committee reviewed the results of this evaluation.

The Nomination Committee provided a summary of the output to the Board which confirmed it was satisfied that Directors have the appropriate mix of skills and experience to challenge management and support the Group's strategy. The review also identified some areas where, in the medium term, the balance of skills, knowledge and experience could be strengthened. These will be taken into consideration in any future search for new Non-Executive Directors.

Election and re-election

The Code requires that all Directors retire and offer themselves for election at the first AGM following their appointment, and for re-election on an annual basis thereafter.

Ahead of the re-election of the Non-Executive Directors being recommended to shareholders, the Nomination Committee assesses the performance, time commitments and independence of each Non-Executive Director and makes a recommendation to the Board in this regard. In addition, the outcome of the appraisals of the Executive Directors (as set out on page 56) is considered. These assessments took place over January to March 2016 and based on these factors (described further in the paragraphs that follow on page 55), as well as the balance of skills, knowledge and experience on the Board as a whole, the Board approved the recommendation that each Director should be proposed for election/re-election at the 2016 AGM. Further information about the Directors, including their experience, is set out on pages 46 and 47.

The Principal Shareholders are classed as a "controlling shareholder" of the Company under the Listing Rules. As a result, the Independent Non-Executive Directors of the Company must be elected or re-elected by both a majority of the votes cast by all of the Company's shareholders and a majority of the votes cast by the Company's independent shareholders (being all of the Company's shareholders other than the controlling shareholder). The outcome of both of these votes will be announced following the 2016 AGM.

Director performance evaluations

Details of the Director performance evaluation process are set out on page 56. The outcome of the evaluations concluded that each Director continues to be effective and to demonstrate commitment to their role.

Time commitment and independence

The Nomination Committee reviewed the time commitment to the Company demonstrated by each of the Non-Executive Directors and was satisfied that this was both in line with the requirement set out in their letters of appointment, and sufficient to discharge their duties. The external directorships and other commitments of the Non-Executive Directors was also taken into account in making this assessment.

Independence of the Non-Executive Directors is assessed by the Nomination Committee on an annual basis against the criteria set out in the Code, which require directors to be independent in character and judgement and free from any relationships or circumstances which could affect that judgement. Factors taken into account in this assessment include length of tenure and any potential conflicts recorded in the Company's Register of Directors' Conflicts. The Nomination Committee was satisfied that there had not been any changes in circumstance which would impact on the previous assessment that all Non-Executive Directors, with the exception of the Directors who represent the Principal Shareholders, were deemed to be independent. It is noted that the Chairman was considered to be independent at appointment.

Shareholder-representative Directors

Peter Cartwright and Neil Cochrane have been appointed to the Board to represent the interests of the Principal Shareholders, and are not therefore considered to be independent under the Code. Peter Cartwright has served on the Board for seven years. The Nomination Committee reviewed the contribution that both Directors make to the Board, and highlighted the significant value that they bring as a result of their in-depth knowledge of the Group and its history, and their analytical skills. Notwithstanding that they are not independent and the length of Peter's tenure, the Nomination Committee confirmed that it was satisfied that they should be recommended for re-election at the 2016 AGM.

Conflicts of interest

The Board has procedures in place to deal with potential conflicts of interest, which are governed by both company law and the Company's Articles of Association. Under the Board's procedures, all Directors are required to declare any interests that could give rise to a conflict of interest with the Group, either on appointment or when they arise. Under the Company's Articles, the Board is permitted to authorise such conflicts and to impose any conditions on that authorisation that it considers to be necessary, for example to leave Board meetings when certain matters are discussed. All authorisations are recorded in the Board minutes, and entered into a Register of Directors' Conflicts.

The Nomination Committee has provided guidance to the Board on the declaration of interests which cannot reasonably be regarded as likely to give rise to a conflict of interest. In addition, the Nomination Committee undertakes an annual review of the Register of Directors' Conflicts to ensure that there have not been any changes in circumstances that would require the Board to revisit any previous authorisation that it has granted, or its view of the Directors' independence.

Training and development

Training sessions for Directors on topics of relevance to the Board are organised periodically throughout the year to tie in with Board and Committee meetings.

In 2015, training sessions attended by the Directors included a session on Treasury Risk Management, and updates on the Senior Managers Regime and developments in corporate governance. The sessions were led by either senior management or external advisers. The Board values internal training sessions as an important way of engaging with key employees and familiarising themselves with the business. In addition, Directors attended relevant external training sessions.

A training log is maintained by the Company Secretary for each Director as evidence of continuous development.

A longlist of potential training sessions for 2016 was drafted by the Company Secretary based on proposals raised by Directors through the Board evaluation process, areas for development highlighted through Director performance evaluations, and suggestions from advisers regarding upcoming areas of regulatory change. The Company Secretary, the Chairman and Committee chairs discussed the proposals, which broadly covered business-related and technical/regulatory items. As a result, a programme of quarterly Board training sessions supplemented by Committee-specific training is being finalised for 2016.

The Board – roles and processes

continued

Board and Committee effectiveness

The Board recognises the benefits that reviewing the effectiveness of its own performance and that of its Committees can bring, and is conscious that the actions needed to maintain effectiveness will develop over time as the Company, the Board and best practice evolve. Effectiveness is reviewed on an annual basis, and the Nomination Committee oversees this process. In 2015, the Board decided that the annual review would be conducted internally. An external review by Egon Zehnder took place in 2014.

The 2015 process was agreed by the Nomination Committee and led by the Senior Independent Director with support from the Company Secretary as required. The evaluation was taken forward by way of questionnaires which were issued to all Board and Committee members. Directors were encouraged to provide additional commentary to the "closed-ended" questions to provide more context to their responses. The results were collated and analysed by the Company Secretary, and the draft output discussed with the Chairman, Senior Independent Director and, in relation to Committees, the relevant Committee chairs. Finalised reports and action plans were presented and agreed by the Board and Committees. The output concluded that the Board and its Committees operated effectively during 2015. A summary of the outcomes is set out in the table on page 57, together with a summary of the agreed action plan for 2016. Information on the Committee reviews can be found in the reports from the individual Committees on pages 62 to 75.

The Nomination Committee will oversee the implementation of the agreed action plan for the Board and interim updates will be assessed during the year. An update on progress against these actions will be reported in the 2016 Annual Report and Accounts.

Director performance evaluations

In tandem with the process to review Board and Committee effectiveness, a similar process is followed to evaluate the continued effectiveness of the performance of the Chairman and Non-Executive Directors.

In respect of the year under review, the Chairman undertook a performance evaluation for each Non-Executive Director whilst the Senior Independent Director led the process for evaluating the performance of the Chairman. To support the evaluations, each Director completed an anonymous questionnaire to provide an assessment of the performance and effectiveness of each of the Non-Executive Directors and the Chairman. The Senior Independent Director also solicited verbal feedback on the Chairman from other Non-Executive Directors on an individual basis. The output from the performance evaluations was discussed in one-to-one sessions between the Chairman and each Non-Executive Director, and development needs in terms of ongoing training were assessed.

The performance of the Executive Directors was appraised by the Chairman (in the case of the CEO) or the CEO (in the case of the CFO) with input from other Directors. The evaluations were reviewed by the Remuneration Committee as part of the process by which changes to salary and bonus outcomes were approved.

The evaluations concluded that each Director continues to be effective and demonstrate commitment to their role, and that each Director is able to allocate sufficient time to the Company to discharge their responsibilities effectively.

Outcome of 2015 Board effectiveness review

Area	Overview
Board balance and composition	Overall, the Directors considered the balance and composition of the Board to be appropriate with excellent sector and industry knowledge, and experience. Opportunities to add new skills and additional diversity would be considered as a natural part of Board attrition.
The role of the Board	Directors felt that the role and authority of the Board is clearly defined with a clear division of responsibilities between the Board and management. Although there was, on occasion, a greater focus on the detail of operational issues than perhaps there should be, it was acknowledged that this reflected the approach that was necessary prior to the Company's IPO and that it would evolve in due course.
Leadership and culture	The culture and leadership was rated highly, and the boardroom dynamics promote good debate. There is robust challenge at meetings and discussions are open and constructive.
Information flows	There was general agreement that the adequacy, accuracy and timeliness of information given to the Board was appropriate although there was some room for improvement noted in certain areas.
Strategy	The strategic direction of the Group is very clear. The Board noted that the process during the last year in developing the business strategy had provided a good foundation on which to further evolve the strategic process. Offsite sessions had been very effective.
Governance and risk management	The output indicated that the Group is operating in line with good corporate governance. The Risk Management Framework has been enhanced and work continues to strengthen and embed this in the business.
Shareholder engagement	The strong work of the Investor Relations team was recognised. The Board is kept well informed of the market view but Directors were cognisant that this is a new area which would continue to evolve.
Succession planning and training	Directors recognised that, since the Board is relatively new, succession planning had not been tested, but they welcomed the robust framework developed by the Nomination Committee. Directors highlighted the ongoing need for training. The induction programme was noted by the most recently appointed Non-Executive Director as targeted and informative.
Meeting arrangements	Meetings enable Directors to discharge their duties but sometimes meetings are called at short notice and have full agendas.
Secretariat	The level of secretariat support has been enhanced with the development of a new function with strong public company experience.
Committees	The composition, performance and support provided to the Board Committees were considered to be appropriate.

Actions for 2016

The following key actions were identified in the evaluation:

- Continue to embed the recently implemented new template for Board papers, ensuring that papers focus on the key issues and flag the decisions to be made; that there is appropriate analysis of data provided; and that information is not simply duplicated for different forums.
- Implement a more structured process to review the effectiveness of past decisions, and to apply lessons learned.
- Maintain the focus on succession planning and continue to evolve the framework already developed by the Nomination Committee.
- Review the ongoing development of the Risk Management Framework to ensure appropriate behaviour is embedded into the risk culture.
- Develop a comprehensive training programme to meet Directors' requirements.
- Schedule more "informal" time for the Board to spend together, and extend some of the meetings to ensure there is adequate time for discussion of all agenda items, in particular strategic issues.

An update on progress against action points will be reported in the 2016 Annual Report and Accounts.

The Board – roles and processes

continued

Induction of Directors

All Directors receive a comprehensive induction on appointment to enable their effective contribution to the Board as early as possible. Induction programmes are tailored to the needs of the new Director – the Chairman discusses requirements with the new Director, which are facilitated by the Company Secretary. The programme will typically include one-to-one meetings with business and functional heads; site visits; and access to past Board packs, relevant Group policies and procedures through the Board portal.

Following his appointment in June 2015, an induction programme was developed for Robert Sharpe which aimed to enable him to build an understanding of the business and the key issues the business faces; to communicate the corporate governance arrangements and strategy; and to build links with, and access to, senior management within the business. Part of the programme included sessions with the divisional Managing Directors, which enabled him to gain an understanding of the history of the business areas and their financial, cultural and process dynamics; and to hear management's views on the challenges, opportunities and strategy for the businesses. He also met with the heads of the Group's central functions which provided him with an overview of the Group's risk management systems and internal controls, risk appetite and key risks, and corporate governance processes. A number of Robert's meetings with senior managers were combined with visits to some of the Group's key sites across the UK. These visits were an important aspect of his induction as they allowed him to see operations and meet key staff in the business at first hand.

Independent professional advice

All Directors have access to the advice and services of the Company Secretary, who ensures that Board procedures are complied with. In addition, Directors have access to independent and professional advice at the Company's expense.

Information flow to the Board

The Board's ability to discharge its duties is dependent on the quality of the information that it receives to support decision-making. Information should be accurate and clear, and provided on a timely basis.

Board papers

The Company Secretary takes responsibility for ensuring that the Board receives high-quality information and, in 2015, worked with the Chairman to develop a new Board paper template which would "signpost" the key areas of focus for the Board.

In the same vein, the CFO had identified a need to change the focus of the regular business performance report to the Board in order to provide insight rather than data, and to ensure that performance metrics were highlighted. The revised report was launched in Q1 2015.

Resources

A library of useful information has been made accessible to Directors through an online portal. This includes corporate information such as the business plan; corporate governance-related material; regulatory correspondence; and technical updates.

Relations with shareholders

Investor relations

2015 was an exceptionally busy year in terms of engagement with existing and potential investors. Ahead of listing on the London Stock Exchange in March, Executive Directors and senior management met with a significant number of potential investors in the UK, US and Europe, many of whom later participated in the IPO.

Investor meetings are normally undertaken by the CEO, the CFO and the Director of Investor Relations. During the year, almost 200 individual and group investor meetings were held covering topics such as business performance, competitive positioning, strategy and changes in the regulatory environment.

The Chairman and Senior Independent Director are also available to attend meetings with shareholders and address any significant concerns that shareholders may have.

The Group provides regular updates on its investor relations website at www.investors.aldermore.co.uk including its half-yearly financial results, reports and presentations, press releases, regulatory news, share price data and useful information for shareholders with regard to managing their shareholding.

Information to the Board

The Chairman is responsible for ensuring effective communication with shareholders and the Board recognises the importance of constructively engaging with its shareholders. Feedback received from investors is regularly shared with Board members through the CFO's regular business performance report, which aids broader discussions on business matters and other relevant topics.

During the year, and following a structured process involving several banks, the Board approved the appointment of J.P. Morgan Cazenove and RBC as joint brokers to the Company. The wealth of combined experience of the selected broking teams in working with both mid-cap companies and specialist financial services firms was felt to be a particularly good match for the needs of the Company as a newly listed entity. The joint brokers attend Board meetings on a quarterly basis to provide Directors with input on market conditions and investors' views. Outside of this formal programme, the views of the brokers are proactively sought on market developments including the regulatory and competitive environment.

Principal Shareholders

Following the sell down of 12 per cent of their holding in September 2015, the Principal Shareholders retain an interest in the issued share capital of 40.1 per cent.

At the time of the IPO, the Principal Shareholders entered into a Relationship Agreement to govern their relationship with the Company after admission and to ensure that:

- the Company is capable of carrying out its business independently of the Principal Shareholders;
- transactions and arrangements with the Principal Shareholders (and their associates) are at arm's length and on normal commercial terms (subject to the rules on related party transactions in the Listing Rules); and
- the Principal Shareholders do not take any action that would have the effect of preventing the Company from complying with, or would circumvent the proper application of, the Listing Rules.

During the year, the Nomination Committee, in accordance with its duties, conducted a review of compliance with the terms of the Relationship Agreement and concluded that the Relationship Agreement is working effectively and that the Company is capable of carrying out its business independently of the Principal Shareholders.

Since the IPO, the governance arrangements around Board meetings have been enhanced and procedures adopted which restrict Directors appointed by the Principal Shareholders from voting on matters where there are conflicts of interest and from using information obtained through their appointments.

Under the Relationship Agreement, as the Principal Shareholders still have an interest in more than 20 per cent of the Company, they are entitled to appoint two Non-Executive Directors to the Board. Peter Cartwright and Neil Cochrane were both in office at the IPO and continue to serve on the Board as the Directors appointed by the Principal Shareholders. In common with other Directors, they will stand for re-election by shareholders at the 2016 AGM.

Annual General Meeting

The Company's first AGM as a listed entity will be held at 10.30am on 17 May 2016 at the offices of Linklaters LLP, 1 Silk Street, London, EC2Y 8HQ. The Notice of AGM, together with an explanation of the items of business to be discussed at the meeting, will be posted to shareholders and made available at www.investors.aldermore.co.uk

All members of the Board will be in attendance at the 2016 AGM which will provide an opportunity to engage with shareholders on the key issues facing the Group and respond to any questions shareholders may have. All the Directors will be available before and after the meeting to meet shareholders on an informal basis. Voting at the 2016 AGM will be conducted by a poll and the results will be announced to the market and made available on the Group's website as soon as practicable following the meeting.

Corporate Governance and Nomination Committee Report

Nomination Committee at a glance

- The Nomination Committee is composed of a majority of Independent Non-Executive Directors in line with Code requirements and is chaired by the Company Chairman:
  - Glyn Jones (Chair), Company Chairman
  - Peter Cartwright, Non-Executive Director[1]
  - Danuta Gray, Senior Independent Director
  - Peter Shaw, Independent Non-Executive Director
  - Cathy Turner, Independent Non-Executive Director

[1] Neil Cochrane appointed as his alternate.

- Regular attendees at meetings of the Nomination Committee include the CEO and Company Secretary
- The Nomination Committee's key roles are to oversee the Board's governance arrangements and to ensure these are consistent with best practice standards; and to review the composition and effectiveness of the Board to support planning for its progressive refreshing
- The Nomination Committee's terms of reference are reviewed annually and are available at www.investors.aldermore.co.uk

Dear Shareholder

I am pleased to welcome you to this first report of the Corporate Governance and Nomination Committee ("the Nomination Committee"). This has been an important year for the Nomination Committee as it set the foundations for its key responsibilities going forward in a listed environment.

During the year, the Nomination Committee initially focused on ensuring that the Board composition was appropriate to support the Group's current and future strategy.

In the early part of the year, the Nomination Committee oversaw the appointment of a new Independent Non-Executive Director having identified the need for a further Director with strong retail banking and mortgages experience. This resulted in the appointment of Robert Sharpe, who we were delighted to welcome to the Board in June 2015.

The Nomination Committee has reviewed the structure and size of the Board, and the balance of skills, knowledge and experience, and is satisfied that they are appropriate.

Whilst a large proportion of the Board was appointed between 2014 and 2015 and is not expected to stand down for a number of years, it is never too early to consider Board and Chairman succession planning, and during the year the Nomination Committee agreed in principle its approach to these areas.

The Nomination Committee is also responsible for overseeing the Group's corporate governance arrangements to ensure that they remain fit for purpose and in line with best practice. The current Corporate Governance Policy Framework (which includes key governance documents such as the schedule of Matters Reserved for the Board, Board Committee terms of reference and the written confirmation of the division of responsibilities between the Chairman and the CEO) was implemented in anticipation of the Company's IPO in March 2015. The annual review of this framework was overseen by the Nomination Committee and I am pleased to report that, subject to some minor changes (including taking into account the PRA's new Senior Managers Regime), the Nomination Committee concluded that the framework remains appropriate.

Further detail on the key activities of the Nomination Committee in 2015 can be found on page 61.

Looking forward to 2016, the Nomination Committee intends to look at succession planning, focusing on the Executive Directors and senior management, as well as monitoring and further embedding best practice governance.

Glyn P. Jones

Glyn Jones
Chair of Corporate Governance and Nomination Committee

"This has been an important year for the Nomination Committee as it set the foundations for its key responsibilities going forward in a listed environment."

Glyn Jones, Chair of Corporate Governance and Nomination Committee

Key
● Reviewed
● Recommended to Board
● Approved

Key topics discussed at Nomination Committee meetings since 1 January 2015

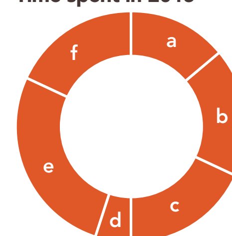
Month	Key topics	Action
Feb 2015	Initiate search for a new Non-Executive Director	Reviewed
	Changes to Committee membership	Recommended to Board
Oct 2015	Annual review of the structure, size and composition of the Board and its Committees, including the balance of skills, knowledge, experience and diversity of the Directors	Reviewed
	Chairman and Non-Executive Director succession planning framework	Recommended to Board
	Process for annual effectiveness review of the Board and its Committees, and Directors' evaluations	Recommended to Board
	Review of compliance with the Relationship Agreement between the Company and its Principal Shareholders	Approved
	Formalisation of the Board Diversity Policy	Recommended to Board
	Guidance around Directors' conflicts	Recommended to Board
	Annual programme of agenda items for Nomination Committee meetings in 2016	Approved
Feb 2016	Annual re-election of Directors and review of their independence	Recommended to Board

Committee effectiveness

The Nomination Committee undertook a review of its own effectiveness as part of the wider Board and Committee evaluation exercise undertaken in Q4 2015. The review took the form of an internal evaluation and was conducted by way of a questionnaire that was issued to all Nomination Committee members.

The review covered various areas including the role and remit of the Nomination Committee; the effectiveness of the Chair; the appropriateness of information provided to the Nomination Committee; and the relationship with management. The Nomination Committee discussed the outcome of the review in 2016. The Nomination Committee confirmed that it operated effectively and there were no significant areas for concern. Further information about the Board and Committee effectiveness process is set out on pages 56 and 57.

Time spent in 2015



a	Annual effectiveness review	14%
b	Appointment/reappointment of Directors	18%
c	Board composition	18%
d	Directors' conflicts	5%
e	Governance	27%
f	Succession planning	18%

Responsibilities of the Nomination Committee

- To review the Group's corporate governance arrangements and framework to ensure that they are consistent with best practice
- To review the Board's size, structure and composition, including the skills, knowledge, experience and diversity of the Directors, and that of the Board Committees
- To lead the process for nominating candidates to fill Board vacancies as they arise
- To oversee the annual effectiveness review of the Board and its Committees
- To oversee compliance with the terms of the Relationship Agreement with the Principal Shareholders
- To formulate succession plans for the Chairman, Non-Executive Directors and key senior executives

Audit Committee Report

Audit Committee at a glance

- The Audit Committee is composed of four Independent Non-Executive Directors, in line with Code requirements:
  - John Hitchins (Chair), Independent Non-Executive Director
  - Robert Sharpe, Independent Non-Executive Director
  - Peter Shaw, Independent Non-Executive Director
  - Chris Stamper, Independent Non-Executive Director
- Regular attendees at the Audit Committee include the CEO, CFO, Group Internal Audit Director, Group Financial Controller, representatives from KPMG and the Company Secretary
- To comply with Code requirements that the Audit Committee has at least one member with recent and relevant financial experience, the Board is satisfied that John Hitchins meets these requirements, being a qualified chartered accountant with extensive financial and audit experience. See page 47 for full biographical details for John
- The Audit Committee's key role is to review the integrity of the financial reporting for the Group and to oversee the effectiveness of the internal control systems and work of the internal and external auditors
- The Audit Committee's terms of reference are reviewed annually and are available at www.investors.aldermore.co.uk

Dear Shareholder

I became the Chair of the Audit Committee on my appointment in May 2014 and I am pleased to present this first report for the year ended 31 December 2015.

In line with best practice and in preparation for the IPO, the Board agreed during 2014 to separate the previously combined Audit and Risk Committee. The purpose of this revised structure was to allow the Risk Committee to focus on oversight and advice to the Board on the current risk exposures of the Group and future risk strategy, with the Audit Committee having responsibility for ensuring that the interests of shareholders are properly protected in relation to financial reporting and internal control.

The report describes the work of the Audit Committee and takes into account the FRC's Guidance on Audit Committees in discharging its responsibilities. We continue to work closely with the Risk Committee to ensure that areas of mutual interest are properly reviewed and challenged.

The four members of the Audit Committee are all Independent Non-Executive Directors who bring a wide range of relevant business experience. In June 2015 we welcomed Robert Sharpe to the Audit Committee; he has significant financial services industry experience.

I am also delighted that other Directors, who all have a standing invitation to meetings of the Audit Committee, have regularly attended meetings and provided valuable contributions.

It has been a busy period for the Audit Committee with a significant amount of time spent on preparing for the IPO. This has included reviewing the historic financial information to be included in the Prospectus and the 2014 Annual Report and Accounts and satisfying ourselves that the Group's internal financial reporting controls were fit for purpose for a listed company.

In respect of financial reporting, we have spent considerable time reviewing the key judgements both for the half-year and full-year results, and further detail on our debates and conclusions reached is set out on pages 65 and 66. Robust processes have been developed to ensure the integrity of the Group's financial reporting is transparent and that our inaugural Annual Report and Accounts as a listed company fully meets all legislative requirements, as well as best practice. This includes providing assurance to the Board that the Annual Report and Accounts is fair, balanced and understandable, and we have implemented a number of additional procedures to enable the Audit Committee to make this assessment.

"The key focus for the Audit Committee in 2016 will be to monitor the internal control framework to ensure it remains fit for purpose for a listed company and to support the ongoing strengthening and evolution of the internal control systems as the business grows."

John Hitchins, Chair of Audit Committee

We have considered the reappointment of the external auditor and, following an assessment of their effectiveness and independence, recommended their reappointment at the 2016 AGM. However, the Audit Committee has followed the developments in the reform of the external audit regulations with interest and in 2016 we propose to develop an audit tendering policy to provide a framework setting out the key principles and legislative requirements that will be taken into account when deciding when to implement a tender. In the meantime, the Audit Committee confirms that the Group is in compliance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

We conducted a review of the effectiveness of the Group Internal Audit function and I am pleased to report that the Audit Committee agreed the function was operating effectively overall. There are some areas noted for improvement, which had already been identified by the Group Internal Audit Director, which are being actioned and will be monitored by the Audit Committee.

The key focus for the Audit Committee in 2016 will be to monitor the internal control framework to ensure it remains fit for purpose for a listed company and to support the ongoing strengthening and evolution of the internal control systems as the business grows.

John Hitchins
Chair of Audit Committee

Responsibilities of the Audit Committee

- Monitor the integrity of the financial statements of the Group, including its annual reports, half-yearly reports and quarterly updates
- Challenge the consistency of, and any changes to, accounting policies and confirm whether the Group has complied with and followed appropriate accounting standards and made appropriate estimates and judgements
- Monitor and keep under review the effectiveness of the Group's internal financial controls and internal control systems
- Assess whether the Group's financial reports are fair, balanced and understandable; the appropriateness of the adoption of the going concern basis of accounting; and the statement that the Directors have a reasonable expectation that the Group will be able to continue its operation and meet its liabilities as they fall due
- Review the adequacy of the Group's whistleblowing arrangements and procedures for detecting fraud and preventing bribery and money laundering
- Monitor the remit and effectiveness of the Group Internal Audit function, review all internal audit reports and monitor management's responsiveness to the findings and recommendations
- Oversee the relationship with the external auditor, including the approval of audit and non-audit fees and terms of engagement, annually assessing their independence and reviewing their findings

Audit Committee Report

continued

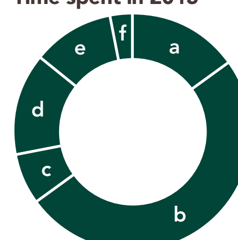
Key
- ● Reviewed
- ● Recommended to Board
- ● Approved

Key topics discussed at Audit Committee meetings since 1 January 2015

Month	Key topics	Action
Feb 2015	Overview of first line controls covering operational risk, business assurance, conduct risk, complaints and business continuity	Reviewed
	Key judgement areas for the 2014 Annual Report and Accounts, including a report from the external auditor	Reviewed
	2014 Annual Report and Accounts, including an assessment of the going concern basis	Recommended to Board
Mar 2015	Pillar 3 disclosures as at 31 December 2014	Approved
Jun 2015	Delegated authority financial limits to the CEO	Recommended to Board
	External audit control observations, including management's responses	Reviewed
	Report from the Money Laundering Reporting Officer	Reviewed
Jul 2015	Annual review of the Loan Impairment and Provisioning Policy	Approved
	Consideration of future changes in accounting standards, in particular IFRS 9	Reviewed
	2015 external audit plan and terms of engagement	Approved
Aug 2015	2015 half-year results, including an update on key judgements, an assessment of the going concern basis and the external auditor's review highlights	Recommended to Board
	2015 external audit fee proposal	Approved
Nov 2015	Policy on Employment of Former Employees of the Group's Auditor	Recommended to Board
	Revisions to the Group's Anti-Bribery and Corruption Policy	Recommended to Board
	Annual programme of agenda items for Audit Committee meetings in 2016	Approved
Dec 2015	Update on progress with year-end planning and production of the 2015 Annual Report and Accounts, including an update on the critical judgements	Reviewed
	2016 Internal Audit plan and resourcing	Approved
	Annual review of the effectiveness of the Internal Audit function	Reviewed
Feb 2016	Whistleblowing arrangements	Approved
	Annual report from the Money Laundering Reporting Officer	Approved
Mar 2016	Assessment of systems of internal control	Recommended to Board
	2015 full-year results and Annual Report and Accounts, including an assessment of the key judgements, going concern and viability reporting	Recommended to Board
	Effectiveness review and reappointment of the external auditor	Recommended to Board

In addition, the Audit Committee reviewed the quarterly results. Regular updates from the Group Internal Audit function on audit reports issued and progress against audit recommendations were presented, and non-audit services and fees were monitored.

Time spent in 2015



a	External audit	15%
b	Financial reporting	50%
c	Governance	7%
d	Internal audit	14%
e	Internal controls	11%
f	Other	3%

Areas of focus

Financial reporting

In respect of financial reporting, the Audit Committee considered the Company's half-year and annual financial statements and considered a number of significant issues and areas of judgement (as set out in the table below).

Key issues/judgements in financial reporting	Audit Committee review and conclusions
Loan impairment provisions The calculation of loan impairment provisions is management's best estimate of losses incurred in the Group's portfolios at the balance sheet date. It involves estimates of expected future cash flows based on both the likelihood of a loan and advance being written off and the estimated loss on such a write-off. Determining the appropriateness of loan loss provisions is therefore inherently judgemental and requires management to make a number of assumptions. At 31 December 2015, the Group held £10.2 million of specific loan impairment provisions and £10.5 million of collective provisions respectively.	The Audit Committee received regular reports from management during the year in relation to loan impairment. The most judgemental area of loan impairment provisioning relates to the collective provision and the assumptions used within the collective provision models. The Audit Committee considered and challenged all the key assumptions, including probability of default and emergence period assumptions, and reviewed sensitivity analysis for each key assumption. The probability of default is assessed using information obtained from a credit bureau for comparable borrowers. These probabilities of defaults are then adjusted (usually downwards) to reflect the nature of the Group's lending. The level of adjustment is based on historic internal data. Emergence period assumptions are necessary to estimate the time between the trigger events occurring and loans being identified as impaired. The Group has limited historical data available and therefore uses market insight to estimate the emergence period assumptions. The Audit Committee considered the key assumptions across each business line with consideration of the relatively unseasoned nature of the Group's lending and the relatively benign credit environment the Group is currently operating in. The Audit Committee also considered specific cases of individual provisions. The most judgemental aspect of calculating specific provisions relates to the estimate of the value of collateral due to the specialised nature of lending in SME Commercial Mortgages and Asset Finance and the alternative exit strategies which can be adopted. The Audit Committee agreed management's judgement was appropriate as at 31 December 2015. The disclosures relating to loan impairment provisions are set out in Note 3 and Note 20 to the financial statements on pages 151 and 162 respectively.
Effective Interest Rate ("EIR") The EIR method of accounting for income recognition is judgemental and requires management to make a number of assumptions. In particular, management must use judgement to estimate the expected life of loan assets across the Group's portfolios. At 31 December 2015, the Group's balance sheet includes the recognition of an EIR asset of £7.7 million.	Interest and fee income and expense on loan assets are recognised using the EIR method of accounting. This method spreads the income and expense over the estimated life of the asset. The EIR is calculated by management using discounted cash flow models across a number of portfolios which incorporate fees, costs and other premium and discounts. The Audit Committee considered and challenged the key assumptions with the EIR models. In particular, time was spent understanding the judgements management have taken in relation to the expected life of the loan assets. This assumption is underpinned by judgements made on the likely repayment profile of the Group's portfolios (both organically originated and acquired), which is driven by expected future customer behaviour on a tranche-by-tranche basis. The Audit Committee specifically considered the expected life assumptions with reference to management's forecast information. While the Group has limited historical experience upon which to base the expected life assumptions due to the unseasoned nature of the lending, it is gradually building data on its books. At 31 December 2015 this allowed management to revise its assumptions that had previously been driven largely by industry experience and market insight in the sector. The Audit Committee reviewed these adjustments in detail and also considered the forecast information having regard to the current low interest rate environment. The Audit Committee agreed that management's judgement was appropriate at 31 December 2015. The disclosures relating to EIR are set out in Note 3 to the financial statements on page 153.

Audit Committee Report

continued

Key issues/judgements in financial reporting	Audit Committee review and conclusions
Deferred tax The recoverability of the deferred tax asset ("DTA") requires consideration of the future levels of taxable profits in the Group. The DTA at 31 December 2015 is £16.4 million. The Group's DTA arises solely from temporary timing differences. The Group expects the asset to be realised in the short to medium term.	The Audit Committee considered the recognition of the DTA including the Group's forecast of the timing over which the asset would be realised against future taxable profits. The Audit Committee agreed with management's judgement that it was appropriate to recognise the DTA based on the forecast future profits. This included consideration of the sensitivity of the future forecast profits. The disclosures relating to the DTA are set out in Note 3 and Note 17 to the financial statements on pages 153 and 160 respectively.
Share-based payments Share-based payments are material by nature and determination of the fair value of share-based payments awarded to Directors and employees of the Group requires management to make a number of judgements. A total charge of £3.4 million in relation to share-based payments was reflected in the income statement during the year.	A number of new share plans were introduced by the Company during the year. The Audit Committee considered the accounting for the share plans, including the methodology used to calculate the fair value of the awards granted and the key inputs and assumptions used in the valuation models to calculate the charge. The most subjective assumption relates to the expected volatility of the Company's share price. At the grant date for awards under the executive share plans, the Company was not yet listed and therefore a bucket of similar shares were used as a proxy for the Company's volatility. The Audit Committee considered sensitivities of key assumptions and were satisfied with the judgements applied in calculating the fair value of the awards granted. The disclosures relating to share-based payments are set out in Note 3 and Note 36 to the financial statements on pages 153 and 170 respectively.
Goodwill attributable to Invoice Finance At 31 December 2015, the Group held goodwill balances totalling £12.6 million, £8.5 million of which is attributable to the SME Commercial Mortgages segment, with the remaining balance of £4.1 million attributable to the Invoice Finance segment. Accounting standards require an assessment of goodwill balances for impairment on at least an annual basis. An impairment charge should be recognised where the recoverable amount from the segment is less than the carrying value of the goodwill. Judgement is required to calculate the recoverable amount of the Invoice Finance business.	Under IAS 36, the recoverable amount is the greater of either the Value in Use ("VIU") of a business or its Fair Value less Costs of Disposal ("FVLCD"). As further described in Note 3 to the financial statements, management has considered both methods for calculating the recoverable amount. During 2015, the business was refocused and management revised their projections for the business while the impact of this restructuring is being assessed. Using these updated projections, under the VIU method, the goodwill relating to the Invoice Finance business of £4.1 million would be fully impaired, although management note a reasonably small change in the key assumptions would result in the goodwill balance being supportable. The Audit Committee noted that, whilst this calculation is sensitive to small changes in assumptions about the projected performance of the Invoice Finance business, such changes are immaterial in the context of the Group's overall performance. Management determined the FVLCD by reviewing recent transactions for similar businesses and applying the Price/Tangible Book Value ratio from those transactions to the Aldermore Invoice Finance business. Management has performed an exercise to assess the comparability of the businesses involved in recent transactions with the Aldermore Invoice Finance business. Management concluded it is appropriate to use FVLCD and therefore are satisfied that the goodwill balance of £4.1 million in relation to the Invoice Finance segment is supportable. The Audit Committee received detailed analysis of the calculation of the recoverable amounts under both the VIU and FVLCD method. The Audit Committee considered and challenged management's approach of using the FVLCD method and the detailed analysis which supported the valuation under this method. This included understanding the rationale for why the two methods could produce differing valuations. The Audit Committee specifically reviewed the comparable transactions used to derive a valuation under the FVLCD method. The Audit Committee was satisfied with the use of the FVLCD method, including the comparable transactions utilised by management to arrive at the valuation under this method. The disclosures relating to the Invoice Finance goodwill are set out in Note 3 and Note 24 to the financial statements on pages 154 and 166 respectively. The Audit Committee specifically reviewed these disclosures and considered the consistency with the disclosures in relation to the Invoice Finance business in the strategic review. The Audit Committee was satisfied that the disclosures were appropriate.

Fair, balanced and understandable

In line with the Code, the overarching principle for an annual report and accounts is that the report as a whole is "fair, balanced and understandable and should provide the information necessary for shareholders to assess the company's position and performance, business model and strategy". This requirement was at the forefront of the Audit Committee's planning process for the 2015 Annual Report and Accounts to ensure that it could provide assurance to the Board about making this statement.

The process enabling the Audit Committee to reach this conclusion included:

- The production of the 2015 Annual Report and Accounts was managed by the Chief Financial Officer, with overall governance and co-ordination provided by a cross-functional team of senior management
- Cross-functional support to drafting the 2015 Annual Report and Accounts, included input from Finance, Risk, Company Secretariat, Investor Relations and the business lines (including the Managing Directors)
- There was a robust review process of inputs into the 2015 Annual Report and Accounts by all contributors to ensure disclosures were balanced, accurate and verified, and further comprehensive reviews were conducted by senior management
- The Company Secretary reviewed all Board and Committee minutes to ensure all significant matters discussed at meetings were appropriately disclosed in the 2015 Annual Report and Accounts as required
- A full review was undertaken by the external legal advisers to ensure all disclosure requirements were met, as well as following best practice
- A formal review was undertaken by the Audit Committee of the draft 2015 Annual Report and Accounts in advance of final sign-off
- A final review was performed by the Board of Directors

In conclusion, the Audit Committee is satisfied that the 2015 Annual Report and Accounts meets the "fair, balanced and understandable" criteria.

Internal controls and risk management

The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Group's systems of internal control and risk management. Details of the risk management systems in place are provided within the risk management section on pages 105 to 108.

Details of the process performed to assess the effectiveness of internal controls are provided on page 43.

On the recommendation of the Audit Committee and Risk Committee, the Board concluded that the Group's systems of internal control and risk management were appropriately designed and operated effectively during 2015.

Whistleblowing

The Audit Committee reviews the adequacy and security of the Group's whistleblowing arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. Under the Group's Whistleblowing Policy, any concern that an employee has should be raised with their line manager, however this may not always be appropriate and a dedicated contact number is in place enabling employees to discuss the concern directly with the Head of Compliance, who will undertake an initial assessment and decide if an independent investigation is required.

In respect of the year under review, a report on whistleblowing was considered by the Audit Committee which concluded that there were no areas of concern which were significant or demonstrated material weaknesses in internal controls during the year. In 2016 the Audit Committee will be reviewing the current whistleblowing arrangements to ensure they encourage a culture of openness. Further, in line with many other companies, the Audit Committee will consider the appointment of an independent third-party provider to operate the whistleblowing line.

Audit Committee Report

continued

Internal audit

The Group has an independent and objective Group Internal Audit ("GIA") function. The GIA Director reports directly to the Audit Committee Chair and to the CEO for administrative purposes. The GIA Director meets with the Audit Committee Chair on a frequent basis and periodically with the whole Audit Committee without management present.

The Audit Committee reviewed and approved the GIA Risk Assessment and Plan of Work ("GIA Plan") including the adequacy of resources and skills available. The GIA Director utilises specialist knowledge from external consultants where appropriate, to supplement the skills of the GIA team. The GIA Director monitors changes to the business and the external environment throughout the year and considers whether any changes to the GIA Plan are needed. Any proposed changes are reviewed and approved by the Audit Committee.

The Audit Committee receives regular reports on progress against the GIA Plan including reports on individual audits as well as thematic issues identified. The Audit Committee also reviews the effectiveness of management action plans to remediate GIA findings and receives reports from GIA on the progress management has made in implementing audit recommendations.

To assess the effectiveness of GIA in respect of 2015, the Audit Committee performed an internal review which included obtaining feedback from members of the Audit Committee as well as executive management. It also had regard to the CIIA guidance on effective internal audit in the financial services sector. The internal review concluded that the function was effective overall noting that while there were some areas for improvement, these had already been identified and were being acted upon by the GIA Director.

External audit

The Audit Committee reviews and makes recommendations to the Board with regard to the appointment of the external auditor, their remuneration and terms of engagement. Reappointment of the external auditor is considered by the Audit Committee following a review of their effectiveness.

KPMG LLP and its predecessor firm, KPMG Audit Plc, were appointed as the Company's auditor in 2009. The current audit partner is Mike Peck who has been in place since 2014. The Audit Committee is cognisant of the new rules that the external audit contract should be put out to tender at least every 10 years. Given we are a newly listed company, we have not yet developed an audit tendering policy and we have continued to benefit from the continuity of service provided by our external auditor during this period of significant change. We will develop an audit tendering policy during 2016 and make further disclosures in this area in our 2016 Annual Report and Accounts. We will commence a tender process no later than 2018. The Audit Committee believes that this timetable is in the best interests of the Company.

During 2015, the Audit Committee Chair met the external auditor on a regular basis during the year to facilitate effective and timely communication. Arrangements have been put in place in 2016 for the Audit Committee to meet the external auditor at least once a year without management present so that they can discuss their remit and raise any issues arising from the audit.

Processes are in place to safeguard the independence of the external auditor, including controls around the use of the external auditor for non-audit services. Details of the Non-Audit Services Policy are set out on page 69. In addition, during the year the Audit Committee approved a Policy on the Employment of Former Employees of the External Auditor which provides further assurance of the auditor's independence.

In considering the reappointment of the external auditor, the Audit Committee assessed the effectiveness of KPMG LLP through a number of steps including: i) agreement of their engagement letter and fees; ii) a review of the external audit plan, including the experience of the audit team assigned; iii) an evaluation of the reports issued following inspections of KPMG LLP by the Financial Reporting Council's Audit Quality Review team; iv) a review of the clarity and thoroughness of KPMG LLP's written reports and contribution to Audit Committee discussions; and v) a review of non-audit fees to confirm compliance with the Group's Non-Audit Services Policy.

Following the review, and having given consideration to the performance, quality of the services provided and independence of the external auditor, the Audit Committee recommended to the Board that a resolution to reappoint KPMG LLP be proposed at the 2016 AGM. This recommendation was approved by the Board in March 2016 and the reappointment of KPMG LLP as external auditor is included in the 2016 AGM Notice.

Audit Committee effectiveness

The Audit Committee undertook a review of its own effectiveness as part of the wider Board and Committee evaluation exercise undertaken in Q4 2015. The review took the form of an internal evaluation and was conducted by way of a questionnaire that was issued to all Audit Committee members.

The review covered various areas including the role and remit of the Audit Committee; the effectiveness of the Chair; the appropriateness of information provided to the Audit Committee; and the relationship with management. The Audit Committee discussed the outcome of the review in 2016. The Audit Committee confirmed that it operated effectively and there were no significant areas for concern. Further information about the Board and Committee effectiveness process is set out on pages 56 and 57.

Non-audit services

To ensure the independence of the external auditor, the Audit Committee has adopted a formal policy on the engagement of the auditor to perform non-audit services.

Under the Non-Audit Services Policy the external auditor is prohibited from undertaking any work that is considered to threaten its independence or objectivity in its role. Prohibited work specifically includes bookkeeping services, the design and implementation of financial information systems, appraisal or valuation services, actuarial or legal services, and any other work that would involve the external auditor in preparing financial information that is included or disclosed in the audited financial statements, or in making judgements or taking decisions on behalf of management.

The external auditor is permitted to undertake work in other areas as long as it is the most suitable supplier of the service and the terms and conditions of the engagement, including the level of the fee, do not impair its objectivity or independence. Under the Policy, the Audit Committee pre-approves the use of the external auditor for routine non-audit services, such as profit verifications and country-by-country reporting.

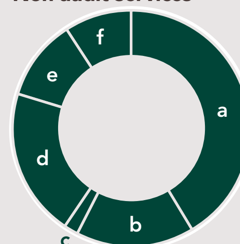
Agreement to use the external auditor for non-audit services must be approved as set out below.

When determining whether the external auditor is the most suitable supplier of a particular service, management and the Audit Committee take into account the cost-effectiveness of the service and the external auditor's knowledge of the Group. KPMG LLP has policies and procedures in place to ensure that the highest standards of objectivity, independence and integrity are maintained, and these comply with the Auditing Practices Board's Ethical Standards for Auditors. The audit engagement partner must approve any non-audit services offered to the Group. This ensures that the objectives of the proposed engagement are not inconsistent with the objectives of the audit; allows the identification and assessment of any related threats to KPMG LLP's objectivity; and assesses the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. KPMG LLP do not carry out non-audit services where no satisfactory safeguards exist.

Service	Approval required
Service not previously pre-approved regardless of fee	Audit Committee
Any engagement greater than £100,000	Audit Committee
Pre-approved services between £20,000 and £100,000	CFO
Pre-approved services less than £20,000	Direct report to the CFO

During the year the external auditor was engaged to perform the following non-audit services:

Non-audit services



a	Corporate finance services	41%
b	Audit-related assurance services	16%
c	Taxation compliance services	2%
d	Other taxation advisory services	20%
e	Other assurance services	11%
f	Other services	10%

The above services resulted in total non-audit services being provided of £0.8 million. Corporate finance services included Reporting Accountant work on the Group's IPO totalling £0.3 million.

In 2015 the ratio of non-audit services to the external audit fee was 160 per cent, reflecting the considerable extent of work required from a Reporting Accountant for an IPO. It is not expected that this level of fees will continue. Further information on the total fees and non-audit fees paid to the external auditor is detailed in Note 16 of the financial statements on page 159.

Risk Committee Report

Risk Committee at a glance

- The Risk Committee is composed of a majority of Independent Non-Executive Directors, one of whom chairs the meetings, in line with The Walker Review recommendations:
  - Peter Shaw (Chair), Independent Non-Executive Director
  - Peter Cartwright, Non-Executive Director[1]
  - John Hitchins, Independent Non-Executive Director
  - Robert Sharpe, Independent Non-Executive Director
  - Chris Stamper, Independent Non-Executive Director

[1] Neil Cochrane appointed as his alternate

- Regular attendees at meetings of the Risk Committee include the CRO, CEO, CFO, divisional Managing Directors, Group Internal Audit Director, Company Secretary and representatives from the Group's external auditor
- The Risk Committee's key role is to provide oversight of and advice to the Board on the current risk exposures and future risk strategy of the Group, including the development and implementation of the Group's Risk Management Framework and for ensuring compliance with the Group's approved risk appetite
- The Risk Committee's terms of reference are reviewed annually and are available at www.investors.aldermore.co.uk

Dear Shareholder

I am pleased to present this first report since my appointment as Chair of the Risk Committee in February 2015.

As noted in the introductory letter from the Chair of the Audit Committee, in line with best practice and in preparation for the IPO, the Board agreed during 2014 to separate the previously combined Audit and Risk Committee. This revised structure has enabled the Risk Committee to focus on risk oversight and provide advice to the Board on the current risk exposures of the Group and future risk strategy.

In June 2015 we welcomed Robert Sharpe to the Risk Committee. I am also delighted that other Directors, who all have a standing invitation to meetings of the Risk Committee, have regularly attended meetings and provided valuable contributions.

Aldermore has embraced an enormous amount of change over 2015, as we have strengthened our Risk Management Framework and controls in line with our business aspirations. This has been the focus of dedicated resources and, in line with best practice for banks and expectations of a publicly listed company, we have enhanced and implemented our risk appetite metrics, taken strategic decisions over our outsourcing arrangements, invested in systems and redesigned the primary risk control documents to support a more effective risk management environment.

During the year, a detailed review of risk resourcing was undertaken to ensure the appropriate skills and capacity resides in the Group to support the strategic growth and development plans.

The following sections discuss the activities of the Risk Committee and explain how it has discharged its responsibilities. It provides highlights of the key matters discussed during 2015. This has included the significant work on the enhancement to the Risk Management Framework, its linkage to the redesigned Risk Appetite Framework, and the focus on business and strategic objectives. We have, in conjunction with the above, reviewed in detail our principal risks and the activity of the Risk Committee has been aligned to providing effective oversight of the risk framework, appetite and risk profile, as well as considering the emerging risks that we have and will continue to face over the coming year.

The agenda for 2016 will include the continued development and embedding of the Risk Management Framework, together with the ongoing enhancement of the Risk Appetite Framework and associated metrics and processes. Finally, it is important that the risk management functions across both first and second lines of defence have sufficient resources and skills to support our risk strategies and plans, and the Risk Committee will ensure this is kept under review.

Peter Shaw
Chair of Risk Committee

"Aldermore has embraced an enormous amount of change over 2015, as we have strengthened our Risk Management Framework and controls in line with our business aspirations."

Peter Shaw, Chair of Risk Committee

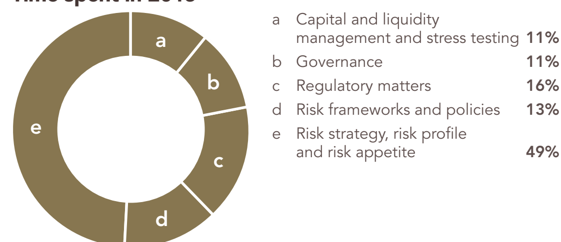
Key topics discussed at Risk Committee meetings since 1 January 2015

Key
- ● Reviewed
- ● Recommended to Board
- ● Approved

Month	Key topics	Action
Mar 2015	Review of the Internal Capital Adequacy Assessment Process ("ICAAP") and Risk Appetite Framework ("RAF")	Recommended to Board
	Amendments to the Individual Liquidity Adequacy Assessment ("ILAA")	Reviewed
May 2015	Risk Strategy report from the CRO, which aimed to ensure risk management was fully aligned with the Group's strategic objectives	Reviewed
Jun 2015	Report from the Money Laundering Reporting Officer	Reviewed
	Post-IPO updates to the ICAAP	Recommended to Board
Jul 2015	Update on resourcing within the Risk function, including proposed restructuring to ensure sufficient delineation between the first and second line credit functions	Reviewed
	Annual programme of agenda items for Risk Committee meetings in 2016	Approved
Sep 2015	Presentation from Managing Director – Savings on the embedding of risk management within the Savings Division	Reviewed
	Revisions to the Conduct Risk Policy	Approved
	Anti-Bribery and Corruption Policy	Recommended to Board
Oct 2015	Presentation from Group Managing Director – Business Finance on the embedding of risk management within the Business Finance Division	Reviewed
	Adoption of new Reputational Risk Policy	Recommended to Board
	Framework outlining the approach to stress testing	Approved
Dec 2015	Operational risk framework and the business assurance framework	Reviewed
	Revisions to the Risk Management Framework ("RMF")	Recommended to Board
	Presentation of the Recovery and Resolution Plan ("RRP")	Recommended to Board
	Proposed scenarios for use in the 2016 ICAAP and Reverse Stress Testing assessments	Approved
Feb 2016	Annual review of RAF	Recommended to Board
	Operational Risk Management Framework	Approved
	Update on products approved and credit policy changes in H2 2015	Reviewed

In addition, regular reports included updates on regulatory matters, implementation of the RAF and cyber security, and a report from the CRO covering performance against the risk appetite metrics, escalated items from the businesses and emerging risks is provided at each meeting.

Time spent in 2015



Responsibilities of the Risk Committee

- Oversee the Group's overall risk appetite, risk tolerance and risk strategy
- Monitor the risk profile against the Board-approved risk appetite
- Oversee the development, implementation and effectiveness of the overall Risk Management Framework
- Monitor the effectiveness of the Group's risk management and internal control systems
- Review the stress and scenario testing of the Group's strategic and business plans
- Ensure the adequacy of compliance with regulatory requirements (including the ICAAP and ILAA) and recommend to the Board for approval
- Review and monitor activities, independence and effectiveness of the Risk function, including Compliance
- Review risk-related Group policies for recommendation to the Board
- Provide advice to the Remuneration Committee on principles and deliverables that will ensure that the determination of remuneration fully reflects risk performance

Risk Committee Report
continued

Areas of focus

Details of key matters discussed by the Risk Committee during the year are set out on page 71. In addition, pages 38 to 43 provide a summary of risk management within the Group; developments during 2015 and priorities for 2016; the principal and current strategic risks faced by the Group; and key mitigating actions. Further information on the Group's approach to risk, including the associated governance framework for managing risk, stress testing and a full analysis of the principal risks is set out in the risk management section on pages 105 to 130.

Risk appetite

During early 2015, the opportunity was taken to re-examine the Group's risk appetite and the RMF. This was undertaken in support of the Group's growth aspirations and the planned IPO, to ensure that the foundations for risk management were in line with growth objectives.

The Risk Committee reviewed the RAF, which was designed to ensure alignment of the overarching risk appetite with the Group's strategic plans. The RAF was structured around the principal risks relevant to the Group and ensures appropriate metrics are in place to monitor performance against risk appetite limits.

The Risk Committee monitored the implementation of the RAF during 2015, and received regular updates from the CRO and business divisions. The RAF includes procedures to support the escalation of significant matters as appropriate, aiding enhanced risk awareness across the Group. During the year, further enhancements were made to the RAF metrics, reflecting the dynamic nature of the Group's RMF.

Strategic and emerging risks

The Risk Committee received regular reports covering business and strategic risks, as part of the briefing provided at each meeting from the CRO. The reports also included coverage of emerging risks and any areas being closely monitored, which include economic and sector-specific events. Annually, the CRO provides the Risk Committee with a report on the key risks which are relevant to the Group's strategic objectives. These risks are then monitored during the year.

The Risk Committee reviewed a Risk Strategy document which outlined how the Group's strategy would be supported through the development of the RMF and enhancements to risk management across the Group. The Risk Committee reviewed and recommended the RMF to the Board for approval. The RMF documents the overarching approach to how we manage risk, which includes ensuring risk management is fully aligned with the Group's strategy and that risk is undertaken within clearly defined limits.

Credit risk

The Risk Committee closely monitored the Group's credit risk profile and performance against risk appetite. At each meeting, the Risk Committee received an update on credit performance, an overview of the portfolio composition and key trends. Emerging risks and economic developments were considered, with the Risk Committee considering any potential impact on the Group's risk profile and appetite limits.

Over the year, the Risk Committee received updates on material credit policy changes, providing an overview of credit policy developments. This included the review and approval of the Group's Credit Mandate Policy and the Concentration Risk Policy.

Operational risk

During the year, the Risk Committee received a number of updates on operational risk matters including a detailed review of the effectiveness of operational risk system and processes, which covered business assurance controls, risk event management as well as business continuity and disaster recovery arrangements. As part of the continued development of the systems and controls in place to support the control environment, a revised Operational Risk Management Framework was approved in February 2016. The Risk Committee also reviewed and recommended for Board approval the Group's Reputational Risk Policy.

Cyber security and cyber risk management has been an important area of focus for the Group during 2015. Security enhancements were implemented during the year as part of a security review programme and the Risk Committee received quarterly updates on these improvements.

In addition, the Risk Committee monitored the performance of key systems, significant projects, as well as noting material outsourced arrangements, which are also monitored actively within the revised risk appetite metrics.

The Risk Committee received the annual report from the Money Laundering Reporting Officer which covers various areas including the Group's arrangements for anti-money laundering, "Know Your Customer", financial crime and fraud prevention, and anti-bribery and corruption.

Conduct risk management was an area of focus for 2015, and the Risk Committee received updates on conduct risk management and approved the revised Conduct Risk Policy. Conduct risk forms part of the RAF and the Risk Committee actively monitors conduct risk through this framework.

Additionally, the Risk Committee receives updates twice a year on the approvals of new products and revisions to existing products, which have been reviewed by the Product and Pricing Committee.

Capital, liquidity and stress testing

The Risk Committee monitored market, liquidity and capital risks, receiving regular updates on key metrics. Regulatory developments were also considered in relation to the Group's approach to stress testing with the Risk Committee approving the revised Stress Testing Framework, which applies to capital, liquidity and operational risk stress testing. It also reviewed and considered the ICAAP, ILAA and RRP documents, recommending these to the Board for approval. The ICAAP was considered twice during the year, once in March 2015 and again in July 2015, after the IPO.

Regulatory developments

The Risk Committee received regular updates on regulatory developments and considered the impact on the Group's plans, operational processes, systems and controls. Major areas of regulatory development considered by the Risk Committee included aspects of CRD IV, changes in the depositor protection scheme and the Senior Managers Regime. The Risk Committee recognises the level of regulatory change has increased significantly and is likely to continue over the coming years, and a standing regulatory update is now included in its meeting programme to ensure it keeps abreast of developments.

Risk Committee effectiveness

The Risk Committee undertook a review of its own effectiveness as part of the wider Board and Committee evaluation exercise undertaken in Q4 2015. The review took the form of an internal evaluation and was conducted by way of a questionnaire that was issued to all Risk Committee members.

The review covered various areas including the role and remit of the Risk Committee; the effectiveness of the Chair; the appropriateness of information provided to the Risk Committee; and the relationship with management. The Risk Committee discussed the outcome of the review in 2016. The Risk Committee confirmed that it continued to operate effectively and there were no significant areas for concern. Further information about the effectiveness process is set out on pages 56 and 57.

Remuneration Committee Report

Remuneration Committee at a glance

- The Remuneration Committee is composed of three Independent Non-Executive Directors and the Company Chairman, which meets with Code requirements:
  - Cathy Turner (Chair), Independent Non-Executive Director
  - Danuta Gray, Senior Independent Director
  - Glyn Jones, Company Chairman
  - Peter Shaw, Independent Non-Executive Director
- Regular attendees at meetings of the Remuneration Committee include the CEO, Group HR Director, Company Secretary and FIT Remuneration Consultants LLP (who provide independent remuneration consultancy services)
- The Remuneration Committee's key role is to set the remuneration policy and individual terms for the Executive Directors, Chairman and other members of the senior management team
- Remuneration for the Non-Executive Directors is determined by the Board of Directors
- No person participates in any discussion relating to their own remuneration
- The Remuneration Committee's terms of reference are reviewed annually and are available at www.investors.aldermore.co.uk

Dear Shareholder

This report provides an overview of the Remuneration Committee's activities since 1 January 2015.

You will find our Remuneration Report on pages 82 to 103. This includes the Annual Report on Remuneration, which sets out how we have remunerated the Executive and Non-Executive Directors over the year ended 31 December 2015, and the Directors' Remuneration Policy.

The current members of the Remuneration Committee are set out in the "at a glance" box. However, I would also like to extend my thanks to Peter Cartwright, who stepped down as a member of the Remuneration Committee at IPO, for his valuable input and support during his tenure.

In the early part of 2015, the Remuneration Committee focused on ensuring that the Group had effective and appropriate remuneration arrangements in place ahead of its proposed listing. This included the finalisation of its Directors' Remuneration Policy for inclusion in the IPO Prospectus and the design of a balanced scorecard approach to the executive annual bonus scheme. Later in 2015, in addition to monitoring executive pay and bonus schemes, the Remuneration Committee also oversaw the launch of our first Sharesave invitation and received updates from its remuneration adviser on regulatory developments. The European Banking Authority's final guidelines on the remuneration provisions in the Capital Requirements Directive, which contains pay structure and policy rules for banks, was of particular relevance to the Group, and I provide an explanation of how this may impact our remuneration arrangements going forward in my introductory letter to the Remuneration Report on pages 82 and 83.

Looking ahead to 2016, the Remuneration Committee will monitor the impact of the European and other regulatory changes to ensure our Directors' Remuneration Policy remains appropriate and that we have effective and performance-based remuneration practices that are well governed.

Cathy Turner

Cathy Turner
Chair of Remuneration Committee

Responsibilities of the Remuneration Committee

- Setting remuneration policy for Executive Directors and senior management, and making recommendations to the Board on overall remuneration costs
- Determining individual remuneration arrangements for the Executive Directors, senior management and other staff falling within the remit of the FCA and PRA Remuneration Codes ("Identified Staff")
- Approving the Chairman's remuneration
- Reviewing pay and bonus allocations across the wider Group
- Reviewing the design of performance-related incentive schemes for recommendation to the Board. Once in place, agreeing targets and assessing the outcomes
- Reviewing recruitment and termination arrangements for Executive Directors, senior management and Identified Staff
- Engaging with shareholders on remuneration-related matters

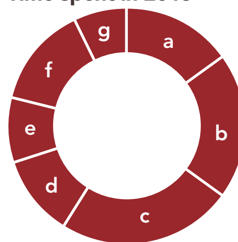
Key
● Reviewed
● Recommended to Board
● Approved

Key topics discussed at Remuneration Committee meetings since 1 January 2015

Month	Key topics	Action
Feb 2015	Proposed payouts under the general (all-employee) and discretionary bonus schemes and 2015 salary reviews	Reviewed
	Design of the 2015 AIP bonus scheme, including performance measures and weightings	Approved
	Directors' Remuneration Policy	Recommended to Board
	Grants under the PSP	Approved
Jul 2015	2015 Sharesave invitation	Approved
	AIP and PSP performance outlook	Reviewed
	Impact of regulatory developments on remuneration arrangements	Reviewed
	Annual programme of agenda items for Remuneration Committee meetings in 2016	Approved
Oct 2015	AIP performance outlook	Reviewed
	2015/16 pay and bonus proposals	Approved
	Replacement of sales incentive plans with a balanced scorecard approach	Approved
	Policy on buy-outs and terminations	Approved
Jan 2016	Compliance with share ownership guidelines and anti-hedging policy	Reviewed
	Annual review of the Chairman's remuneration	Approved
	Annual review of the Directors' Remuneration Policy	Recommended to Board
Feb 2016	Annual reporting, including Remuneration Report and Pillar 3 disclosures	Reviewed
	2015 AIP outturn and payouts under the general (all-employee) bonus scheme	Approved
	2016 salary reviews and proposed awards under the PSP and RSP	Approved

In addition, regular reports included updates on changes to Identified Staff, treatment of joiners and leavers, and consideration of market and regulatory updates.

Time spent in 2015



a	Governance	15%
b	Individual remuneration arrangements	20%
c	Performance-related incentive schemes	24%
d	Recruitment & termination	11%
e	Regulatory	9%
f	Remuneration arrangements in wider Group	14%
g	Setting remuneration policy	7%

Committee effectiveness

The Remuneration Committee undertook a review of its own effectiveness as part of the wider Board and Committee evaluation exercise undertaken in Q4 2015. The review took the form of an internal evaluation and was conducted by way of a questionnaire that was issued to all Remuneration Committee members.

The review covered various areas including the role and remit of the Remuneration Committee; the effectiveness of the Chair; the appropriateness of information provided to the Remuneration Committee; and the relationship with management. The Remuneration Committee discussed the outcome of the review in 2016. The Remuneration Committee confirmed that it continued to operate effectively and there were no significant areas for concern. Further information about the Board and Committee effectiveness process is set out on pages 56 and 57.

Directors' Report

The Directors present their report and the financial statements of the Group for the year ended 31 December 2015. As permitted by legislation, some of the matters normally included in the Directors' Report are included by reference as detailed below.

Requirement	Detail	Where to find further information: Section	Location
Business review and future developments	Information regarding the business review and future developments, key performance indicators and principal risks are contained within the Strategic report.	Strategic report	Pages 6 and 26 to 37 (Business review and future developments) Page 20 (Key performance indicators) Pages 40 and 41 (Principal risks)
Corporate governance statement	The corporate governance section provides full disclosure of the Group's corporate governance arrangements. Prior to the IPO in March 2015, the Group was not required to follow the UK Corporate Governance Code 2014 ("the Code") although it did take account of its principles. The Group has complied fully with the provisions of the Code since the IPO.	Corporate governance	Pages 45 to 80
Results	The results for the year are set out in the income statement. The profit before taxation for the year ended 31 December 2015 was £94.7 million (2014: £50.3 million). A full review of the financial performance of the Group is included within the Strategic report.	Income statement Strategic report	Page 137 Pages 3 to 43
Dividend	The Directors do not propose to recommend a final dividend in respect of the year ended 31 December 2015.	–	–
Financial instruments	The Group uses financial instruments to manage certain types of risk, including liquidity and interest rate risk. Details of the objectives and risk management of these instruments are contained in the risk management section.	Risk management	Pages 122 to 126
Post balance sheet events	There have been no material post balance sheet events.	–	–
Share capital	At 31 December 2015, the Company's share capital comprised 344,739,584 ordinary shares of £0.10 each. The Company did not repurchase any of the issued ordinary shares during the year or up to the date of this report. On IPO, 1,593,839 deferred shares of £0.10 each and 131,593,114 deferred shares of £0.0001 each were repurchased from shareholders as part of a share capital reorganisation. This represented 100 per cent of the deferred shares in issue at the time of the repurchase, and the total consideration paid was £1. Details of the Company's share capital and movements in the Company's issued share capital during the year are provided in Note 35 to the consolidated financial statements. The powers of the Directors, including in relation to the issue or buy back of the Company's shares, are set out in the Companies Act 2006 and the Company's Articles of Association. The Directors were granted authorities to issue and allot shares and to repurchase shares at a general meeting on 9 March 2015. These authorities expire at the end of the next Annual General Meeting or, if earlier, on 30 June 2016. Shareholders will be asked to renew the authority to issue and allot shares at the 2016 AGM.	Note 35 to the consolidated financial statements	Page 169

<table>
<tr><th rowspan="2">Requirement</th><th rowspan="2">Detail</th><th colspan="2">Where to find further information:</th></tr>
<tr><th>Section</th><th>Location</th></tr>
<tr><td rowspan="4">Rights and obligations attaching to shares</td><td>There are no restrictions on the transfer of the Company's ordinary shares or on the exercise of the voting rights attached to them, except for:
– where the Company has exercised its right to suspend their voting rights or prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006; or
– where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.
All the Company's ordinary shares are fully paid and rank equally in all respects and there are no special rights with regard to control of the Company.
Under the Relationship Agreement entered into by the Principal Shareholders, AnaCap Derby Co-Investment (No.1) L.P. has agreed for so long as it holds in excess of 4.99 per cent of the ordinary shares in the Company, that save in limited circumstances, it shall not exercise any voting rights in respect of, or sell or transfer (except for a permitted sale or transfer), any ordinary shares in the Company beneficially owned, directly or indirectly, by it.</td><td>–</td><td>–</td></tr>
</table>

Requirement	Detail	Section	Location
Employees	The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status. The Group is committed to ensuring that disabled people are afforded equality of opportunity in respect to entering and continuing employment within the Group. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development. Information on employee involvement and engagement can be found in the Strategic report.	Strategic report	Pages 22 and 23
Directors	The names and biographical details of the current Directors who served on the Board during 2015 and up to the date of this report are provided in the corporate governance section and are incorporated into the Directors' Report by reference. The following changes to the composition of the Board have occurred since 1 January 2015: John Callender Resigned 27 February 2015 Robert Sharpe Appointed 29 June 2015	Corporate governance – Board of Directors	Pages 46 and 47
Disclosure of information under Listing Rule 9.8.4R	Details of any long-term incentive schemes	Note 36 to the consolidated financial statements	Pages 170 to 172
	Allotments for cash of equity securities otherwise than to shareholders in proportion to their holdings	Note 35 to the consolidated financial statements	Page 169
	Agreement with the Principal Shareholders	Relations with shareholders	Page 59

Directors' Report

continued

Requirement	Detail	Where to find further information: Section	Location
Appointment and retirement of Directors	The appointment and retirement of the Directors is governed by the Company's Articles of Association, the Code and the Companies Act 2006. The Company's Articles of Association may only be amended by a special resolution passed by shareholders at a general meeting. In accordance with the Code, all of the Directors will retire and offer themselves for reappointment or appointment (in the case of Robert Sharpe) at the 2016 AGM. Under the Relationship Agreement, the Principal Shareholders are entitled for such time as they have: (i) an interest of 20 per cent or more in the Company, to appoint two Non-Executive Directors; and (ii) less than a 20 per cent interest but an interest of 10 per cent or more in the Company, to appoint one Non-Executive Director. Such appointments are subject to election/re-election at the AGM.	Corporate governance – Election and re-election	Pages 54 and 55
Directors' indemnities	The Directors who served on the Board during 2015 and up to the date of this report have benefitted from qualifying third-party indemnity provisions by virtue of deeds of indemnity entered into by the Directors and the Company. The deeds indemnify the Directors to the maximum extent permitted by law and by the Articles of Association of the Company, in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a Director of the Company and any associated company, as defined by section 256 of the Companies Act 2006. The Group also maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its Directors.	–	–
Significant agreements	There are no agreements between any Group company and any of its employees or any Director of any Group company which provide for compensation to be paid to an employee or a Director for termination of employment or for loss of office as a consequence of a takeover of the Company. There are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control following a takeover bid for the Company.	–	–
Substantial shareholdings	In accordance with the Disclosure and Transparency Rules, the Company (as at the last practicable date before publication of the Annual Report and Accounts) has been notified of the following interests in its ordinary share capital:	–	–

Shareholder	Ordinary shares held	% of voting rights	Nature of holding
AnaCap Financial Partners L.P.[1]	28,702,806	8.33%	Direct
AnaCap Financial Partners II L.P.[1]	37,964,311	11.01%	Direct
AnaCap Derby Co-Investment (No. 1) L.P.[1]	38,821,660	11.26%	Direct
AnaCap Derby Co-Investment (No. 2) L.P.[1]	32,897,211	9.54%	Direct
Morgan Stanley (Institutional Securities Group and Global Wealth Management)	17,870,188	5.18%	Qualifying Financial Instrument

[1] These shareholdings represent the interests of the Principal Shareholders who hold 40.14 per cent of the ordinary shares in the Company.

Requirement	Detail	Where to find further information: Section	Location
Political donations	The Group made no political donations during the year.	–	–
Research and development activities	The Group does not undertake formal research and development activities. However, new products and services are developed in each of the business lines in the ordinary course of business in accordance with the Group's product and pricing governance framework. Under this framework all new products, campaigns and business initiatives are reviewed and approved by the Group's Product and Pricing Committee. In addition to new products and services, the Group also invests in internally generated intangible assets including computer systems. Further details can be found in Note 24.	Note 24 to the consolidated financial statements	Pages 165 and 166
Emissions reporting	Details relating to required emissions reporting are set out in the table overleaf.	Directors' Report	Page 80
Going concern	The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources, and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including under a range of stressed scenarios. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.	–	–
Disclosure of information to auditors	Each person who is a Director at the date of this Directors' Report confirms that: – so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and – he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.	–	–
Auditor	KPMG, the auditor of the Company since 2009, have expressed their willingness to continue in office as auditor and a resolution in respect of their reappointment will be proposed at the 2016 AGM.	Audit Committee Report	Page 68
Annual General Meeting (AGM)	The AGM will be held at 10.30am on 17 May 2016 at the offices of Linklaters LLP, 1 Silk Street, London, EC2Y 8HQ. The Notice of AGM, together with an explanation of the items of business to be discussed at the meeting, will be posted to shareholders and made available on the Group's website.	Group website	www.investors.aldermore.co.uk

Directors' Report
continued

Emissions reporting

Greenhouse gas emissions

The Group's greenhouse gas ("GHG") emissions for 2015 were 721 tonnes of carbon dioxide equivalent (tCO_2e) equating to 0.85 tCO_2e per employee. As this is the first year of reporting for the Group, there is no base year for comparison and no stated emissions targets against which to report. In 2016, the Group expects to establish an energy baseline against which it can report in future years.

GHG emissions for the Group have been collated and calculated for all UK operations where the Group is responsible for the combustion of fuel or energy used in the operation of facilities occupied by the Group.

Reporting period

The reporting period for emissions corresponds with the Group's financial reporting period.

GHG scope of disclosure and omissions

As this is the first year of reporting, GHG emissions disclosure will be limited to Scope 1 and Scope 2 emissions only as data was not readily available for Scope 3 emissions. Scope 1 includes fuel emissions from buildings and company vehicles and Scope 2 includes our emissions from electricity. Disclosure of Scope 3 emissions is voluntary under the regulations.

Heat and electricity supplied by landlords to premises occupied by the Group, where the heat or electricity is not separately reported or charged outside of the general building service charge, has not been included in this year's report due to lack of data. Methods to obtain this data or reliable methods for estimation will be investigated and if suitably accurate data can be obtained then this will be included in future year's reports.

GHG emissions summary (tCO_2e)

Scope		2015
Scope 1	Company transport	237
Scope 2	Electricity	484
Total GHG emissions		**721**
Average number of employees		845
Total per employee		**0.85**

GHG data integrity and calculation method

The data included in this report has been taken from multiple sources, namely: utility billed data, existing internal calculations, existing external calculations from landlords, and expense claims in relation to transport usage. It has not been possible to obtain some data for the aforementioned reporting period. Where this is the case, data has been estimated either by using data from an earlier period or extrapolating existing data. Fuel consumption from vehicles for business travel was estimated from expense claim costs.

Conversion factors used in this report have been taken from the Department for Environment, Food & Rural Affairs' Greenhouse Gas Conversion Factor Repository and the report has been compiled in line with the Department for Environment, Food & Rural Affairs' Environmental, Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance.

GHG reduction plan

The Group is committed to reducing GHG emissions. The opportunities for energy savings identified through the Group's ESOS (Energy Saving Opportunity Scheme) assessment, completed in January 2016, will be progressed and implemented as appropriate.

GHG data verification

All data used for GHG emissions reporting was compiled and calculated by JRP Solutions Ltd, an independent energy specialist.

On behalf of the Board

Rachel Spencer
Company Secretary

9 March 2016

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Remuneration Report

Statement from the Remuneration Committee Chair

Dear Shareholder

On behalf of the Board, I am pleased to present our first Directors' Remuneration Report (the "Remuneration Report") for the year ended 31 December 2015.

The report has been divided into two principal sections, namely:

- the annual report on remuneration which discloses how the Directors' Remuneration Policy was implemented in the year ended 31 December 2015 (the "Annual Report on Remuneration"); and
- the Remuneration Policy report, which sets out the Group's forward-looking Directors' Remuneration Policy (the "Remuneration Policy") for Executive and Non-Executive Directors.

A report on the key details of the Remuneration Committee and its activities is set out on pages 74 to 75.

The Remuneration Policy will be subject to a binding vote at our 2016 AGM and it is our intention to put our Remuneration Policy to a binding vote every three years unless there are changes requiring shareholder approval in the interim.

The Remuneration Policy is substantially similar to that disclosed to shareholders in the IPO Prospectus dated 10 March 2015. The only changes of substance are that we have proposed that:

- the cap on market adjusted allowances is set at 50 per cent of salary rather than the previously suggested 35 per cent. This is to provide suitable flexibility given the uncertain regulatory environment and, with the exception of aligning the level paid to the two Executive Directors at 20 per cent (an increase from 15 per cent for the CFO), no further increases are envisaged at this time; and
- the pension allowance has been increased from 8 per cent to 15 per cent. Currently, the 8 per cent level applies Group-wide with no enhanced levels for senior staff. There is no current plan to change this level although additional flexibility is, again, helpful both to permit the Remuneration Committee to revisit the appropriate all-employee level from time to time and to permit a more differentiated approach should that prove necessary. The suggested 15 per cent level remains below a market level for senior executives.

The revised Remuneration Policy also reaffirms that a broader flexibility is retained to adjust the terms of the one-off Pre-IPO Awards granted under the Performance Share Plan ("PSP") due to vest in December 2016 as compared with the first regular grant made at IPO (due to vest around the third anniversary of IPO) and subsequent awards.

Any other changes which have been made from the IPO Prospectus are principally to reflect the context of re-stating this Remuneration Policy in our first Remuneration Report. Although the Remuneration Policy, if approved by shareholders, will not become formally effective until the 2016 AGM, the Remuneration Policy has been applied by the Remuneration Committee since the time of the IPO.

The Annual Report on Remuneration will be subject to an advisory vote each year starting with the 2016 AGM.

2015 performance and reward

In 2015, the Group has delivered continued strong growth and significantly increased profitability:

- underlying profit before tax up by 75 per cent to £98.8 million
- underlying return on equity of 20.6 per cent
- underlying cost/income ratio reduced by 9 percentage points to 51 per cent
- net loan growth of £1.3 billion or 28 per cent

The Annual Incentive Plan ("AIP") is based on a balanced scorecard of financial, non-financial and personal measures. Approximately 87 per cent of the maximum was awarded to both the CEO and CFO in respect of 2015.

This outcome under the AIP reflects the strong financial and operational results which the Group has achieved. However, in determining this outcome, the Remuneration Committee exercised careful judgement, assessing the quality of earnings, affordability, performance against the agreed risk profile, performance relative to peers, the wider economic environment plus other factors. This allowed the Remuneration Committee to consider overall Group performance and ensure that the AIP outcomes reflected this and were fair for both shareholders and executives.

2016 application of Remuneration Policy

The key remuneration outcomes in respect of 2016, which are in line with the proposed Remuneration Policy, are as follows:

- the CEO and CFO will each receive a base salary increase of 2.5 per cent with effect from April 2016;
- in order to align them with those of the CEO and the market, the CFO's AIP maximum and PSP award levels have also been increased from January 2016 to 125 per cent and 135 per cent of salary respectively, whilst his market adjusted allowance will be increased to 20 per cent of salary from April 2016;
- annual PSP awards will be made on a similar basis to 2015, except that the 50 per cent element which is based on a Total Shareholder Return ("TSR") condition will be subject to a more conventional relative assessment; and
- no changes have been applied to the fees of the Chairman and the Non-Executive Directors in 2016.

"We are committed to developing effective and performance-based remuneration policies that are well governed."

Cathy Turner, Chair of Remuneration Committee

Remuneration Policy for 2016 and beyond

The Company is currently a "Proportionality Level 3" firm within the classifications applied by the PRA and FCA for their Remuneration Codes for regulated entities. Accordingly, the Company is not currently required to apply fully all of the aspects of these Remuneration Codes under the doctrine of "proportionality", although it has adopted a high level of compliance with all aspects of the Remuneration Codes on a voluntary basis.

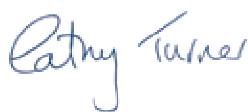
The European Banking Authority ("EBA") published final guidelines on the remuneration provisions of CRD IV in December 2015 (CRD IV being the Europe-wide regulation which imposes, inter alia, certain obligations regarding the structure of pay arrangements within banks, including an obligation that total variable pay should not exceed a prescribed proportion of fixed pay). While indicating that it would maintain a distinction between larger and smaller banks in many respects through proportionality, the EBA recommended that the EU and local regulators implement some changes in order to extend the requirement to apply a 2:1 variable to fixed pay cap to all regulated banks from January 2017. However, in February 2016, the UK's PRA and FCA together indicated that they were not intending to extend the cap to Proportionality Level 3 firms, at least initially. As a result, the Remuneration Policy has been drafted on the basis that the cap will not be legally applicable to the Company. In practice though, the Company has applied this cap since IPO on a voluntary basis, and will continue to do so as appropriate.

Shareholder engagement

We take an active interest in shareholder views on our Remuneration Policy and will be reviewing voting outcomes from our first AGM. We believe in maintaining ongoing dialogue with shareholders on remuneration and will engage regularly, including on any necessary changes to the Remuneration Policy going forward. Whilst we anticipate that the Remuneration Policy will apply for three years from approval, the regulation of pay within the sector remains under ongoing review and, should we need to revise our Remuneration Policy because of regulatory developments or otherwise, we would engage with our shareholders in a transparent way regarding our proposals.

We are committed to developing effective and performance-based remuneration policies that are well governed. We welcome any comments you may have.

The Remuneration Committee has sought to develop a remuneration framework aligned with shareholder interests and we hope that you will support the two remuneration-related resolutions.



Cathy Turner
Chair of Remuneration Committee

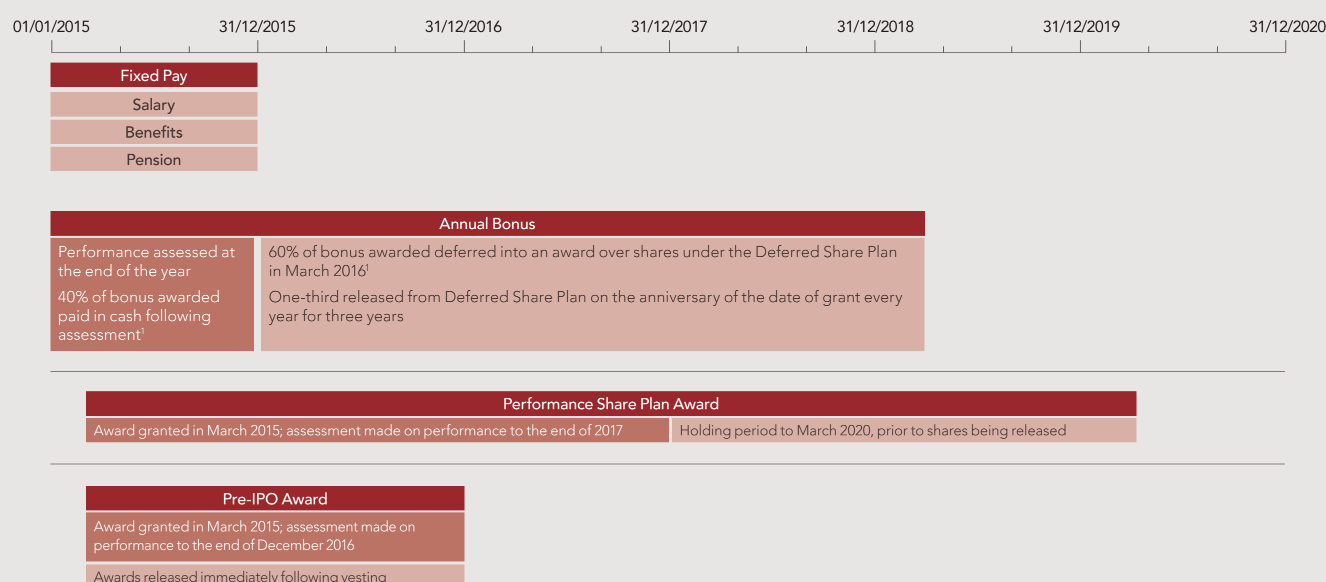
Remuneration Report

Annual Report on Remuneration

Executive Directors

Overview of remuneration structure

The chart below provides an overview of the structure of the remuneration payable to the Executive Directors.



[1] In 2015 the percentage of the bonus deferred into shares is a blended rate based on 15% of the amount earned in the period up to IPO being deferred, and 60% of the amount earned in the period following IPO being deferred.

Fixed pay for Executive Directors

Base salary

The Remuneration Committee considered benchmarking data in respect of the base salaries of the Executive Directors, and determined that the increases set out in the table to the right were appropriate. The increases, which take effect from 1 April 2016, are in line with the proposed Remuneration Policy and are consistent with the average level of increase of 2.5 per cent awarded to employees in the Group generally.

Executive Directors' base salary increases

	At 1 April 2016	% increase	At IPO (10 March 2015)
Phillip Monks	£512,500	2.5	£500,000
James Mack	£358,750	2.5	£350,000

Taxable benefits

The taxable benefits received by the Executive Directors in 2015 included private medical insurance (family cover), a car allowance and critical illness insurance.

In addition, loans to Phillip Monks and James Mack of £108,317 and £31,279 respectively were written off immediately prior to IPO in 2015. These loans were made originally to settle the tax payable by each of the Directors in respect of equity incentives awarded to them prior to the IPO. The write-off of the loans created a benefit-in-kind for each Director, which was taxed as a personal liability.

No changes to taxable benefits are expected during 2016.

Market adjusted allowance

The market adjusted allowance was paid to the Executive Directors from IPO and is calculated as a percentage of base salary (20 per cent and 15 per cent of base salary per annum for the CEO and CFO respectively in 2015).

With effect from 1 April 2016, the levels paid to the two Executive Directors will be aligned at 20 per cent.

Further information on the market adjusted allowance can be found in the future policy table on page 96.

Pensions

Pension contributions for the Executive Directors may be paid into a personal pension arrangement or paid as a cash supplement (reduced for the impact of employers' NICs). The CEO has chosen to receive a cash supplement whilst a contribution was paid into a stakeholder pension for the CFO.

For the first six months of the year, contributions were paid at the rates of 5 per cent (less employers' NICs) and 6 per cent for the CEO and CFO respectively. Consistent with employees in the Group generally, the cash supplement received by the CEO increased to 8 per cent (again less employers' NICs) with effect from 1 July 2015. The CFO chose to maintain contributions at 6 per cent from this date.

The Company does not intend to make any changes to pension contributions in 2016. However, with effect from 1 April 2016, the CFO has elected to be paid a cash supplement of 8 per cent (less employers' NICs) and will cease to receive contributions into a stakeholder pension.

Annual Incentive Plan ("AIP")

2015 AIP outturn

The maximum bonus opportunity was 125 per cent of base salary for the CEO and 120 per cent of base salary for the CFO for the part of 2015 following IPO, and 100 per cent of base salary for both Executive Directors for the period prior to IPO. The actual percentage of the maximum bonus was 87.3 per cent for the CEO and 86.7 per cent for the CFO.

The table on page 86 sets out the performance measures and outcomes for the 2015 AIP.

For financial and treasury measures, 0 per cent and 100 per cent of maximum opportunity is available for achievement of threshold and maximum performances respectively, with a sliding scale being applied between each point and the target level (at which point two-thirds of the maximum is payable). The financial targets are set out in the table on page 86. The Remuneration Committee applied the target range as set out which includes minor adjustments to reflect in-year unbudgeted initiatives.

The targets for risk, people and customer measures are internal to the Group and commercially sensitive, and likely to remain so. They are not, therefore, disclosed.

The Remuneration Committee assesses the non-financial elements by way of both internal, quantifiable targets and a broader qualitative assessment having sought appropriate input from the Chief Risk Officer. Key considerations that the Remuneration Committee took into account in making its overall assessment of these measures are set out below:

- A comprehensive assessment was made of the progress in embedding an effective risk management culture. This included the enhancement of the Risk Appetite Framework; ensuring that the appropriate levels of controls for risk management were in place; and reviewing the management of credit risk.
- With regard to the people metric, the Remuneration Committee took into account the performances in the "Best Companies to Work For" survey on both a company-wide and individual basis; and the operation of an effective approach to talent management.
- A number of key indicators in relation to the customer metric were reviewed, including the externally benchmarked Net Promoter Scores; the Group's Ratings and Reviews service; and the work conducted to enhance customer experience, for example the work on digital platforms.

Key achievements within personal objectives are set out below:

Phillip Monks

- Achievement of the IPO
- Development of a management succession plan and implementation of key changes
- Delivery of strong financial performance whilst continuing to operate within the Board's overall risk appetite

James Mack

- Achievement of the IPO
- Building an enhanced Finance function to support the listed business
- Delivery of an effective investor relations framework
- Enhancing data to support the business decision-making process

Based on the assessment of the performance measures above, actual bonuses paid to the Executive Directors are set out on page 86. For the part of 2015 following IPO, 60 per cent of the bonus awarded will be deferred into shares and held under the DSP and for the part of 2015 preceding IPO, 15 per cent of the bonus awarded will be deferred. The deferred element of the bonus will take the form of a conditional award, which will be released to the Directors in equal amounts over the three years following the award, subject to continued employment and malus and clawback provisions.

The number of shares to be awarded will be based on the Company's average share price over the three-day period prior to grant and will be disclosed in the 2016 Annual Report and Accounts.

2016 AIP

As detailed in the Statement from the Remuneration Committee Chair on page 82, the maximum bonus opportunity for the CEO will remain at 125 per cent of salary and the maximum for the CFO will be increased to the same level.

The Remuneration Committee has reviewed the performance measures and weightings that were applied to the 2015 AIP and is satisfied that they remain appropriately aligned to the business strategy. The 2016 AIP will therefore operate on the same basis as the 2015 AIP.

The various measures are currently commercially sensitive but will be disclosed in the 2016 Annual Report and Accounts on a similar basis to those for 2015 in this report.

Remuneration Report

Annual Report on Remuneration continued

2015 AIP performance measures and outcomes

Performance measures	Threshold	Target	Maximum	Actual	CEO weighting	CFO weighting	% of max achieved
CEO and CFO							
Underlying profit before tax	£84.6m	£89.3m	£98.7m	£98.8m	20%	16%	100%
Underlying return on equity	16.64%	17.57%	19.42%	20.63%	20%	16%	100%
Underlying cost to income ratio	55.29%	52.38%	47.39%	51.40%	5%	4%	72.8%
Net loan growth	£1,307m	£1,380m	£1,525m	£1,344m	5%	4%	34.2%
CFO only							
Spread over LIBOR % – Cash	-0.39%	-0.37%	-0.34%	-0.30%	N/A	2.5%	100%
Spread over LIBOR % – Liquidity Asset Buffer	0.058%	0.061%	0.068%	-0.29%	N/A	2.5%	100%
Wholesale Stock Cost of Funds %	-0.59%	-0.56%	-0.51%	-0.35%	N/A	5%	100%

2015 AIP performance assessment

	Phillip Monks			James Mack		
Measures	Weighting (%)	Outturn	Actual (%)	Weighting (%)	Outturn	Actual (%)
Financial	50	Threshold / Target / Maximum	45.3	50	Threshold / Target / Maximum	46.3
Strategic/ personal	20	Threshold / Target / Maximum	20	20	Threshold / Target / Maximum	20
Risk	15	Threshold / Target / Maximum	12	15	Threshold / Target / Maximum	10
People and customer	15	Threshold / Target / Maximum	10	15	Threshold / Target / Maximum	10.4
Total	**100**	Threshold / Target / Maximum	**87.3**	**100**	Threshold / Target / Maximum	**86.7**

Bonuses payable to Executive Directors

Name	Cash (£)	Shares (£)	Total (£)	Bonus as % of base salary (as at 31 December 2015)
Phillip Monks	240,990	254,566	495,556	99.1
James Mack	170,700	180,316	351,016	100.3

Bonuses are calculated by multiplying earnings in the financial year by the maximum bonus potential and the percentage bonus awarded. For the period prior to IPO, the maximum bonus potential for both the CEO and CFO was 100 per cent. Following IPO, this increased to 125 per cent and 120 per cent for the CEO and CFO respectively.

Long-term incentives

The Company introduced the PSP in 2015. The first awards under this plan were granted on 2 March 2015, subject to IPO. On this date, the Company granted awards (in the form of nil-cost options) which are subject to a three-year performance period and a further two-year holding period. In addition, "Pre-IPO Awards" (in the form of conditional awards) were granted to the Executive Directors and certain other senior managers on the same date in recognition of their contribution to the Group prior to the IPO. These latter awards are subject to a performance period to 31 December 2016. No holding period applies. The awards were granted on the basis that the participants bear employers' NICs up to the current rate of 13.8 per cent. The awards were also subject to a condition that they would lapse if the participant, or any connected person, sold or otherwise disposed of any shares held by them at IPO within 12 months of that date.

Details of the performance measures and targets in respect of awards made during 2015 are set out below and on the next page:

Awards made during the year (2015) (audited)

Name	Type of award	Date of grant	No of shares[1]	Face value[2]	% vesting at threshold[3 4]	Performance measures	Performance period ends	Holding period ends
Phillip Monks	PSP award (nil-cost option)[5]	02/03/2015	351,562	£674,999	10%	50% based on absolute TSR 50% based on EPS	31/12/17	02/03/20
Phillip Monks	Pre-IPO Award (conditional award)	02/03/2015	684,163	£1,313,593	20%	100% based on absolute TSR	31/12/16	N/A
James Mack	PSP award (nil-cost option)[5]	02/03/2015	218,750	£420,000	10%	50% based on absolute TSR 50% based on EPS	31/12/17	02/03/20
James Mack	Pre-IPO Award (conditional award)	02/03/2015	613,828	£1,178,550	20%	100% based on absolute TSR	31/12/16	N/A

1 Shows the maximum number of shares that could be received, before any dividend equivalents, if the awards vested in full.

2 Face value has been calculated using the final offer price of the Company's shares at IPO (192p), which has been multiplied by the maximum number of shares that would vest if all performance measures and targets were met. Actual value at vesting will depend on actual share price at the time of vesting, and any dividend equivalents (if any) payable on vested shares.

3 In the case of the nil-cost options, assumes that either the TSR or EPS performance measure threshold is met in respect of one half of the award, and that the other half of the award lapses.

4 Vesting is also subject to "underpin" performance conditions. Further detail on performance conditions is provided at pages 88 and 89.

5 Nil-cost options will lapse on 2 March 2025.

In addition to the awards noted above, 51.37 per cent of the award made under the 2015 AIP will be deferred into shares. This is a blended rate based on 15 per cent of the amount earned in the period up to IPO being deferred, and 60 per cent of the amount earned in the period following IPO being deferred. The number of shares comprising the deferred element will be calculated on the basis of the average share price shortly prior to grant, and will be disclosed in the 2016 Annual Report and Accounts.

Remuneration Report

Annual Report on Remuneration continued

Details of the performance measures and targets in respect of awards made during 2015 are set out below:

Performance measures for PSP awards (nil-cost options)

Metric	Performance measure		
Total Shareholder Return (TSR) (50%)	Measured over the period from IPO to 31 December 2017:		
	Level	**Growth in Absolute TSR**	**% vesting (of total award)**
	Threshold	15% p.a.	10%
	Maximum	25% p.a.	50%
	Vesting is on a straight-line basis between these two growth points		

Performance underpin

– Relative TSR over the performance period is at least equal to the TSR of the median company of the companies which comprise the FTSE 350 at the time of the award (excluding Investment Trusts and the Company itself).

– The result achieved appropriately reflects the performance of the Group.

– The result was achieved consistent with the Group's risk appetite.

How will growth be measured?

The offer price for the Company's shares at IPO (192p) will be compared to the two-month average TSR for the final two months of 2017, with compounding applying to the mid-point of the averaging period.

Link to strategy

See page 100.

Metric	Performance measure		
Earnings per Share (EPS) (50%)	Measured over the full year 2017:		
	Level	**EPS achieved**	**% vesting (of total award)**
	Threshold	26p	10%
	Maximum	34p	50%
	Vesting is on a straight-line basis between these two growth points		

Performance underpin

– The result achieved appropriately reflects the performance of the Group.

– The result was achieved consistent with the Group's risk appetite.

How will EPS be measured?

EPS will be the reported adjusted EPS based on the weighted shares in issue for the 2017 financial year.

Link to strategy

See page 100.

Performance measure for Pre-IPO Awards (conditional awards)

<table>
<tr><th>Metric</th><th colspan="3">Performance measure</th></tr>
<tr><td rowspan="5">Total Shareholder Return (TSR)
(100%)</td><td colspan="3">Measured over the period from IPO to 31 December 2016:</td></tr>
<tr><td>Level</td><td>Growth in Absolute TSR</td><td>% vesting (of total award)</td></tr>
<tr><td>Threshold</td><td>20% p.a.</td><td>20%</td></tr>
<tr><td>Maximum</td><td>30% p.a.</td><td>100%</td></tr>
<tr><td colspan="3">Vesting is on a straight-line basis between these two growth points</td></tr>
</table>

Performance underpin

– TSR over the performance period is at least equal to the TSR of the median company of the companies which comprise the FTSE 350 (excluding Investment Trusts and the Company itself).

– The result achieved appropriately reflects the performance of the Group.

– The result was achieved consistent with the Group's risk appetite.

How will growth be measured?

The offer price for the Company's shares at IPO (192p) will be compared to the two-month average TSR for the final two months of 2016, with compounding applying to the mid-point of the averaging period.

Link to strategy

See page 100.

PSP awards to be made in the current year (2016)

In 2016, the Remuneration Committee intends to make PSP awards (in the form of nil-cost options) to Phillip Monks and James Mack with a face value (at the time of the award) of 135 per cent of base salary. With the exception of changing the absolute TSR performance measure to a relative performance measure, the awards will be made on the same basis as in 2015. The move to a relative TSR measure was considered appropriate by the Remuneration Committee as this reduces the exposure of participants to re-ratings (both within the sector and of companies more generally).

On that basis, half of the award will be subject to a relative TSR condition with 20 per cent of that part vesting at median versus the constituents of the FTSE 350 (excluding Investment Trusts and the Company itself) rising to full vesting of that part for upper quartile performance. The other half of the award will again be subject to an EPS scale with 20 per cent of that part vesting at an EPS of 30p rising to full vesting of that part for an EPS of 37p. In both cases, the same underpins will apply as for the 2015 PSP awards (nil-cost options).

Other scheme interests

In addition to awards made under the PSP as noted on page 87, the Directors also hold the scheme interests noted below:

Other interests held by Executive Directors

Name	Type of award	Date of grant	No of shares	Option price (p)	Performance conditions	Normal exercise period	Market value at date of grant (£)
Phillip Monks	Sharesave	29/10/15	7,142	252	N/A	01/02/19–31/07/19	18,712

Remuneration Report

Annual Report on Remuneration continued

Single total figure table: Executive Directors (audited)

The following table sets out the total remuneration paid to the Executive Directors for the financial years ending 31 December 2015 and 31 December 2014. As the Company listed in March 2015, part of the 2015 and all of the 2014 remuneration relates to the period when the Company was privately owned.

Executive Directors

	Fixed elements										**Variable elements**							
Name	Salary		Taxable benefits[1 2 3 4]		Pension[5]		Market adjusted allowance[6]		**Subtotal**		Annual bonus[7]		Long-term incentives[8]		**Subtotal**		**Total**	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Phillip Monks	**466**	317	**126**	18	**27**	13	**81**	–	**700**	348	**496**	305	**6,101**	–	**6,597**	305	**7,297**	653
James Mack	**348**	337	**44**	13	**21**	21	**43**	–	**456**	371	**351**	330	**721**	–	**1,072**	330	**1,528**	701
Total	**814**	**654**	**170**	**31**	**48**	**34**	**124**	**–**	**1,156**	**719**	**847**	**635**	**6,822**	**–**	**7,669**	**635**	**8,825**	**1,354**

Notes:

1 "Taxable benefits" comprises the gross value of any benefits paid to the Director, whether in cash or in kind, that are chargeable to UK income tax. Further detail is provided at page 84.

2 Awards made under the SIP are also included under "Taxable benefits". Consistent with other employees, a one-off award was made under the SIP to both Executive Directors following IPO in recognition of their contribution to the business. This has been valued at the share price on the date of grant (£2.41). These awards vested immediately on grant and are included in the share interests table on page 93.

3 Details of Phillip Monks' participation in the Sharesave Plan (2015 invitation) can be found on page 89. As the average closing share price over Q4 2015 (£2.51) is lower than the option price of £2.52, the option granted to Phillip Monks has not been included under "Taxable benefits".

4 "Taxable benefits" also includes the write-off of loans to Phillip Monks and James Mack of £108,317 and £31,279 respectively which was approved by the Remuneration Committee in February 2015. These loans were made originally to settle the tax payable by each of the Directors in respect of equity incentives awarded to them prior to the IPO.

5 "Pension" is the cash value of defined contribution or cash equivalent. Further detail is provided at page 84.

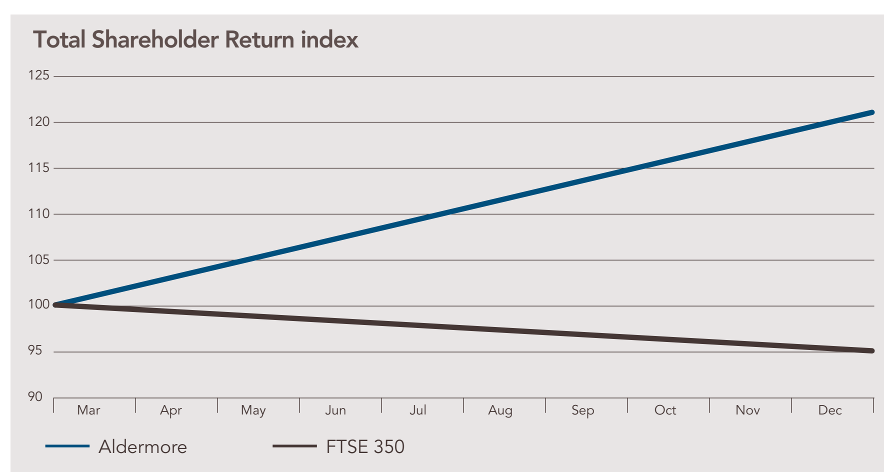
6 The "Market adjusted allowance" became payable following IPO.

7 The "Annual bonus" figure represents the value of the total bonus. A proportion of the bonus will be deferred into shares under the Deferred Share Plan. This will be at a blended rate based on 15 per cent being deferred into shares for the part of the bonus earned in the period up to IPO, and 60 per cent being deferred into shares for the part of the bonus earned for the period following IPO. See page 86 for detail on the bonus outcome.

8 The Directors held certain shares pre-IPO which converted into ordinary shares on IPO. The reported gains have been calculated on the market value of shares held at IPO (£1.92) less the actual cost of any shares bought pre-IPO, regardless of whether such shares were acquired as an investment or an incentive. As part of the IPO, the Directors were subject to certain lock-up arrangements in respect of their shares, as set out in the IPO Prospectus. The lock-up in respect of two-thirds of each Director's holding will expire on the first anniversary of the IPO, whilst the remaining one-third will expire on the second anniversary of the IPO.

Performance graph and total remuneration table

This graph compares the Total Shareholder Return of £100 invested in the Company's shares and £100 invested in the FTSE 350. The comparison is made between 13 March 2015 (the date of the IPO) and 31 December 2015. This index was selected as the Company has been a member of the FTSE 350 since June 2015 and it provides a widely published and broad equity index.



The table to the right shows the total remuneration figure for the CEO in 2015. This includes any short-term and long-term incentives.

CEO remuneration

	2015
Single total figure of remuneration (£'000)	7,297
Annual bonus (as a % of maximum)	87.3%
Vested long-term incentives (as a % of maximum)[1]	N/A

[1] No PSP awards vested in 2015. See footnote 8 to the single total figure table (page 90) for further detail on gains on shares held pre-IPO.

CEO relative pay

The table to the right shows the percentage change in the salary, taxable benefits and annual bonus of the CEO between 2014 and 2015. A comparison is provided against the average percentage change in respect of the Group's employees taken as a whole. A comparison against the median percentage change is also provided as this is more reflective of actual changes in remuneration.

The figures for year-on-year comparison are not indicative of likely future trends as they reflect a restructuring of the CEO's remuneration arrangements at IPO.

CEO relative pay

	2014/15 % change		
	Salary	Taxable benefits	Annual bonus
CEO	43.5%	3.3%[1]	62.7%
Average employee	5.5%	43.7%[2]	30.9%
Median employee	3.2%	0%	17.1%

[1] The percentage change in the CEO's taxable benefits excludes the one-off write-off of a loan of £108,317. The loan was made originally to settle tax payable in respect of equity incentives awarded to Phillip Monks prior to the IPO.

[2] There was no material change in the nature of benefits provided. The reported percentage rather reflects changes in the number of staff who qualified for certain benefits and the cost of their provision.

Relative importance of spend on pay

The table to the right compares the total remuneration paid in respect of all employees of the Group in 2014 and 2015, and distributions made to shareholders in the same years.

No dividend distributions were made to shareholders in 2014 and 2015 as the Company applied all its retained profits to support the growth of the business.

Relative importance of spend on pay

	2015	2014
Total employee remuneration (£m)	**62.1**	50
Total shareholder distributions (£m)	**0**	0

Remuneration Report

Annual Report on Remuneration continued

Non-Executive Directors

Non-Executive Directors' fees

The Chairman and Non-Executive Directors are paid a basic fee, whilst the Non-Executive Directors may receive further fees to reflect Board Committee or additional responsibilities.

The current fee structure was agreed at the time that the Board was put together in preparation for IPO, and was benchmarked at that time against financial services companies of a similar size.

The fees are reviewed by the Board (in the case of the Non-Executive Directors) and the Remuneration Committee (in the case of the Chairman) on an annual basis. The most recent review concluded that the fees remain appropriate, and no increases would be made in 2016. Current fees are set out below:

Non-Executive Directors' Fees

Role	£ (p.a.)
Chairman	180,000
Non-Executive Director	65,000
Senior Independent Director	20,000
Chair of Audit Committee	20,000
Chair of Remuneration Committee	15,000
Chair of Risk Committee	20,000
Membership (other than chairmanship) of the Audit, Remuneration and Risk Committees	5,000

Single total figure table: Non-Executive Directors (audited)

The following table sets out the total remuneration paid to the Non-Executive Directors for the financial years ending 31 December 2015 and 31 December 2014.

Non-Executive Directors

			Fees[1 3]		Taxable benefits[4]		Long-term incentives		Total	
Name	Appointment date (if later than 1 January 2014)	Resignation date (if earlier than 31 December 2015)	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Glyn Jones	21 Mar 14	–	**174**	146	**–**	1	**960[5]**	–	**1,134**	147
John Callender	–	27 Feb 15	**13**	168	**1**	2	**–**	–	**14**	170
Peter Cartwright[6]	–	–	**57**	–	**–**	–	**–**	–	**57**	–
Neil Cochrane[6]	04 Sep 14	–	**53**	–	**–**	–	**–**	–	**53**	–
Danuta Gray	29 Sep 14	–	**100[2]**	30	**3**	–	**–**	–	**103**	30
John Hitchins	28 May 14	–	**100[2]**	45	**–**	1	**–**	–	**100**	46
Robert Sharpe	29 Jun 15	–	**38**	–	**2**	–	**–**	–	**40**	–
Peter Shaw	04 Sep 14	–	**103[2]**	47	**5**	4	**–**	–	**108**	51
Chris Stamper[7]	06 Feb 14	–	**85[2]**	64	**2**	2	**–**	–	**87**	66
Cathy Turner	28 May 14	–	**90[2]**	45	**–**	1	**–**	–	**90**	46
Total			**813**	**545**	**13**	**11**	**960**	**–**	**1,786**	**556**

Notes:

1 The fees paid to the Non-Executive Directors relate to the period for which they held office. In addition, Glyn Jones, Danuta Gray and Peter Shaw also received fees for services to the Company prior to their appointments. This has also been included under "Fees".

2 2015 fees includes an allowance of £10,000 which was paid to the current Independent Non-Executive Directors which represented time incurred before the IPO.

3 The total fees paid to the Non-Executive Directors in 2015 were within the current limit of £2,000,000 set out in the Company's Articles of Association.

4 "Taxable benefits" includes an estimate of the tax liability due on travel expenses. This amount will be agreed with HMRC and any variance will be reported in the 2016 Annual Report on Remuneration.

5 The gain on Glyn Jones' personal investment in certain shares prior to IPO has been included under "Long-term incentives" (calculated at the market value of shares held at IPO (£1.92) less the original cost of his personal investment). Such shares were not part of an incentive subject to any form of performance hurdles and his only ongoing financial interest in the performance of the Company is as an ordinary shareholder.

6 Neil Cochrane and Peter Cartwright represent the Company's Principal Shareholders, and their fees are paid directly to these entities. They did not receive any fees prior to IPO. Further information on the relationship with the Principal Shareholders can be found in Note 40 to the financial statements (related parties).

7 In addition to his appointment as a Director of the Company, Chris Stamper acted as a Director of Aldermore Bank PLC for the whole of 2014. His fees in respect of this directorship are also included in the figure disclosed.

Other

Shareholdings

The Company has implemented share ownership guidelines for the Executive Directors in order to further align Directors' interests with shareholders. Further information on the guidelines is set out in the Remuneration Policy on page 103.

Details of the Executive Directors' beneficial interests in the Company's shares (and their connected persons) as at 31 December 2015 is set out below. Both Executive Directors have met the guideline levels.

Executive Directors' shareholdings (audited)

Name	Shareholding as at 31 December 2015	Shareholding as at IPO	Share ownership guideline (% of base salary)	Current holding (% of base salary)[1]	Share awards/ options (subject to performance conditions)[2]	Options (not subject to performance conditions)[2]
Phillip Monks	3,462,693	3,417,284	200%	1,603%	1,035,725	7,142
James Mack	436,659	428,421	200%	289%	832,578	–

[1] Current holding measured by reference to the middle market quotation of the Company's share price on 31 December 2015 (231.5p) and as a percentage of base salary at 31 December 2015.

[2] Awards which have not yet vested do not count towards compliance with the share ownership guidelines.

[3] There have not been any changes to Directors' shareholdings between the end of the financial year and the date that this Remuneration Report was signed.

The beneficial interests of the Non-Executive Directors (and their connected persons) in the Company's shares as at 31 December 2015 is set out below:

Non-Executive Directors' shareholdings (audited)

Director	Shareholding as at 31 December 2015	Shareholding as at IPO
Glyn Jones	781,488	578,281
Peter Cartwright[1]	–	–
Neil Cochrane[1]	–	–
Danuta Gray	–	–
John Hitchins	20,000	–
Robert Sharpe	–	–
Peter Shaw	–	–
Chris Stamper	9,500	–
Cathy Turner	42,336	–

[1] Peter Cartwright and Neil Cochrane have been appointed to act as Directors by the Principal Shareholders, whose interest in the Company's shares is set out on page 78.

[2] There have not been any changes to Directors' shareholdings between the end of the financial year and the date that this Remuneration Report was signed.

Remuneration Report

Annual Report on Remuneration continued

Payments to past Directors and loss of office payments (audited)

There were no payments made during the year to any person who was not a Director of the Company at the time the payment was made, but had previously been a Director. There were also no payments for loss of office made during the year.

Employee Share Trust

The Company has established the Aldermore Group PLC Employees' Share Trust (the "Trust"), a discretionary share trust, for the purpose of facilitating the operation of the Company's share plans. The Trust has not held any shares since it was established on 9 March 2015, and it is the Company's current intention to satisfy any vested share awards by the allotment of new shares to the Trust.

Dilution

As noted above, the Company intends to issue new shares to satisfy awards outstanding under employee share plans, and will implement these arrangements in accordance with the Investment Association Guidelines on dilution. Based on the number of awards outstanding as at 31 December 2015, the levels of dilution, which are within the dilution limits set by the Investment Association, are as set out in the table below. For the purpose of these calculations, executive awards granted prior to IPO are excluded in accordance with the relevant plan rules and as disclosed in the IPO Prospectus.

External advisers

In April 2014, the Remuneration Committee engaged FIT Remuneration Consultants LLP ("FIT") for the provision of independent remuneration advisory services following a competitive tender process. FIT does not provide any other services to the Group. FIT is a member of the Remuneration Consultants Group and adheres to its code of conduct. The Remuneration Committee reviews the effectiveness of its adviser on an annual basis, and remains satisfied that the advice that it has received from FIT during the year has been objective and independent. Total fees paid to FIT during the year amounted to £130,000, which was charged on its normal terms. FIT advised the Remuneration Committee extensively in the run up to its IPO in March 2015 on areas including the formulation of the Remuneration Policy, and the design and structure of its performance-related incentive plans.

Remuneration Committee

Details of the Remuneration Committee's membership, terms of reference and internal advisers are included in the corporate governance section on page 74.

External appointments

The Company's policy is that Executive Directors may hold one external non-executive directorship, subject to prior approval by the Company. Neither of the Executive Directors hold any external directorships at the current time.

Statement of voting at the Annual General Meeting

The Company will be proposing resolutions to shareholders in respect of its Remuneration Policy and its Annual Report on Remuneration for the first time at the Annual General Meeting to be held on 17 May 2016. The percentage of votes cast for and against and the number of votes withheld will be reported in the next Remuneration Report.

Dilution

Plan	% of the Company's issued share capital	Investment Association dilution limit (%)
All-employee plans	0.28	10
Executive share plans	0	5

Remuneration Report

Remuneration Policy

Introduction

As mentioned in the Statement from the Remuneration Committee Chair on page 82, this Remuneration Policy will be submitted to the 2016 AGM for shareholder approval. If approved by shareholders, it will formally take effect from the date of the AGM. The Remuneration Policy has been prepared in accordance with the regulations set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the DRR Regulations") and is based on the following key principles:

Aligned to the long-term success of the Group

The remuneration framework is structured to align remuneration, and in particular performance-related remuneration, with the long-term interests of shareholders. Incentive plans should be designed such that they do not encourage excessive risk-taking.

Competitive but not excessive

The Group recognises that its long-term success is closely linked to its ability to attract and retain high-calibre individuals who can drive the delivery of its business strategy. However, this should be balanced with ensuring that remuneration is appropriate to the role, responsibilities, experience and performance of the individual, and is not excessive.

Appropriate and balanced proportion of variable pay

Total remuneration should balance both fixed and variable elements, whilst variable pay should be balanced between both short-term and long-term incentives with an emphasis on achieving sustainable business results.

Simplicity and transparency in the design and communication

The key to an effective remuneration structure is that the link between incentives and performance is clear, well-communicated and easily understood.

To see how the Remuneration Policy will be implemented in 2016, please refer to the Annual Report on Remuneration on pages 84 to 94.

Future policy table

Executive Directors' fixed pay

Element and purpose	Policy and operation	Maximum	Performance measures	Committee flexibility
Base salary • To provide a fair level of fixed pay which reflects the individual's experience and contribution • To attract and retain the high-calibre individuals necessary to deliver the Group's strategy	• Typically paid monthly in cash and reviewed annually • The annual review takes into account various factors including: – corporate and individual performance – any change in an individual's role and responsibilities – market benchmarking – average pay increases awarded across the Group as a whole • Market benchmarking primarily takes into account pan-sector companies of a similar market capitalisation rather than looking at companies solely within the financial services sector. However, the Remuneration Committee may also consider more specific data and uses all data as a reference point in considering, in its judgement, the appropriate level of salary	• Although an annual review of salaries is normally undertaken, the Remuneration Committee will not automatically award an increase • The Remuneration Committee may freeze salaries with consequently larger increases as and when an increase is awarded • Increases will normally be in line with the average increases for staff • The maximum salary increase which the Remuneration Committee may award will not result in the base salary exceeding 110% of median data for an equivalent role within a comparator group of companies (the 20 companies listed on the London Stock Exchange above and below the Company by market capitalisation)	Not applicable	• Base salary increases will be awarded at the Remuneration Committee's discretion, taking into account the factors listed

Remuneration Report

Remuneration Policy continued

Future policy table continued

Executive Directors' fixed pay continued

Element and purpose	Policy and operation	Maximum	Performance measures	Committee flexibility
Benefits • To provide market-competitive benefits as part of an overall package which attracts and retains Executive Directors	• A range of benefits is provided, which includes: – car allowance – private medical insurance (family cover) – life assurance – income protection – critical illness insurance • Certain costs relating to Executive Director relocations will be met where appropriate	• Benefits will not exceed 15% of an Executive Director's base salary on an annual basis (plus a further 100% in the case of a Director who has been relocated) • As premiums are not taxable as benefits in kind, the following caps apply to life assurance and income protection: – life assurance: up to 8 times salary, although currently capped at 4 times salary – income protection: up to 75% of salary The value of such benefits is outside of the above cap • The Remuneration Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than it considers appropriate in all circumstances	Not applicable	• The Remuneration Committee reserves the discretion to introduce new benefits as appropriate
Pension • To enable Executive Directors to build long-term savings for retirement, within a market-competitive package • To attract and retain high-calibre individuals	• Contributions may be paid into personal pension arrangements or as a cash supplement (reduced for the impact of employers' NICs)	• Up to 15% of base salary p.a. • This is higher than was set out in the IPO Prospectus – although there are no plans to change pension contributions currently, this higher cap allows for suitable flexibility	Not applicable	Not applicable
Market adjusted allowance • To ensure appropriate weighting of fixed and variable remuneration within an overall market-competitive package • The allowance ensures that the gearing of the overall package remains appropriate	• A fixed monthly allowance, typically paid in cash • Paid on the same basis as salary but will not be taken into account for the purposes of: – incentive pay multiples – pensions or insured benefits – shareholding guidelines – termination or redundancy payments	• In order to provide a formal cap, the maximum level of market adjusted allowance will be limited to 50% of base salary p.a. for the duration of this Remuneration Policy. This level is higher than set out in the IPO Prospectus – although there is no current intention to increase the current levels, this ensures that suitable flexibility is retained	Not applicable	• Increases in the market adjusted allowance will be awarded at the Remuneration Committee's discretion, but will only be increased if there is a meaningful change in the appropriate market benchmarks • Market adjusted allowances may be settled in shares or other instruments

Executive Directors' variable pay

Element and purpose	Policy and operation	Maximum	Performance measures	Committee flexibility
Annual Incentive Plan ("AIP") • To motivate Executive Directors and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of the Group's strategic aims • A proportion of the annual bonus is deferred, which encourages a longer-term focus and aligns the interests of the Executive Directors with shareholders	• A bonus plan which operates annually. Performance measures are set by the Remuneration Committee at the start of the financial year. Performance targets are assessed by the Remuneration Committee following the year-end and the AIP outcome is agreed • At least 40% of the AIP outcome is deferred into shares under the Company's Deferred Share Plan ("DSP"), whilst at least 60% of the AIP outcome is deferred if total variable remuneration exceeds £500,000 p.a. • The balance is normally paid in cash • The deferred element is typically released in tranches of one-third on the first, second and third anniversaries of the award, subject to continued employment • Shares within the DSP may accrue dividend equivalents which may be settled in cash or shares (and which are excluded from the limit in the next column) • Both the cash and deferred elements of the bonus may be subject to malus and clawback	• The maximum level of AIP outcomes is 125% of base salary p.a.	• Performance measures applied may be financial or non-financial and corporate, divisional or individual, and in such proportions as the Remuneration Committee considers appropriate. The performance measures which apply to 2016 only are summarised on page 85 • The AIP outcome is determined by assessing each performance measure on the following basis: – attaining the threshold level of performance produces a nil pay-out – a sliding scale (not necessarily straight-line) is applied between the threshold and maximum levels, full pay-out being achieved for this latter level – no more than two-thirds of maximum is payable for on-target performance • The Remuneration Committee must be satisfied that the result was achieved consistent with the Group's risk appetite	• The Remuneration Committee retains discretion to adjust performance measures and targets during the year to take account of events outside of management control which were unforeseen when the measures and targets were originally set • The Remuneration Committee retains a standard power to apply its commercial judgement to adjust the outcome of the AIP for any performance measure (from zero to any cap) should it consider that to be appropriate • The Remuneration Committee reserves the right to further modify the operation of the AIP to comply with developments in regulatory requirements and market practice subject to the overall cap. Operation of the AIP and DSP will not, in the Remuneration Committee's view, be made less onerous. In particular, the Remuneration Committee may vary the deferral terms and settle awards in cash, shares and other instruments

Remuneration Report

Remuneration Policy continued

Future policy table continued

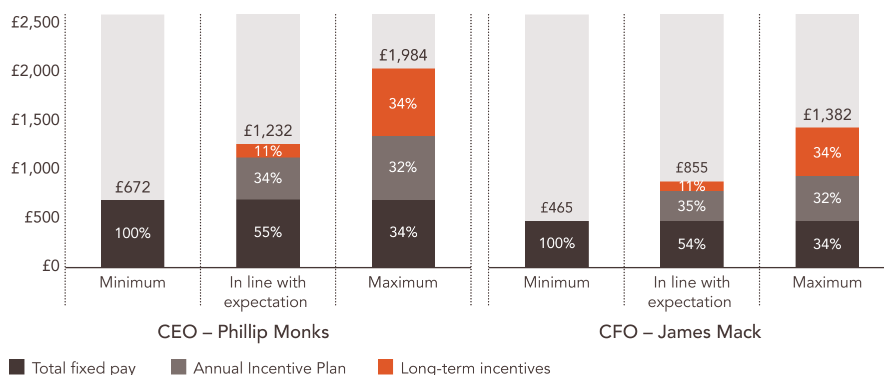
Executive Directors' variable pay continued

Element and purpose	Policy and operation	Maximum	Performance measures	Committee flexibility
Performance Share Plan ("PSP") • To motivate and incentivise delivery of sustained performance over the long term, and to promote alignment with shareholders' interests	• A long-term incentive plan under which awards are made annually as either nil-cost options or conditional awards • Vesting is subject to performance conditions and continued employment over a period of at least three years • After the performance period, awards are subject to a holding period of a further two years • Shares within the PSP may accrue dividend equivalents which may be settled in cash or shares (and which are excluded from the limit in the next column) • Malus and clawback may be applied to PSP awards	• The PSP allows for awards over shares with an absolute maximum value of 200% of base salary per financial year • Where awards are not made in a financial year due to regulatory constraints, this limit will be carried forward	• Performance measures applied may be financial or non-financial and corporate, divisional or individual, and in such proportions as the Remuneration Committee considers appropriate. The performance measures which apply to 2016 only are summarised on page 89 • Performance periods will not be less than (but may be longer than) three years • No more than 20% of awards vest for attaining the threshold level of performance • The Remuneration Committee must be satisfied that the result was achieved consistent with the Group's risk appetite	• Awards may be settled in cash or other instruments • Once set for an award, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it appropriate to substitute or vary them

Non-Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures	Committee flexibility
Chairman and Non-Executive Director fees • To enable the Company to recruit and retain, at an appropriate cost, Non-Executive Directors with the necessary skills and experience to oversee the delivery of the business strategy	• Fees of the Chairman and the Non-Executive Directors are set by the Remuneration Committee and the Board respectively • Fees are structured as: – basic fee – additional fees for chairmanship and membership of Board Committees – additional fees for further responsibilities (e.g. Senior Independent Director) • Fees are reviewed annually. Factors taken into account in the annual review include: – time commitment – equivalent benchmarks to those considered for Executive Directors with a particular emphasis on other banks/financial services businesses	• The aggregate fees (together with any shares and/or benefits including the reimbursement of travel and other expenses, and an amount to meet any tax liability arising on such expenses) of the Chairman and of Non-Executive Directors will not exceed the limit set out within the Company's Articles of Association (currently £2,000,000 p.a.)	Not applicable	• Whilst there is no current intention to do so, the Company reserves the right to: – pay some or all of the Chairman's or Non-Executive Directors' fees in shares or other instruments – permit the Chairman or Non-Executive Directors to participate in any benefits in kind – change the basis of paying fees within the constraints of the cap

Illustrations for application of the Remuneration Policy (£'000)



The chart illustrates the potential outcomes of the Remuneration Policy for Executive Directors based on three different scenarios. The assumptions on which the scenarios are based are set out below:

Scenario	Assumptions
Minimum	Consists of base salary, benefits, market adjusted allowance and pension, as set out in the table below:

	Base salary	Benefits	Pension	Market adjusted allowance	Total
Phillip Monks	509	20	41	102	672
James Mack	357	14	27	67	465

- Base salary is the salary to be paid in 2016.
- Benefits represent the total benefits as shown in the single total figure table for 2015 less the one-off write-off of a loan prior to IPO and taking a single year's maximum savings under Sharesave regardless of the personal investment choice of the executive.
- Pension contributions are 8% of base salary for Phillip Monks; and 6% of base salary for James Mack until 31 March 2016 and 8% from 1 April 2016, in line with the Remuneration Policy.
- Market adjusted allowance is 20% of base salary for Phillip Monks; and 15% until 31 March 2016 and 20% from 1 April 2016 for James Mack.
- No bonus is payable and no awards vest under the PSP (or other long-term incentive plan).

In line with expectations

Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends):

- AIP: consists of the on-target bonus of two-thirds of maximum opportunity.
- PSP: consists of the threshold level of vesting (20% vesting).

Maximum

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):

- AIP: consists of maximum bonus of 125% of base salary for each of Phillip Monks and James Mack.
- PSP: consists of the face value of awards to be made each year under the Remuneration Policy (135% of base salary for each of Phillip Monks and James Mack).

Additional information to future policy table

i. Legacy arrangements

It is the Group's policy to honour any commitment made to a Director before the Remuneration Policy takes effect, subject to shareholder approval, on 16 May 2016 or before he or she became a Director even if doing so may be inconsistent with the Remuneration Policy in place at the time the commitment comes to be honoured. This would cover, for example, the vesting of a long-term incentive award granted before the Remuneration Policy took effect or a person became a Director even if the award was not consistent with the Remuneration Policy in place at the time of vesting. In particular, a different approach may apply to the one-off Pre-IPO Awards (granted under the PSP) due to vest in December 2016. These, in part, were made in recognition of pre-IPO performance and the Remuneration Committee reserves a broader discretion to amend the relevant performance conditions or extend these awards should it consider it appropriate in the circumstances.

ii. Maximum amounts

The DRR Regulations and related investor guidance encourages companies to disclose a cap within which each element of the Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

iii. Malus and clawback

As noted in the Remuneration Policy table, the rules of the AIP, DSP and PSP include provisions for malus and/or clawback which allow the Remuneration Committee to reduce awards under certain circumstances. Malus may be employed where an award of shares has not yet been made, and clawback will be used where cash has been paid or a share award has already vested.

Remuneration Report

Remuneration Policy continued

The circumstances which may give rise to the application of malus are:

a. A material misstatement of the Group's financial results

b. A previous assessment of a performance condition being based on inaccurate or misleading information, resulting in an award vesting at a higher level than it should have

c. Misconduct by the employee

d. A material failure of risk management by the Group

e. A material downturn in the financial performance of the Group

f. Significant reputational damage suffered by the Group

Clawback may be applied in relation to c. and d. above.

iv. Selection of performance measures and targets

The Group's policy is to ensure that performance-related remuneration is aligned to the Group's strategic and long-term goals, and performance measures and targets are set within this context.

The AIP is designed to align executive performance over a one-year period with the Group's operating cycle, and the Remuneration Committee agrees a balanced scorecard of performance measures, weightings and targets for each Executive Director which are linked to the key goals within the one-year business plan. The measures selected are a combination of financial, operational, risk-related and personal performance measures. Details of the performance measures selected in respect of the 2016 AIP can be found in the Annual Report on Remuneration on page 85.

The purpose of the PSP is to incentivise sustained performance over the long term. The performance measures selected (TSR and EPS) are consistent with the creation of long-term shareholder value whilst the targets are aligned to the Group's long-term strategy. TSR demonstrates the delivery of shareholder returns, one of the Group's key long-term objectives, whilst EPS is a key performance metric. The Remuneration Committee selected these performance measures as they provide a balance between delivery of earnings and external market performance.

v. Discretion

In addition to the areas of flexibility highlighted in the Remuneration Policy table, consistent with normal market practice the Remuneration Committee also retains flexibility to operate within various areas including:

- Determining the performance measures, weightings and targets for incentive plans from year to year
- Agreeing the size of awards, payments or when and how much of an award should vest
- Agreeing whether a participant is a good or bad leaver, and the treatment of awards as a result
- The application of malus and clawback provisions

vi. Policy on the remuneration of employees generally

The Group has implemented a firm-wide remuneration policy which is based on the principles of attracting and retaining high-calibre individuals who will promote the long-term interests of the Group; aligning remuneration, which shall not be excessive, to those interests; and ensuring that the proportion of any variable pay is appropriate and balanced and takes account of any impact of risk. Whilst the quantum and components of the remuneration of the Executive Directors may vary from that of the wider employee population, they are based on these same principles.

In line with the Executive Directors, all employees are paid a base salary which is reviewed annually by reference to market rates. In addition, all employees receive benefits (which may vary according to seniority) and a pension provision. However, the Executive Directors (and the Group's senior leadership team) are able to influence the Group's performance, and they are incentivised to do so through the inclusion of variable share-based pay within their remuneration package. Employees within control functions do not participate in incentive pay plans where the outcome is dependent upon financial performance metrics relating to the business over which they have oversight. They may participate in the Restricted Share Plan ("RSP") which can vest after the satisfaction of any continued employment requirements and the expiry of any holding period. Other less senior employees may also receive awards under the RSP at the discretion of the Remuneration Committee, whilst Executive Directors are excluded from participating.

vii. Travel and hospitality

While the Remuneration Committee does not generally consider it to form part of benefits, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for Directors (and exceptionally their families) may technically fall within the applicable rules and so the Company expressly reserves the right for the Remuneration Committee to authorise such activities within its agreed policies, in addition to the stated caps for benefits in kind (for Executive Directors) or in addition to the fees for the Chairman and Non-Executive Directors.

viii. Loans and staff discounts

The Group may provide loans, other financial products which are offered by the Group to customers, and/or staff discounts to a Director on a similar basis as they are available to employees generally.

Recruitment Remuneration Policy

Appointment of Executive Directors

The Remuneration Policy balances the need to have appropriate remuneration levels with the ability to attract high-performing individuals to the organisation. With this in mind, the starting point for the Remuneration Committee in setting a remuneration package for a new Executive Director will be to structure a package in accordance with the Remuneration Policy, based on the individual's knowledge and experience. Consistent with the DRR Regulations, the caps contained within the Remuneration Policy for fixed pay do not apply to new recruits, although the Remuneration Committee does not currently envisage exceeding these caps in practice.

Notwithstanding the general approach set out above, the Remuneration Committee recognises that, when recruiting externally in particular, it may be necessary to compensate an individual to ensure that they are remunerated effectively. The table to the right sets out areas where the Remuneration Committee may exercise its discretion in order to achieve this. This may arise in particular in relation to bonus and incentive plans given that variable performance-related pay is widely used in the financial services industry to incentivise senior management.

Appointment of Non-Executive Directors

A new Non-Executive Director would be recruited on terms in accordance with the approved Remuneration Policy at that time.

Recruitment Remuneration Policy – Remuneration Committee discretion

Relocation expenses

For external and internal appointments, certain relocation expenses may be provided and may be paid over more than one financial year. As set out in the Remuneration Policy, this may be up to a maximum of 100 per cent of base salary per annum (over and above the general policy on payment of benefits).

AIP

The AIP will operate as detailed in the Remuneration Policy (including the maximum award levels).

In the year of appointment, at the Remuneration Committee's discretion, the terms of that year's AIP and the performance measures will normally be varied to reflect the part year worked.

For an internal appointment, any award under the AIP in respect of the individual's prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

No element of AIP will be guaranteed, unless in the year of joining a guaranteed element is used as part of a buy-out of awards forfeited on leaving the previous employer (see below for further detail).

PSP

The PSP will operate as detailed in the Remuneration Policy (including the maximum award levels).

For an internal appointment, in line with the AIP, PSP awards in respect of the individual's prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

Buy-out awards

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer. Although these are not subject to a formal cap, the Group will not pay more than is necessary, in the view of the Remuneration Committee, to fairly compensate for awards forfeited on leaving the previous employer to join the Group and will in all cases seek to deliver any such awards under the terms of the existing AIP and PSP. In some cases however, it may be necessary to make such buy-out awards on different terms to reflect better the structure of the awards being bought out.

All buy-outs, whether under the AIP, PSP or otherwise, will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving their previous employer. The Remuneration Committee will seek to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Remuneration Committee may choose to relax this requirement in certain cases, for example:

- where the service and/or performance requirements are materially completed, or
- where such factors are, in the Remuneration Committee's view, reflected in some other way, such as a significant discount to the face value of the awards forfeited, or
- where necessary to retain compliance with regulatory requirements, such as CRD IV.

Remuneration Report

Remuneration Policy continued

Service agreements, payments for loss of office and termination policy

Executive Directors

The terms under which the Executive Directors are appointed are set out in service agreements with the Company. In line with current market practice, the Executive Directors have rolling service agreements, which may be terminated by the Company or the individual on 12 months' notice. The date of each Executive Director's service agreement is 10 March 2015. Copies of the service agreements of the Executive Directors are available for inspection at the Company's registered office. They will also be available for inspection prior to and during the AGM.

Under the service agreements, the Company may make a payment in lieu of notice to an Executive Director. This will be limited to the amount of base salary and, potentially, other fixed benefits for the notice period and may be paid in instalments. The Director is obliged to seek alternative work during this period and the payments may cease or be reduced if the individual finds an alternative role.

Service agreements may be terminated without notice or payment in lieu of notice under a range of circumstances including gross misconduct, fraud or dishonesty, and negligence and incompetence. The agreements do not contain change of control provisions.

The Remuneration Committee is opposed to rewarding failure and, when considering a termination, takes account of all of the information available to it at the time. This policy applies both to any negotiations linked to notice periods on a termination and any treatments which the Remuneration Committee may choose to apply under the discretions available to it under the terms of the AIP, DSP and PSP. The potential treatments on termination under these plans are summarised below.

Plan	"Approved leaver" (e.g. death, injury or disability, redundancy, retirement) or otherwise at the discretion of the Remuneration Committee (including on resignation)	"Unapproved leaver" (e.g. resignation)	Termination by the Company for misconduct	Other exceptional cases (e.g. change of control, winding up of the Company)
Annual Incentive Plan ("AIP")	Payment of the award is at the discretion of the Remuneration Committee. Award usually time pro-rated for the period of service and released at the end of the performance period, subject to assessment of performance conditions.	No awards made for the year of leaving.	No awards made for the year of leaving.	Payment of the award is at the discretion of the Remuneration Committee. Award usually time pro-rated subject to satisfaction of performance conditions, which are assessed over the period to the date of the event.
Deferred Share Plan ("DSP")	Unvested awards will vest at the original vesting dates. However, the Remuneration Committee retains discretion to accelerate vesting to the date of cessation.	If leaving before the employment requirement date[1] all unvested awards will lapse. If leaving after the employment requirement date[1], unvested awards will vest at the original vesting dates. However, in this case the Remuneration Committee retains discretion to accelerate vesting to the date of cessation.	All unvested awards will lapse.	Awards will normally vest early, but may be exchanged for a new award over shares in the acquiring company in the case of an internal reorganisation.
Performance Share Plan ("PSP")	If leaving before the employment requirement date[2], awards will vest at the original vesting date on a time pro-rated basis for the period of service and subject to performance conditions. If leaving after the employment requirement date[2] but before the end of the holding period, unvested awards will vest at the original vesting dates. Under both scenarios, the Remuneration Committee retains discretion to accelerate vesting to the date of cessation. The Remuneration Committee also has discretion to reduce or disapply the time pro-rating.	If leaving before the employment requirement date[2] all unvested awards will lapse. If leaving after the employment requirement date[2] but before the end of the holding period, unvested awards will vest at the original vesting dates. However, in this case the Remuneration Committee retains discretion to accelerate vesting to the date of cessation.	All unvested awards will lapse.	Awards will normally vest early, but may be exchanged for a new award over shares in the acquiring company in the case of an internal reorganisation. The extent to which the award vests will be determined by review of performance conditions and applying time pro-rating. The Remuneration Committee has discretion to reduce or disapply the time pro-rating.

[1] The first, second and third anniversaries of the date of grant (as appropriate).

[2] The employment requirement date is the third anniversary of the date of grant.

The Remuneration Committee may also approve payment of amounts in settlement of statutory or contractual claims based on legal advice and may make payment of an amount in respect of legal, tax and outplacement services as it considers appropriate.

Chairman and Non-Executive Directors

The Non-Executive Directors (including the Chairman) are appointed pursuant to letters of appointment, which set out the terms of their appointment. The appointment is subject to termination by the Company at any time with three months' written notice. Directors are requested, but not obliged, to give three months' notice. The letters do not provide for compensation for loss of office. All Non-Executive Directors are subject to annual re-election by shareholders at the AGM, however should the Director not be re-elected by shareholders their appointment will cease immediately and without compensation.

Copies of the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office. They will also be available for inspection prior to and during the AGM.

Share ownership guidelines

In order to further align the interests of Executive Directors with those of shareholders, the Company introduced share ownership guidelines at IPO. The guidelines require the Executive Directors to build up a specified level of shareholding (expressed as a percentage of base salary) within five years of the guidelines being implemented (or within five years of appointment, if later).

The required level of shareholding is 200 per cent of base salary, using the current share price from time to time, for each of the Executive Directors. The Remuneration Committee reserves the discretion to amend these levels in future years, provided that the revised levels will not, in the view of the Remuneration Committee, be less onerous overall.

Under the guidelines, the Executive Directors are expected to retain all of the ordinary shares vesting under any of the employee share plans, after any disposals for the payment of applicable taxes and any acquisition costs, until they have achieved the required level of shareholding. Vested awards not subject to any performance condition (but subject to a holding period) count as ownership towards the guidelines after deducting the tax which would be due if the shares were released on that date. The guidelines also prohibit the Executive Directors from hedging (or offering as collateral) any shares which are unvested or unexercised under any employee share plans, and any shares which count towards meeting the guidelines.

Other shares owned by Executive Directors and their connected persons also count towards the share ownership guidelines.

All-employee share plans

Executive Directors are invited to participate in all-employee share plans on the same basis as other Group employees. The purpose of these plans is to encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders. The plans are operated within the maximum participation levels permitted under HMRC regulations from time to time. The Company has established both a Sharesave and a Share Incentive Plan ("SIP"). The SIP was used as a vehicle to award free shares to employees following IPO in recognition of their contribution to the business. Awards of between £200 and £1,000 were made, based on length of service.

External appointments

The Company recognises that it can benefit from Executive Directors holding outside non-executive directorships. Under the Company's policy, the Executive Directors are permitted to hold no more than one such position, subject to the Company's prior approval. The Remuneration Committee reserves the right to determine whether or not any fees receivable by the Director should be paid on to the Company.

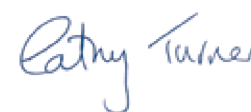
Consideration of employment conditions elsewhere in the Group

Pay and employment conditions generally in the Group are taken into account when setting Executive Directors' remuneration. The Remuneration Committee receives regular updates on overall pay and conditions in the Group, including salary increases for the general employee population; has oversight of significant changes in employee benefit structures (including pension provisions); and approves staff bonus pools. It also oversees the HMRC qualified all-employee share plans which Executive Directors and all other Group employees can participate in on the same terms and conditions. As is normal commercial practice, the Company does not consult with its employees in preparing the Remuneration Policy.

Consideration of shareholder views

In formulating this Remuneration Policy, the Company took into account the views of its major shareholders. Should any significant changes be proposed to the Remuneration Policy going forward, the Company will engage with its shareholders to seek their views. The 2016 AGM will be the first occasion on which the Company will formally seek the support of its post-IPO shareholders in a general meeting for matters relating to the remuneration of Directors, and the Remuneration Committee will consider all of the feedback which it receives from its shareholders during this process.

The Remuneration Report was approved by the Board of Directors on 9 March 2016 and signed on its behalf by:



Cathy Turner
Chair of Remuneration Committee

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The Group's approach to risk

The Group's approach to risk

Effective risk management plays a key role in the execution of the Group's strategy of supporting UK SMEs, homeowners, landlords and savers. Risk-taking is an inherent part of banking, and as a business we aim to make a profit from taking risk in a controlled way. The Board and senior management ensure that the risks the Group is taking are clearly identified, managed, monitored and reported and that the Group's resources are capable of withstanding both expected and unexpected levels of risk performance.

The Risk Overview on pages 38 to 42 provides a summary of risk management within the Group and describes developments during 2015 and priorities for 2016. It highlights the principal risks we face and key mitigating actions.

This risk management section provides additional information on our approach to risk, the associated governance framework, stress testing and provides a full analysis of the principal risks.

Risk strategy

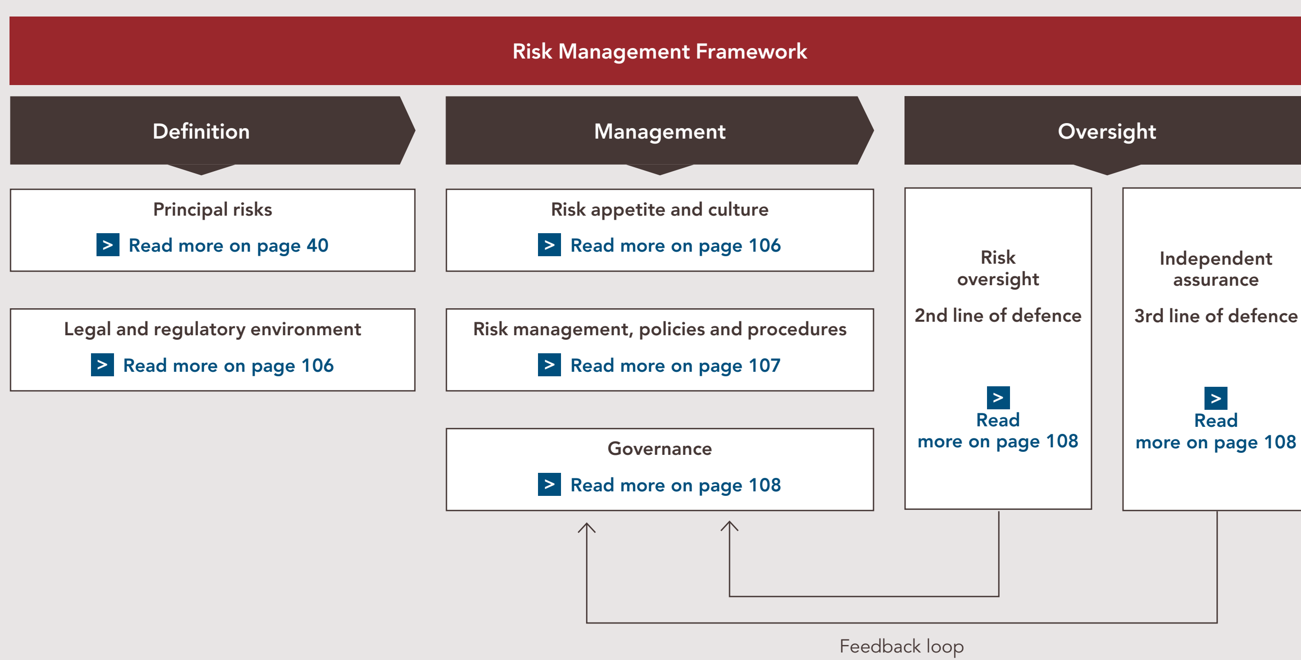
We have clearly defined our risk management objectives and have a strategy to deliver them. Our risk management strategy is to:

- Identify our principal and emerging risks
- Define our risk appetite and ensure that the business plans are consistent with it
- Manage risk within the business with independent effective oversight
- Ensure that the business plans are supported by effective risk controls, technology, and people capabilities
- Manage the risk profile to ensure that the business strategy can withstand a range of adverse conditions
- Ensure a sound risk control environment and risk-aware culture
- Ensure our compensation practices ensure only prudent risk taking within our risk appetite is rewarded.

Risk Management Framework

The Risk Management Framework outlines the governance, policies, procedures, systems, tools, techniques and activities by which the Board and senior management establish and monitor the Group's risk appetite and effectively manage risk.

Risk management refers to the process of identification, managing, monitoring and reporting of risks to which the Group is exposed. Senior management ensure that the Risk Management Framework is embedded in its day-to-day management and control activities.



The Group's approach to risk
continued

Risk definition

Risks and legal/ regulatory environment:

- Principal risks
- Legal and regulatory environment

Principal risks

See page 40 for further details on our principal risks.

Legal and regulatory environment

We operate within the context of the UK legal and regulatory environment (as well as European law adopted and supported by UK regulators). The Legal Counsel and Compliance functions ensure that we are aware of both current and upcoming legal or regulatory requirements. Reporting of any forthcoming changes to regulation or law is routinely made to the relevant committees for awareness, impact and action.

Risk management

Risk appetite framework and risk culture:

- Risk appetite statement
- Risk culture
- Risk policies and procedures

Risk Appetite Framework

The Risk Appetite Framework ("RAF") is the overarching framework through which we set individual risk appetites for each principal risk and monitor performance against the risk appetites. The RAF forms an important element of the overall Risk Management Framework described on page 105.

The RAF includes the following components:

- Overarching risk appetite – the primary statement outlining our approach to risk taking linked to the pursuit of our business objectives
- Key risk appetite statements – the articulation of the type and level of specific risks that we are willing to accept
- Risk capacity – the maximum level of risk we can assume before breaching constraints determined by regulatory capital and liquidity needs
- Risk limits – quantitative measures that allocate our aggregate risk appetite statement to individual activities
- Risk profile – the point in time assessment of our net risk exposure.

Risk appetite statement

Our risk appetite statement defines the level and types of risk that we are willing to accept in order to achieve our business objectives and strategy, sets the tone for risk management to reinforce a strong risk management culture, and provides a framework to establish risk policies, controls and limits in a consistent manner. Our overarching risk appetite statement is:

"To run a sustainable, safe and sound business that conducts its activities in a prudent and reputable manner, taking into account the interests of our customers and also ensuring our obligations to key stakeholders are met."

This overarching risk appetite is supported by individual risk appetite statements linked to the principal risks, which are in turn supported by individual detailed metrics. See pages 110 to 130 for further details of the risk appetites for the principal risks.

Risk culture

Our culture is articulated through our core values of being Reliable, Expert, Dynamic and Straightforward. These underpin the risk culture, drive the day-to-day behaviours across the Group, and form the DNA of the business. The Board sets the "tone at the top" and ensures that this is cascaded into day-to-day operations through policies, recruitment of competent employees, training and aligning remuneration to risk appetite.

Our performance management process promotes sound risk management to ensure employees are risk-aware, understand their accountabilities, and the importance of adhering to policies and procedures. This is reinforced through mandatory interactive training and our compensation philosophy.

Risk management

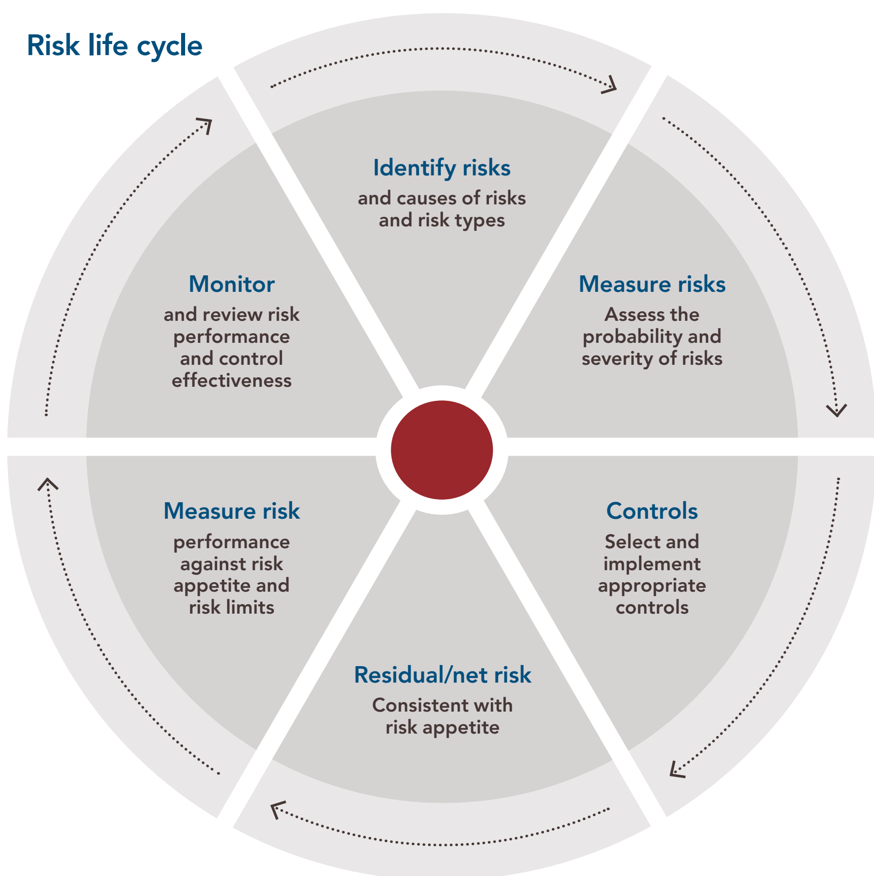
The management of risk is based on an understanding of the risks that we face, an assessment of these risks and establishing an appropriate control environment. Risks are assessed at the inherent level (before being mitigated by controls) and at the residual level (once controls have been considered). Controls include risk appetite statements, defined limits to risk exposures, policies, procedures, mandates, oversight and reporting. The design and effectiveness of controls is key and an assessment of these is performed by all three lines of defence.

Ongoing monitoring of the performance of risks and the controls used to manage and contain risk is undertaken and the results are reported to the risk oversight committees. The risk management process uses a continuous feedback loop with six elements as shown in the risk life cycle diagram below.

Risk policies and procedures

Risk policies and procedures are the formal documentation of the methods used to manage, control, oversee and govern each principal risk. They articulate the limits, operating standards and procedures by which risks are identified, assessed and managed at all stages of the business and risk life cycle.

Risk life cycle



Risk governance and oversight

Risk governance and oversight

- Governance
- Three lines of defence

The Board, often via its Committees, has overall responsibility for approving and reviewing the business strategies and significant policies of the Group; understanding the principal risks taken by the Group, and setting acceptable limits for these risks. The Board is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

The Board Risk Committee and Audit Committee are the main oversight committees in the above respects.

Three lines of defence

Our governance framework adheres to a "three lines of defence" model to ensure a clear delineation of responsibilities between control over day-to-day operations, risk oversight and independent assurance of our activities.

All three lines of defence are responsible for supporting and developing a culture of risk awareness and to support each other in creating the best outcome for the business and its customers. In this way, risk management responsibilities are understood at all levels, ownership and accountability is clear and control and oversight is established throughout the Group.

Business lines and centralised functions – First line

The business lines take calculated risks with the aim of delivering value for the business. The first line of defence encompasses the controls that we have in place to deal with day-to-day business and manages risks in the business, to pre-agreed tolerances or limits. It identifies, manages and monitors risks within each area of the business, reporting and escalating issues as necessary and evidences control.

Risk oversight – Second line of defence

The second line of defence encompasses the risk oversight functions (as shown below), which are independent of the business and central functions. The second line supports a structured approach to risk management by maintaining and implementing the Risk Management Framework and Group-wide risk policies and monitoring their proper execution by the first line of defence. It also provides independent oversight and guidance on risks relevant to our strategy and activities, maintains an aggregate view of risk and monitoring performance in relation to our risk appetite, monitors changes in and compliance with external regulation and promotes best practice.

Independent assurance – Third line of defence

Internal Audit provides independent assurance to the Board via the Audit Committee that the first and second lines of defence are both effective in discharging their respective responsibilities.

Stress testing

Stress testing

Stress testing is an important risk management tool, with specific approaches documented for the major regulatory exercises of the Internal Capital Adequacy Assessment Process ("ICAAP"), Individual Liquidity Adequacy Assessment ("ILAA") and Recovery and Resolution Plan ("RRP").

We have in place a Stress Testing Framework ("STF") to assist the Board's understanding of the key risks, scenarios and sensitivities that may adversely impact our financial or operational position and support the development of risk appetite, business and capital plans by:

- Testing our ability to withstand the materialisation of risks in both "normal" and "stressed" conditions
- Assessing the adequacy of our financial resources (both capital and liquidity) and the potential management actions available to mitigate the effect of any adverse events
- Identifying potential gaps in our Risk Management Framework such as a potential weaknesses in the controls operated by the Group
- Provides a cohesive approach to common rules and principles regarding stress testing and scenario analysis

The STF relies upon and supports the Capital Stress Testing policy, the Funding and Liquidity policy and the Operational Risk Framework. All of which provide detail of how the STF has been implemented within their specific areas of focus. The STF assesses the adequacy of our financial resources and provides inputs for our ICAAP, ILAA and RRP.

The ICAAP is an assessment of our total capital requirements based on our risk profile under normal and stressed operating conditions. The preparation of the ICAAP incorporates all material risks and is based on active cooperation between Finance, (including Treasury), business areas and risk functions.

The ILAA is an assessment of our liquidity position under normal and stressed conditions and is used to inform the Board of the ongoing assessment and quantification of liquidity risk and the manner in which it is managed, monitored, controlled and mitigated. The CFO is responsible for the Group's ILAA.

The RRP provides an assessment of our ability to recover financial strength following or during a period of severe stress through a formal assessment of recovery options and enabling recovery options to be activated and mobilised quickly and effectively. The RRP also provides regulatory authorities with information and analysis to enable them to carry out an orderly resolution if required.

We perform Reverse Stress Testing ("RST") to identify and assess events that could cause our business model to become unviable. The outcome of failure is assumed as a starting point and we work backwards to determine the type and sequence of events and vulnerabilities that could lead to the hypothetical failure of the business. The key objective of RST is to enable the early identification of events that could cause our business plan to become unviable and, to assess the likelihood that such events could crystallise. Where those tests reveal a risk of business failure that is unacceptably high when considered against our risk appetite, there will be measures to prevent or mitigate that risk, including contingency plans in place to restore the business to a stable and sustainable condition.

Stress testing governance

The Board is responsible for reviewing and approving the STF, scenarios for each type of stress testing and results of the stress test analysis. The Board Risk Committee ("BRC") is responsible for reviewing the STF annually. The scenarios for each type of stress testing and results of the stress testing analysis are reviewed and recommended at the ALCO and Executive Risk Committee ("ERC"). The BRC makes recommendations to the Board for approval of the scenarios to support the ICAAP, ILAA and RRP. As the senior risk committee, BRC provides independent review and challenge to stress scenarios, underlying assumptions and adequacy of proposed management actions.

The primary executive responsible for the STF is the Chief Risk Officer ("CRO"), who is responsible for ensuring the development and implementation of a robust STF and overseeing its implementation. The CRO is also responsible for ensuring that the STF is fit for purpose and adheres to all regulatory requirements and industry good practices. Participants from all business and control functions are responsible for providing inputs for the development of scenarios, underlying assumptions and relevant management actions. Business and control functions coordinate with the CRO and CFO to provide relevant data for stress testing.

Internal Audit provides periodic independent assurance regarding ongoing adherence to internal controls and compliance standards. Internal Audit also verifies the extent of compliance of stress testing policies with regulatory requirements and reports its findings and recommendations to the Board Risk Committee, Audit Committee and the Board.

Principal risk drivers

All areas of the following report are covered by the external auditor's opinion on page 133, except for the shaded sections on pages 129 to 130.

Principal risk drivers

The key drivers are:

- Strategic risk (read more on page 42)
- Credit risk (read more below)
- Liquidity risk (read more on page 123)
- Interest rate and market risk (read more on page 125)
- Capital risk (read more on page 126)
- Operational risk (read more on page 129)
- Conduct risk (read more on page 130)

Maximum exposure to credit risk

	Note	2015 £m	2014 £m
Included in the statement of financial position:			
Cash and balances at central banks		**105.3**	79.6
Loans and advances to banks	19	**94.2**	117.4
Debt securities	21	**606.1**	509.7
Derivatives held for risk management	22	**6.7**	8.2
Loans and advances to customers	20	**6,165.5**	4,823.6
Other assets		**0.4**	1.2
		6,978.2	**5,539.7**
Commitments to lend	39	**556.0**	404.6
Gross credit risk exposure		**7,534.2**	**5,944.3**
Less: allowance for impairment losses	20	**(20.7)**	(22.5)
Net credit risk exposure		**7,513.5**	**5,921.8**

Credit risk

Credit risk is the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Group in accordance with agreed terms.

This risk arises from our lending activities as a result of defaulting mortgage, lease and loan contracts and is the most significant risk we face. Although credit risk arises from our loan book it can also arise from off balance sheet activities.

Risk appetite

We operate a business line level credit risk appetite, as well as an overall credit risk appetite for our lending activities. Expected losses are factored into the budgeting and forecast process and reflect our expected view of lending performance, taking into account recent performance data and the prevailing economic environment.

We recognise that actual losses may differ from forecasted or budgeted values. The credit risk appetites are set based on expected levels of loss, credit risk concentration, and portfolio composition and performance characteristics.

Exposure

The above table presents our maximum exposure to credit risk of financial instruments on the balance sheet and commitments to lend before taking into account any collateral held or other credit enhancements. The maximum exposure to credit risk for loans, debt securities, derivatives and other on balance sheet financial instruments is the carrying amount and for loan commitments the full amount of any commitment to lend that is irrevocable or is revocable only in response to material adverse change.

Mitigation

We target Small and Medium-sized Enterprises ("SMEs") and mortgage customers. Credit risk is managed in accordance with lending policies, the risk appetite and the Risk Management Framework. Lending policies and performance against risk appetites are reviewed regularly. We seek to mitigate credit risk by focusing on business sectors where we have specific expertise and through limiting concentrated exposures on larger loans, certain sectors and other factors which can represent higher risk. We also seek to obtain security cover, and where appropriate, personal guarantees from borrowers. Affordability checks on income versus outgoings are also made in relation to mortgages to assess a borrower's capacity to meet interest payments.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. We maintain a dynamic approach to credit management and aim to take necessary steps if individual issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to borrower, economic or sector-specific weaknesses.

Due to the retail and SME markets we operate in, external rating agency ratings for borrowers are not typically available. However, credit risk is assessed through applying a combination of due diligence, reviewing credit reference agency reports, reviewing financial information, credit scores and the use of underwriters.

This section provides further detail on the specific areas where we are exposed to credit risk.

	Asset Finance	Invoice Finance
Business description	• Originates loan and lease contracts to diversified range of end users • Exposures range from public sectors organisations to corporates, SMEs and sole traders	• Provides working capital for SME clients • May include credit control and collection services for clients
Management of credit risk	• Expert manual underwriting supported by data driven from risk systems • Information on individuals behind the business carefully considered • Financial and credit information obtained from external credit reference agencies • Assets acting as security are carefully valued, future resale value considered • Audit and site visits used to track condition and location of certain assets	• Review of management, financial and operational strength of client's business • Careful consideration of quality and contractual collectability of underlying receivables acting as security • Information on individuals behind the business carefully considered • Financial and credit information obtained from external credit reference agencies • In-life monitoring, audit and reconciliations performed to manage risk of fraud and default risk associated with client failure • Significant diversification at invoice level heavily mitigates concentration risk

	SME Commercial Mortgages	Residential Mortgages and Buy-to-Let
Business description	**SME Commercial Mortgages** • Commercial mortgages to businesses who own property • Mortgages to commercial property investors • Loans are typically to SMEs, secured on smaller properties • Limits in place for loans over £1.5 million **Property Development** • Funding for building and developing residential property	**Residential Mortgages** • Residential mortgages lending focuses on owner-occupied residential properties **Buy-to-Let** • Buy-to-Let lending encompasses lending to private individuals and companies who acquire residential properties to let
Management of credit risk	**SME Commercial Mortgages** • Expert underwriters review all applications • Properties individually valued by qualified external valuers • Detailed report produced ensuring property is suitable as security • Consideration given to alternate use of property and likely disposal time periods in event of default • Consideration given to whether asset acting as security can be recovered or sold • In-house valuation experts approve panel of qualified external valuers and perform ongoing monitoring • Affordability assessments performed on all loans • Other security forms often obtained, such as personal guarantees • Customers are secured on properties solely located in the UK • Certain sectors to which the Group does not currently lend • Exposures are diversified by sector and location • Regular reviews performed on loans, with particular attention paid to larger exposures **Property Development** • Developments are regularly inspected by internal and external quantity surveyors	**Residential Mortgages** • Expert underwriters review all applications • Exposures underwritten in line with residential mortgage lending policy • Each loan subject to affordability assessment, taking into account specific circumstances of each borrower • Information obtained from external credit reference agencies on each applicant, which is reviewed by underwriters • Conservative approach to lending, maximum LTV of 85% on a single dwelling, except for lending via the Help to Buy scheme • Lending performed between 85%–95% LTV via the Help to Buy scheme, which has an associated Government guarantee which reduces the risk to the Group • Full valuation performed on properties acting as security • Valuations performed by experienced panel of qualified external valuers **Buy-to-Let** • Expert underwriters review all applications • Exposures underwritten in line with private rental sector lending policy • Each loan subject to rental cover and wider borrower financial profile assessment • Information obtained from external credit reference agencies on each applicant, which is reviewed by underwriters • Maximum LTV of 80% • Full valuation performed on properties

Principal risk drivers

continued

Credit risk continued

Forbearance

Forbearance is defined as any concessionary arrangement that is made for a period of three months or more where financial difficulty is present or imminent. Occasionally, some borrowers experience financial difficulties which impact their ability to meet mortgage or SME finance obligations. We seek 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, we may use forbearance measures to assist the borrower.

These are considered on a case-by-case basis and must be in the best interests of the customer. The forbearance measures are undertaken in order to achieve the best outcome for both the customer and the Group by dealing with financial difficulties and arrears at any early stage.

The most widely used methods of forbearance are temporarily reduced monthly payments, loan-term extension, deferral of payment and a temporary or permanent transfer to interest only payments to reduce the borrower's financial pressures. Where the arrangement is temporary, borrowers are expected to resume normal payments within six months. Both temporary and permanent concessions are counted as forborne for 24 months following the end of the concession. In all cases, the above definitions are subject to no further concessions being made and the customers' compliance with new terms.

See page 119 for an analysis of forbearance measures in place at 31 December 2015.

Credit risk portfolio

The following section provides analysis of our credit risk portfolio as at 31 December 2015. The analysis is segmented between credit risk on loans and advances to customers and credit risk on treasury assets. Details of the methodologies and estimates used to determine the allowances for loan impairments are provided in Note 3.

As described in Note 4 to the financial statements, we have split out Buy-to-Let as a separate operating segment during 2015. The analysis within this section has been aligned to the new segments and the prior year comparatives have been re-presented on the new basis.

Furthermore, the analysis has been enhanced to exclude the Property Development ("PD") portfolio from a number of tables where it is not relevant (marked with a footnote). Details of the quality of collateral held for the PD portfolio is provided on page 116. Prior year comparatives have been re-presented accordingly.

Credit risk on loans and advances to customers

Key terms:

Neither past due nor individually impaired – Loans that are not in arrears and where there is no objective evidence of impairment.

Past due but not individually impaired – Loans that are in arrears but have not been individually assessed as impaired.

Individually impaired – Loans which have been individually assessed for impairment as there is objective evidence of impairment, including changes in customer circumstances.

Forborne – Any concessionary arrangement that is made for a period of three months or more where financial difficulty is present or imminent.

Credit quality of loans and advances to customers

The credit quality of assets measures the credit worthiness of the loan or the ability of the debtors to pay back the debt. The credit quality of lending assets is provided below, shown gross of impairment provisions:

Analysis of loans and advances by impairment status

2015	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
Neither past due nor individually impaired	**1,346.0**	**163.6**	**820.0**	**2,403.9**	**1,372.9**	**6,106.4**
Past due but not individually impaired	**3.9**	**–**	**6.5**	**10.9**	**15.0**	**36.3**
Individually impaired	**4.2**	**2.5**	**6.9**	**5.1**	**4.1**	**22.8**
	1,354.1	**166.1**	**833.4**	**2,419.9**	**1,392.0**	**6,165.5**
2014						
Neither past due nor individually impaired	1,039.7	183.4	540.9	2,029.4	966.7	4,760.1
Past due but not individually impaired	7.2	–	10.1	13.8	11.6	42.7
Individually impaired	2.6	5.9	5.9	3.1	3.3	20.8
	1,049.5	**189.3**	**556.9**	**2,046.3**	**981.6**	**4,823.6**

Loans and advances which are past due but not individually impaired

Past due but not individually impaired loans are further analysed according to the number of months past due as below:

	2015 £m	2014 £m
Past due but not individually impaired		
– Up to 2 months past due	**28.4**	30.0
– 2 to 3 months past due	**7.9**	12.7
Total	**36.3**	**42.7**
Fair value of collateral held	**35.2**	**34.2**

Loans and advances neither past due nor individually impaired

The credit quality of assets that are neither past due nor individually impaired are internally analysed as follows:

2015	Asset Finance £m	Invoice Finance £m	SME[1] Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
Low risk	**49.1**	**–**	**325.2**	**1,898.1**	**907.3**	**3,179.7**
Medium risk	**1,205.3**	**12.8**	**308.2**	**471.1**	**432.2**	**2,429.6**
High risk	**91.6**	**150.8**	**7.3**	**34.7**	**33.3**	**317.7**
Total	**1,346.0**	**163.6**	**640.7**	**2,403.9**	**1,372.8**	**5,927.0**
Fair value of collateral held	**957.0**	**160.8**	**640.7**	**2,403.4**	**1,372.8**	**5,534.7**

2014[2]	Asset Finance £m	Invoice Finance £m	SME[1] Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
Low risk	26.3	–	205.4	1,601.7	575.3	2,408.7
Medium risk	932.4	11.9	264.5	400.8	364.3	1,973.9
High risk	81.0	171.5	4.6	26.9	27.1	311.1
Total	**1,039.7**	**183.4**	**474.5**	**2,029.4**	**966.7**	**4,693.7**
Fair value of collateral held	**738.4**	**181.7**	**474.5**	**2,029.3**	**965.6**	**4,389.5**

1 The above analysis excludes Property Development. Further detail of the Property Development book is provided on page 116.

2 During the year, the underlying modelling techniques have been enhanced based on more granular segmentation of the portfolio between high, medium and low risk. Accordingly the 2014 comparatives have been re-presented using the enhanced modelling techniques.

Principal risk drivers
continued

Credit risk continued

a) Risk grading methodology

The categorisation of high, medium, low risk is based on internal grading models. The grading models are used to generate a consistent Group-wide approach for the grading of customer credit risk exposures for all lending businesses, and provide a relative internal ranking of risk. Drivers for the grade mapping include external credit reference agency risk scores, property valuations and qualitative factors. The relative measure of risk reflects a combined assessment of the probability of default by the customer and an assessment of the expected loss in the event of default.

The resulting classification of balances between low, medium and high is consequently driven by a combination of the probability of default ("PD") and loss given default ("LGD") grades. A matrix of 15 PD and 10 LGD grades determine the category within which each loan is categorised i.e. those accounts that have a low PD and/or LGD are graded as "low". Those graded "high" will be accounts that have either a high PD and/or LGD.

- *Probability of default* refers to the probability of a customer or counterparty defaulting, which is typically taken as three payments past due, within the next 12 months. A default probability model predicts this probability by using credit scores along with financial, behavioural and qualitative inputs
- Key components of the *Loss Given Default* are the propensity to "cure", that is for an account to be restored to a performing status, and the level of security held in relation to the credit exposure. The level of security varies, ranging from a small number of very short-term unsecured loans in the Asset Finance business, to highly secured loans on residential property within the Residential Mortgage business. The valuation method for assets is specific to the nature of the collateral and includes indexation for property valuations

b) Fair value of collateral methodology

For SME Commercial Mortgage, Buy-to-Let and Residential Mortgage agreements, the fair value of underlying collateral is calculated based on the indexed valuation of the property on which the mortgage is secured. Where the indexed valuation is greater than the balance outstanding, the fair value of the collateral is capped to the value of the outstanding balance.

For Asset Finance agreements, the estimated fair value of the collateral is calculated by applying LGDs on a case by case basis. The LGD against each loan is deducted from the balance outstanding to derive a proxy for fair value. As the fair value is derived using LGDs, the fair value calculated includes an element of prudence as the LGD is based on non-performing loan data.

Impaired loan analysis

Individually impaired balances are further analysed as follows:

2015	**Asset Finance £m**	**Invoice Finance £m**	**SME Commercial Mortgages £m**	**Buy-to-Let £m**	**Residential Mortgages £m**	**Total**
Past due 3–6 months	**1.2**	**–**	**3.3**	**2.8**	**3.3**	**10.6**
Past due 6–12 months	**1.4**	**0.5**	**–**	**1.6**	**0.5**	**4.0**
Past due over 12 months	**1.6**	**2.0**	**3.6**	**0.7**	**0.3**	**8.2**
	4.2	**2.5**	**6.9**	**5.1**	**4.1**	**22.8**
Of which: Possessions	**0.8**	**–**	**–**	**–**	**0.4**	**1.2**

2014	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total
Past due 3–6 months	1.8	–	0.4	1.8	1.7	5.7
Past due 6–12 months	0.4	3.2	2.9	0.7	0.2	7.4
Past due over 12 months	0.4	2.7	2.6	0.6	1.4	7.7
	2.6	**5.9**	**5.9**	**3.1**	**3.3**	**20.8**
Of which: Possessions	1.4	–	–	–	1.4	2.8

The fair value of collateral held against the above individually impaired balances at 31 December 2015 of £22.8 million (31 December 2014: £20.8 million) was £18.4 million (31 December 2014: £17.9 million).

Movement in impaired loans is analysed as follows:

2015	**Asset Finance £m**	**Invoice Finance £m**	**SME Commercial Mortgages £m**	**Buy-to-Let £m**	**Residential Mortgages £m**	**Total £m**
At 1 January	**2.6**	**5.9**	**5.9**	**3.1**	**3.3**	**20.8**
Classified as impaired during the period	**5.7**	**3.8**	**5.1**	**5.3**	**3.7**	**23.6**
Transferred from impaired to unimpaired	**(0.7)**	**–**	**(0.1)**	**(0.8)**	**(0.7)**	**(2.3)**
Amounts written off	**(1.9)**	**(4.6)**	**(1.7)**	**(0.9)**	**(0.2)**	**(9.3)**
Repayments	**(1.5)**	**(2.6)**	**(2.3)**	**(1.6)**	**(2.0)**	**(10.0)**
At 31 December	**4.2**	**2.5**	**6.9**	**5.1**	**4.1**	**22.8**

2014	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
At 1 January	3.2	7.9	6.2	4.5	3.0	24.8
Classified as impaired during the period	3.5	4.2	3.2	1.0	1.7	13.6
Transferred from impaired to unimpaired	(0.6)	–	(0.5)	(0.4)	(1.0)	(2.5)
Amounts written off	(2.2)	(4.3)	(0.3)	–	(0.1)	(6.9)
Repayments	(1.3)	(1.9)	(2.7)	(2.0)	(0.3)	(8.2)
At 31 December	**2.6**	**5.9**	**5.9**	**3.1**	**3.3**	**20.8**

Impairment coverage ratio

The impairment coverage is analysed as follows:

Coverage ratio	**2015 £m**	2014 £m
Gross loans and advances	**6,165.5**	4,823.6
Of which individually impaired	**22.8**	20.8
Impaired as a % of gross loans and advances	**0.37%**	0.43%
Allowance for losses – individual provisions	**10.2**	14.0
Coverage	**44.74%**	67.40%

The coverage ratio has decreased during the year as a result of writing off a number of loans which had previously been fully provided for (see Note 20).

Principal risk drivers
continued

Credit risk continued

Quality of collateral

The principal indicators used to assess the credit security of performing loans are loan-to-value ratios for SME Commercial, Buy-to-Let and Residential Mortgages.

SME Commercial Mortgages

Loan-to-value on indexed origination information on our SME Commercial Mortgage portfolio is set out to the side:

SME Commercial Mortgages[1]	2015 £m	2014 £m
100%+	–	–
80–100%	–	–
75–80%	5.1	1.1
70–75%	18.2	22.1
60–70%	126.3	72.9
50–60%	157.3	115.0
0–50%	343.0	275.0
	649.9	486.1
Capital repayment	505.8	409.4
Interest only	144.1	76.7
	649.9	486.1
Average loan-to-value percentage	48.62%	49.21%

[1] The analysis excludes property development.

Property Development

We use "loan to gross development value" as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan to gross development value is a measure used to monitor the loan balance outstanding compared against the expected gross development value once the development is complete.

At 31 December 2015, 98.9 per cent (31 December 2014: 99.1 per cent) of the portfolio had a loan to gross development value of 65 per cent or less.

The gross development value is based on valuations by qualified valuers with reference to recent market transactions for similar developments in the local area.

Buy-to-Let

Loan-to-value on indexed origination information on our Buy-to-Let mortgage portfolio is set out to the side:

Buy-to-Let	2015 £m	2014 £m
100%+	0.6	6.2
95–100%	5.1	16.9
90–95%	18.5	13.8
85–90%	14.5	11.6
80–85%	51.6	38.5
75–80%	219.1	162.3
70–75%	323.5	311.1
60–70%	735.1	698.5
50–60%	528.8	459.5
0–50%	521.1	325.7
	2,417.9	2,044.1
Capital repayment	228.4	210.5
Interest only	2,189.5	1,833.6
	2,417.9	2,044.1
Average loan-to-value percentage	60.52%	62.15%

Residential Mortgages

Loan-to-value on indexed origination information on our Residential Mortgage portfolio is set out to the side:

Higher LTV bandings have increased as a result of the Group's participation in the Help to Buy Scheme, which has an associated Government guarantee which reduces the Group's exposure.

Residential Mortgages	2015 £m	2014 £m
100%+	**6.6**	2.8
95–100%	**55.2**	65.3
90–95%	**200.5**	137.6
85–90%	**166.2**	71.0
80–85%	**153.6**	80.5
75–80%	**138.9**	77.8
70–75%	**121.5**	101.7
60–70%	**218.3**	186.7
50–60%	**145.5**	121.2
0–50%	**183.9**	135.1
	1,390.2	**979.7**
Capital repayment	**1,188.0**	769.0
Interest only	**202.2**	210.7
	1,390.2	**979.7**
Average loan-to-value percentage	**72.29%**	71.16%

Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 31 December 2015, the average advance rate against the fair value of sales ledger balances which have been assigned to the Group, net of amounts considered to be irrecoverable, is 64.99 per cent (31 December 2014: 68.04 per cent).

In addition to the value of the underlying sales ledger balances, we will, wherever possible, obtain additional security before offering invoice finance facilities to a client. These include limited personal guarantees from major shareholders, charges over personal and other business property, cross guarantees from associated companies and unlimited warranties in the case of frauds. These additional forms of security are impracticable to value given their nature.

Asset Finance

In respect of Asset Finance, collateral is provided by our rights and/or title to the underlying leased assets, which we are able to repossess in the event of default. Where appropriate, we will also obtain additional security, such as parent company or personal guarantees.

Asset Finance also undertakes a small volume of unsecured lending where it has obtained an understanding of the ability of the borrower's business to generate cash flows to service and repay the facilities provided. As at 31 December 2015 the total amount of such unsecured lending was £15.9 million (31 December 2014: £17.4 million).

Credit concentration by segment

Details of our lending by segment are as follows:

	2015 £m	2014 £m
Asset Finance	**1,346.7**	1,044.3
Invoice Finance	**160.8**	180.6
SME Commercial Mortgages	**829.2**	552.4
Buy-to-Let	**2,417.9**	2,044.1
Residential Mortgages	**1,390.2**	979.7
	6,144.8	**4,801.1**

Principal risk drivers

continued

Credit risk continued

Concentration of credit risk

We monitor concentration of credit risk by product type, size of asset, geographic location and sector. Analyses of concentrations are shown on the previous page and below.

Credit concentration by size of asset

An analysis of our loans and advances to customers by size of asset is shown in the table below:

	2015				2014			
	Asset Finance £m	**SME[1] Commercial Mortgages £m**	**Buy-to-Let £m**	**Residential Mortgages £m**	Asset Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m
£0–£50k	**578.8**	**4.0**	**20.7**	**21.1**	460.4	2.9	18.8	17.1
£50–£100k	**307.6**	**25.6**	**453.7**	**240.0**	224.9	20.3	407.9	173.2
£100–£150k	**136.8**	**29.1**	**410.0**	**396.2**	108.4	20.8	377.2	269.0
£150–£200k	**78.0**	**23.1**	**323.0**	**274.3**	59.1	18.0	284.2	184.7
£200–£300k	**83.9**	**53.3**	**450.5**	**278.7**	73.6	35.8	354.9	191.3
£300–£400k	**45.6**	**33.7**	**281.1**	**104.9**	36.3	26.2	203.3	75.0
£400–£500k	**31.0**	**36.5**	**145.5**	**24.1**	21.6	25.0	107.7	18.2
£500k–£1m	**52.5**	**117.7**	**209.0**	**45.7**	40.0	93.2	172.4	47.7
£1m–£2m	**27.9**	**140.4**	**79.2**	**5.2**	12.2	106.2	80.1	3.5
£2m+	**4.6**	**186.5**	**45.2**	**–**	7.8	137.6	37.6	–
Total	**1,346.7**	**649.9**	**2,417.9**	**1,390.2**	**1,044.3**	**486.0**	**2,044.1**	**979.7**

[1] The analysis of the SME Commercial Mortgages segment presented above excludes the Property Development which totals £179 million.

Credit concentration by geography

An analysis of our loans and advances to customers by geography, including Property Development, is shown in the table below:

	2015 %	2014 %
East Anglia	**9.4**	9.5
East Midlands	**6.2**	6.3
Greater London	**19.3**	20.9
North East	**2.8**	1.6
North West	**11.4**	11.9
Northern Ireland	**0.1**	0.1
Scotland	**4.9**	4.6
South East	**19.0**	19.5
South West	**9.8**	9.9
Wales	**3.2**	3.2
West Midlands	**7.2**	8.2
Yorkshire and Humberside	**6.7**	4.3
	100.0	**100.0**

Credit concentration by sector

An analysis of our loans and advances to customers by sector is shown in the table below:

	2015 %	2014 %
Agriculture, hunting and forestry	**1.2**	1.3
Construction	**4.2**	3.2
Education	**0.1**	0.1
Electricity, gas and water supply	**0.5**	0.6
Financial intermediation	**1.4**	1.4
Health and social work	**0.2**	0.2
Hotels and restaurants	**0.3**	0.3
Manufacturing	**3.8**	4.8
Mining and quarrying	**0.2**	0.2
Private households with employed persons	**1.0**	0.8
Public administration and defence; compulsory social security	**–**	0.1
Real estate, renting and business activities	**18.6**	18.7
Residential	**61.5**	61.4
Transport, storage and communication	**4.1**	3.9
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal household goods	**2.9**	3.0
	100.0	**100.0**

Forbearance analysis

As at 31 December 2015, we had undertaken forbearance measures as follows in each of our segments:

	2015 £m	2014[1] £m
Asset Finance		
Reduced monthly payments	**0.3**	0.1
Loan-term extension	**0.1**	0.2
Deferred payment	**0.8**	1.1
Total Asset Finance	**1.2**	**1.4**
Forborne as a percentage of the total divisional gross lending book (%)	**0.09%**	0.13%
Invoice Finance		
Agreement to advance funds in excess of normal contractual terms	**1.8**	–
Total Invoice Finance	**1.8**	–
Forborne as a percentage of the total divisional gross lending book (%)	**1.12%**	–
SME Commercial Mortgages		
Temporary or permanent switch to interest only	**5.0**	6.7
Total SME Commercial Mortgages	**5.0**	**6.7**
Forborne as a percentage of the total divisional gross lending book (%)	**0.66%**	1.10%

[1] During the period, the Group's definition for determining whether a loan is forborne has been updated for temporary concessions. Previously a loan was considered forborne for three months following the end of the concession. The revised definition considers a loan to be forborne for the 24 months following the end of the concession. The 2014 comparatives have been updated accordingly.

Principal risk drivers

continued

Credit risk continued

	2015 £m	2014[1] £m
Buy-to-Let		
Temporary or permanent switch to interest only	**1.5**	1.9
Reduced monthly payments	**0.8**	0.4
Deferred payment	**0.3**	0.3
Total Buy-to-Let	**2.6**	**2.6**
Forborne as a percentage of the total divisional gross lending book (%)	**0.10%**	0.13%
Residential Mortgages		
Temporary or permanent switch to interest only	**3.5**	2.5
Reduced monthly payments	**0.8**	0.9
Deferred payment	**1.4**	0.9
Total Residential Mortgages	**5.7**	**4.3**
Forborne as a percentage of the total divisional gross lending book (%)	**0.41%**	0.44%
Total forborne		
Total temporary or permanent switch to interest only	**10.0**	11.1
Total reduced monthly payments	**1.9**	1.4
Total loan-term extension	**0.1**	0.2
Total deferred payment	**2.5**	2.3
Total agreement to advance funds in excess of normal contractual terms	**1.8**	–
Total forborne	**16.3**	**15.0**
Total forborne as a percentage of the total gross lending book (%)	**0.26%**	**0.31%**

[1] During the period, the Group's definition for determining whether a loan is forborne has been updated for temporary concessions. Previously a loan was considered forborne for three months following the end of the concession. The revised definition considers a loan to be forborne for the 24 months following the end of the concession. The 2014 comparatives have been updated accordingly.

Analysis of forborne accounts by payment status is shown in the tables below:

2015	**Asset Finance £m**	**Invoice Finance £m**	**SME Commercial Mortgages £m**	**Buy-to-Let £m**	**Residential Mortgages £m**	**Total £m**
Neither past due nor individually impaired	**1.1**	**1.8**	**2.3**	**1.9**	**3.7**	**10.8**
Past due but not individually impaired	**–**	**–**	**1.5**	**0.7**	**1.3**	**3.5**
Individually impaired	**0.1**	**–**	**1.2**	**–**	**0.7**	**2.0**
	1.2	**1.8**	**5.0**	**2.6**	**5.7**	**16.3**

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
2014						
Neither past due nor individually impaired	1.2	–	1.6	2.0	2.6	7.4
Past due but not individually impaired	0.1	–	5.1	0.6	0.9	6.7
Individually impaired	0.1	–	–	–	0.8	0.9
	1.4	**–**	**6.7**	**2.6**	**4.3**	**15.0**

Credit risk – treasury assets

Credit risk exists with treasury assets where we have acquired securities or placed cash deposits with other financial institutions. The credit risk of treasury assets is considered to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquidity buffer.

Credit quality of treasury assets

The table sets out information about the credit quality of treasury financial assets.

As at 31 December 2015 and at 31 December 2014 none of the treasury assets were past due or impaired.

Management

Cash placements

Credit risk of Group and treasury counterparties is controlled through the treasury credit risk policy which limits the maximum exposure by entity where the Group can place cash deposits. All institutions need a sufficiently high long-term and short-term rating at inception.

Gilts and supranational bonds

As part of the liquidity buffer, we hold a portfolio of gilts and Supranational bonds. These instruments are AAA or AA+ to AA- rated, and typically represent sovereign risk.

Asset-backed securities ("ABS")

We have a portfolio of ABS. The majority of these investments are in AAA or AA+ to AA- rated bonds secured on UK originated assets. All investments are in Sterling; no foreign currency bonds were bought. The portfolio has credit enhancement, providing principal protection against losses.

Derivatives

Credit risk on derivatives is controlled through a policy of only entering into contracts with a small number of UK credit institutions, with a credit rating of at least AA- at inception. Most derivative contracts are collateralised through the receipt/payment of daily cash margin calls to cover the mark to market asset/liability.

	2015 £m	2014 £m
Cash and balances at central banks and loans and advances to banks		
– Rated AAA	**105.3**	–
– Rated AA+ to AA-	**29.6**	79.6
– Rated A+ to A-	**48.7**	100.0
– Rated BBB+	**15.9**	17.4
	199.5	**197.0**
Debt securities: UK Government gilts and Treasury bills, Supranational and Corporate bonds		
– Rated AAA	**396.7**	335.0
– Rated AA+ to AA-	**134.5**	158.4
– Rated A+ to A-	**–**	–
– Rated BBB+	**–**	–
Debt securities: Asset-backed securities		
– Rated AAA	**71.8**	16.3
– Rated AA+ to AA-	**–**	–
– Rated A+ to A-	**3.1**	–
– Rated BBB+	**–**	–
	606.1	**509.7**
Derivatives held for risk management purposes		
– Rated AAA	**–**	–
– Rated AA+ to AA-	**1.4**	0.7
– Rated A+ to A-	**2.0**	4.2
– Rated BBB+	**2.3**	3.3
– Rated BBB	**1.0**	–
	6.7	**8.2**
	812.3	**714.9**

Principal risk drivers

continued

Credit risk continued

Offsetting financial assets and liabilities

It is our policy to enter into master netting and margining agreements with all derivative counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other.

In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated.

Under the margining agreements where we have a net asset position valued at current market values, in respect of our derivatives with a counterparty, then that counterparty will place collateral, usually cash, with us in order to cover the position. Similarly, we will place collateral, usually cash, with the counterparty where it has a net liability position.

As our derivatives are under master netting and margining agreements as described, they do not meet the criteria for offsetting in the statement of financial position.

The following tables detail amounts of financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements including the Funding for Lending Scheme as detailed in Notes 20 and 28.

				Related amounts not offset in the statement of financial position		
2015 **Type of financial instrument**	**Gross amount of recognised financial instruments £m**	**Gross amount of recognised financial instrument offset in the statement of financial position £m**	**Net amount of financial instruments presented in the statement of financial position £m**	**Financial instruments £m**	**Cash collateral paid/(received) £m**	**Net amount £m**
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	**1,445.5**	**–**	**1,445.5**	**(398.6)**	**–**	**1,046.9**
Derivatives held for risk management	**6.7**	**–**	**6.7**	**(3.7)**	**(1.3)**	**1.7**
	1,452.2	**–**	**1,452.2**	**(402.3)**	**(1.3)**	**1,048.6**
Liabilities						
Amount due to banks – repurchase agreements	**(398.6)**	**–**	**(398.6)**	**398.6**	**–**	**–**
Derivatives held for risk management	**(35.4)**	**–**	**(35.4)**	**3.7**	**31.7**	**–**
	(434.0)	**–**	**(434.0)**	**402.3**	**31.7**	**–**

2014 Type of financial instrument						
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	719.9	–	719.9	(304.2)	–	415.7
Derivatives held for risk management	8.2	–	8.2	(7.1)	(1.1)	–
	728.1	**–**	**728.1**	**(311.3)**	**(1.1)**	**415.7**
Liabilities						
Amount due to banks – repurchase agreements	(304.2)	–	(304.2)	304.2	–	–
Derivatives held for risk management	(54.2)	–	(54.2)	7.1	46.2	(0.9)
	(358.4)	**–**	**(358.4)**	**311.3**	**46.2**	**(0.9)**

Liquidity risk

Liquidity risk is the risk that we are not able to meet our financial obligations as they fall due, or can do so only at excessive cost.

Risk appetite

The Board has set a liquidity risk appetite which aims to ensure that a prudent level of liquidity is held to cover an unexpected liquidity outflow such that we will be able to meet our financial commitments during an extended period of stress. Additionally, reputational risks are kept managed through holding liquidity to meet pipeline commitments expected to complete during a three month period.

Based on the business model of funding primarily via retail and SME deposits, the Board has set a liquidity risk appetite which it considers to be appropriate to provide it with the assurance that the relevant liquidity risk drivers are considered and appropriately stressed and that we are able to meet liabilities beyond the targeted survival period.

Exposures

Liquidity risk exposure represents the amount of potential stressed outflows in any future period less expected inflows. Liquidity is considered from both an internal and a regulatory perspective.

Mitigation

To protect the Group and its depositors against liquidity risks, we maintain a liquidity buffer which is based on our liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding and to enable us to meet all financial obligations and to support anticipated asset growth.

Contingency funding plan

As a regulated firm, we are required to maintain a Contingency Funding Plan ("CFP"). The plan (which is now part of our Recovery and Resolution Plan ("RRP")) involves a two stage process, covering preventative measures and corrective measures to be invoked when there is a potential risk to our liquidity or capital position. The CFP/RRP provides a plan for managing a liquidity or capital situation or crisis within the Group, caused by internal events, external events or a combination thereof. The plan outlines what actions we could take to ensure we comply with the liquidity adequacy rules, maintain sufficient capital and operate within our risk appetite and limits, as set and approved by the Board.

Analysis of liquidity risk

Through the ILAA process, we have assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks and the ILAA process determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base and other liquidity risk drivers.

The ILAA requires us to consider all material liquidity risks in detail and the ILAA has documented our analysis of each key liquidity risk driver and set a liquidity risk appetite against each of these drivers. Liquidity risks are specifically considered by the ALCO each month.

An overview of our key liquidity risk drivers is provided below:

a) Deposit funding risk

The deposit funding risk is the primary liquidity risk driver for the Group and this could occur if there was a concern by depositors over the current or future creditworthiness of the Group. Although we seek to operate in such a way as to protect depositors, an extremely high proportion of deposits are also protected by the Government's Financial Services Compensation Scheme ("FSCS"). The FSCS provides £75,000 of protection to each individual depositor.

b) Wholesale funding

We mainly finance our operations through retail and SME deposit taking. We also have long-term wholesale funding lines in place under the Funding for Lending Scheme, repo facilities to help manage liquid assets, and debt securities issued by the Group securitisation vehicle in April 2014. We have relationship banking facilities in place which are used to hedge against currency and interest rate exposures as well as repo facilities for short-term liquidity management.

A summary of our wholesale funding sources is shown below:

	Note	**2015 £m**	2014 £m
Repurchase agreements on drawings under FLS Scheme	28	**398.6**	304.2
Debt securities in issue	33	**193.9**	279.1
Deposits by banks	28	**5.2**	0.6
Subordinated notes	34	**38.1**	36.8
		635.8	**620.7**

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Principal risk drivers
continued

Liquidity risk continued

c) Payment systems

We do not form part of the UK payment system. However, in the event there are problems with one of the payment systems, we have access to other facilities with which to make payments if needed.

d) Pipeline loan commitments

We need to maintain liquidity to cover the outstanding pipeline of loan offers. Although certain pipeline offers may not be legally binding, the failure to honour an expression of intent to finance a loan contract brings reputational risk, therefore liquidity is held for all such pipeline offers.

e) Cash collateral requirements

The swap Credit Support Annex ("CSA") agreement requires us or a swap counterparty to hold cash in a deposit account, depending on whether the swap is in or out of the money. As we are unrated, the swap agreements are not credit rating sensitive in relation to the Group, which removes the impact from a downgrade risk.

Analysis of liquidity buffer

The components of the Group's liquidity buffer is shown below:

	2015 £m	2014 £m
Bank of England reserve account and unencumbered cash and bank balances	**104.8**	104.2
UK gilts and Treasury bills and Supranational bonds	**505.9**	486.2
Treasury bills held under the FLS scheme	**349.0**	179.6
Covered bonds	**20.8**	4.0
Asset backed securities	**74.8**	16.3
Total liquidity buffer	**1,055.3**	**790.3**
As a % of funding liabilities	**15.75%**	15.18%

Encumbered assets

We hold encumbered assets in the form of a reserve bank account with the Bank of England (see Note 38), loans and advances to customers secured within the securitisation vehicle and pre-positioned under the FLS scheme (see Note 20) and cash collateral received from derivative transactions. These balances have been disclosed in the relevant notes. Further details of assets encumbered within our securitisation vehicle are provided in Note 41.

Gross undiscounted contractual cash flow

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities.

	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
2015						
Non-derivative liabilities						
Amounts due to banks	**1.3**	**308.8**	**95.0**	**–**	**–**	**405.1**
Customers' accounts	**1,347.8**	**810.5**	**2,122.0**	**1,554.6**	**–**	**5,834.9**
Other liabilities	**6.0**	**11.6**	**–**	**–**	**–**	**17.6**
Debt securities in issue	**–**	**19.8**	**50.0**	**130.5**	**–**	**200.3**
Subordinated notes	**–**	**–**	**5.2**	**42.6**	**–**	**47.8**
Unrecognised loan commitments	**556.0**	**–**	**–**	**–**	**–**	**556.0**
	1,911.1	**1,150.7**	**2,272.2**	**1,727.7**	**–**	**7,061.7**
Derivative liabilities						
Derivatives held for risk management settled net	**0.3**	**2.1**	**5.5**	**18.8**	**5.5**	**32.2**
Derivatives held for risk management settled gross:						
Amounts received	**(4.4)**	**(3.1)**	**–**	**–**	**–**	**(7.5)**
Amounts paid	**4.4**	**3.1**	**–**	**–**	**–**	**7.5**
	0.3	**2.1**	**5.5**	**18.8**	**5.5**	**32.2**

	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
2014						
Non-derivative liabilities						
Amounts due to banks	1.2	234.8	69.9	–	–	305.9
Customers' accounts	1,190.4	809.8	1,434.7	1,090.6	–	4,525.5
Other liabilities	4.2	9.5	–	–	–	13.7
Debt securities in issue	–	14.8	40.6	240.0	–	295.4
Subordinated notes	–	–	5.2	47.7	–	52.9
Unrecognised loan commitments	404.6	–	–	–	–	404.6
	1,600.4	**1,068.9**	**1,550.4**	**1,378.3**	**–**	**5,598.0**
Derivative liabilities						
Derivatives held for risk management settled net	0.6	1.2	10.6	25.0	18.0	55.4
Derivatives held for risk management settled gross:						
Amounts received	(2.3)	(4.4)	–	–	–	(6.7)
Amounts paid	2.3	4.4	–	–	–	6.7
	0.6	**1.2**	**10.6**	**25.0**	**18.0**	**55.4**

Interest rate and market risk

Overview

Interest rate risk is the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates. Interest rate risk consists of asset-liability gap risk and basis risk.

Risk appetite

We aim to minimise interest rate risk and have a policy of matching fixed or variable rate assets with liabilities of a comparable interest rate basis, supplemented by derivatives such as interest rate swaps.

Exposures

We do not seek to take or expose ourself to market risk, and do not carry out proprietary trading, although certain liquid asset investments which form part of the liquid asset buffer carry mark to market risk which we regularly monitor.

Mitigation

Hedge accounting

As detailed above, we only use derivative contracts in order to hedge existing exposures on loans to customers, customer deposits and available for sale securities, principally with regard to following our policies in respect of the management of asset-liability gap and basis rate risks. Wherever possible we seek to include the derivatives used within hedges which meet the qualification requirements of IAS 39 to be accounted for as fair value portfolio hedges (see accounting policy 2(j) and Note 22). There are, however, times where, in order to meet IAS 39 requirements for prospective testing of hedge effectiveness for new derivatives to be included in hedging portfolios, there is a time lag, due to operational processes, before IAS 39 hedge accounting may commence.

Similarly, there are also certain derivative contracts, e.g. those hedging basis risk exposures (see above) which do not meet the criteria for hedge accounting under IAS 39. The gains and losses arising on contracts which do not meet the IAS hedge accounting criteria are included within income as part of "Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss", but, as they are not matched by similar adjustments to the hedge assets and liabilities, they give rise to volatility in the income statement on a year to year base which will only reverse over the life of the hedge exposures.

Principal risk drivers
continued

Interest rate and market risk continued

In 2014, there was also a portfolio of fixed rate UK gilts and Supranational bonds where the pre-existing hedges using interest rate swaps did not meet the requirements for hedge accounting on transition to IFRSs and as a consequence we used the option available within IFRS to designate the bonds at fair value through profit and loss in order to reduce the accounting mismatch with the derivatives used to hedge the bonds. Changes in the fair value of the bonds and the hedging derivatives, and any differences between them, which are largely attributable to changes in the fair value of the bonds due to changes in their credit risk, are both reflected within the income statement as part of "Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss". The portfolio of bonds designated at "fair value through profit or loss" and the related interest rate swaps were all disposed of during the current period.

Analysis of interest and market risk

Asset-liability gap risk

Where possible we seek to match the interest rate structure of assets with liabilities, creating a natural hedge. Where this is not possible we will enter into interest rate swap transactions to convert the fixed rate exposures on loans and advances, customer deposits and available for sale securities into variable three month LIBOR liabilities.

Given timing differences and the price of hedging small gaps, it is not cost effective to have an absolute match of variable rate assets and liabilities. The risk exposure of the overall asset-liability interest rate profile is monitored against approved limits using changes to economic value of the balance sheet as a result of a modelled 2 per cent shift in the interest yield curve.

After careful consideration of our interest rate risk exposures, simulated VaR is no longer measured for risk management purposes. Our activities are relatively straightforward processes for managing retail or commercial banking products; simulated VaR, however, is best used for measurement of embedded optionalities and more complex portfolios.

Basis risk

Basis risk is where there is a mismatch in the interest rate reference base for assets and liabilities. When we enter into derivative contracts to swap fixed rate assets and liabilities into variable rate liabilities, the reference base is usually three month LIBOR. Certain lending products have interest rates which are based on the prevailing Bank of England Base Rate (BBR) and this different basis reference leads to basis risk.

We have a market risk policy in place which places limits on the net mismatch between base rate linked assets and liabilities; and seeks to manage the overall level of basis risk exposure by entering into basis swap agreements. As at 31 December 2015, the amount of the basis risk sensitivity measure, as described above, was £0.5 million (31 December 2014: £0.4 million).

Other market risks

We do not carry out proprietary trading or hold any positions in assets or equities which are actively traded.

We do, however, hold a portfolio of highly rated asset backed securities and a portfolio of liquid assets (primary gilts, Treasury bills and Supranational bonds) which are used for liquidity buffer purposes.

The interest rate risk on these liquid assets is considered as part of the asset-liability gap risk described. The instruments are also exposed to other forms of market risk e.g. credit spread risk. Prices are monitored on a day-to-day basis to ensure that we are aware of any material diminution in value. Formal monthly prices are subject to independent review and are reported to ALCO. We have repo facilities in place which can be used in the first instance to obtain liquidity when necessary, which will avoid the need to sell the liquidity buffer assets and so crystallise any price gain or loss due to market price movements.

The impact of a 2 per cent shift in the interest yield curve is shown in the table below:

	2015 £'000	2014 £'000
2% shift up of the yield curve:		
As at year end	**(5.5)**	(0.3)
Average of month end positions reported to ALCO	**(3.0)**	(2.3)
2% shift down of the yield curve:		
As at year end	**4.0**	(1.1)
Average of month end positions reported to ALCO	**1.3**	2.5

Capital risk

Capital risk is the risk that we have insufficient capital to cover regulatory requirements and/or growth plans.

Risk appetite

We aim to maintain a strong capital position in line with the capital risk appetite established by the Board. Our capital risk appetite reflects the desire to optimise the capital structure of the Group and efficiently utilise its capital resources in order to generate appropriate returns for shareholders.

We maintain capital levels consistent with our capital risk appetite, which is set to ensure that we:

- meet minimum regulatory capital requirements at all times;
- are able to achieve our strategic objectives including business growth plans;
- are able to withstand an adverse stress scenario and continue to meet our individual capital guidance ("ICG"); and
- provide assurance of our resilience to depositors, customers, shareholders and other key stakeholders.

Requirements

We operate under the CRD IV CRR regulatory framework as required by the Prudential Regulation Authority ("PRA").

Pillar 1 requirements

Pillar 1 capital requirements are based on prescribed risk calculations in line with Capital Requirements Regulation ("CRR"), EBA Single Rulebook and relevant PRA regulations. Under this framework, we hold Pillar 1 capital for credit risk, operational risk, market risk and Credit Valuation Adjustments ("CVA"). We calculate our credit and market risk Pillar 1 requirements using the standardised approaches. The operational risk Pillar 1 requirement is calculated under the Basic Indicator Approach ("BIA").

Under CRD IV, we must hold total capital equal to 8 per cent of our total risk weighted assets to cover our Pillar 1 capital requirements.

We are also subject to a number of common equity tier 1 ("CET1") capital buffers over and above the required minimum CET1, Tier 1 and Total Capital ratios. These capital buffers were implemented under CRD IV. The buffers applicable to us include the capital conservation buffer and the countercyclical buffer. The capital conservation buffer phase-in commences on 1 January 2016 when it is set at 0.625 per cent, such that a requirement of 2.5 per cent will be fully phased-in by January 2019.

Application of the Pillar 2 Framework

We have an established Internal Capital Adequacy Assessment Process ("ICAAP") which is conducted in accordance with CRD IV and PRA requirements. The ICAAP represents the aggregated view of the risks faced by the Group and is used by the Board and management to understand the level of capital required over the planning horizon to cover these risks and to withstand a range of adverse stress scenarios.

Key risks assessed under Pillar 2 include credit concentration risk, operational risk and interest rate risk in the banking book.

Following a review of our ICAAP assessment through its Supervisory Review and Evaluation Process ("SREP"), the PRA sets an Individual Capital Guidance ("ICG"), which supersedes Pillar 1 requirements and establishes the minimum level of regulatory capital we must maintain.

We also conduct capital stress testing and scenario analysis as part of our ICAAP assessment. We use the stress scenarios to size and carry a stress loss buffer which ensures we are able to withstand an adverse economic downturn over a five-year planning horizon. In addition, we identify management actions that could be taken to mitigate the impact of the stress on the capital position. These are aligned with our Recovery and Resolution Plan, which describes actions that can be taken to preserve capital if the stress scenario is more extreme than expected.

The stress testing conducted in our ICAAP forms the basis for the PRA buffer assessment. Following their review, the PRA sets a PRA buffer, which in combination with the CRD IV combined buffer is held to ensure we can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer ("CPB") with effect from 1 January 2016. The PRA has extended the CRD IV quality of capital requirements to the ICG. The PRA buffer has to be met fully with CET1 capital by 1 January 2019, subject to a phase-in from 1 January 2016, which is aligned with the phase-in of the conservation buffer.

Our capital base was in excess of the minimum required under the ICG at all points during the year.

Further details of our capital requirements and resources are provided in the annual Pillar III disclosures which are available on our investor relations website: www.investors.aldermore.co.uk

Mitigation and monitoring

We are governed by our Capital Planning and Management policy which establishes a framework for maintaining our current and prospective capital at an appropriate level under various scenarios. The policy describes the process for establishing the Group's capital risk appetite, which is approved by the Board and reviewed on an annual basis or more frequently if required.

We monitor current and forecast levels of capital against the capital risk appetite approved by the Board, and report the capital position to ALCO, the Risk Committee and the Board on a regular basis. The capital forecast forms an integral component of the annual budgeting process and is updated in line with changes to our business plan. The capital forecast incorporates the impact of forthcoming regulatory changes to help ensure we are well positioned to meet them when implemented.

Principal risk drivers

continued

Capital risk continued

Analysis of capital risk

We operated in line with our capital risk appetite as set by the Board and above its regulatory capital requirements throughout the year ended 31 December 2015.

As at 31 December 2015, our capital base was made up of £509.6 million of Tier 1 capital and £48.6 million of Tier 2 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the CRR, audited/verified reserves, and qualifying Additional Tier 1 capital issued in December 2014. Tier 2 capital relates to issued subordinated loan notes and collective impairment allowances.

Our capital resources as at the year end were as follows:

	2015 £m	2014 £m
Tier 1		
Share capital	**34.5**	23.7
Share premium account	**73.4**	–
Capital redemption reserve	**0.1**	–
Warrant reserve	**–**	2.2
Available for sale reserve[1]	**(1.0)**	–
Retained earnings	**352.6**	277.9
Less: intangible assets	**(24.0)**	(22.6)
Total Common Equity Tier 1 capital (CET1)	**435.6**	**281.2**
Additional Tier 1		
Additional Tier 1 – contingent convertible securities	**74.0**	73.7
Total Tier 1 capital	**509.6**	**354.9**
Tier 2 capital		
Subordinated notes	**38.1**	36.8
Collective impairment allowance	**10.5**	8.5
Total Tier 2 capital	**48.6**	**45.3**
Total capital resources	**558.2**	**400.2**

Regulatory capital has increased during 2015 due to the £75 million gross capital raised at IPO in March 2015, the exercise of the share warrants in September 2015 and the inclusion of the profit after tax for the year in retained earnings. This has been partially offset by the coupon paid on the Additional Tier 1 instrument in April 2015. Further details regarding the capital raised at IPO and as a result of the exercise of the share warrants are provided in Note 35.

Reconciliation of equity per statement of financial position to capital resources

	2015 £m	2014 £m
Equity per statement of financial position	**533.6**	378.9
Regulatory adjustments		
Add: subordinated notes	**38.1**	36.8
Add: collective impairment allowance	**10.5**	8.5
Less: available for sale reserve[1]	**–**	(1.4)
Less: intangible assets	**(24.0)**	(22.6)
Total capital resources	**558.2**	**400.2**

[1] With effect from 1 January 2015, the available for sale reserve is included in the Group's Common Equity Tier 1 capital.

The following shaded sections describe the operational and conduct risks to which we are exposed. The sections are shaded as both areas are unaudited. All other areas of the Risk report are covered by the external auditor's opinion on page 133.

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, and fraud and compliance risks.

Risk appetite

We aim to maintain robust operational systems and controls and seek to operate within an acceptable level of operational risk that enables execution of our business strategy and for risks to be taken without unacceptable losses or reputational impacts.

The operational risk appetite considers risk events, the assessment of internal controls as well as holding additional capital for certain operational risks.

Exposures

The key operational risks to the Group are:

- Business continuity – risk of inadequate business recovery and disaster recovery capability to recover from any operational disruption and continue to provide product or service delivery to customers
- Change management – inability to execute business process changes effectively
- Financial crime – third-party fraud against the Group including provision of false information
- Information security – inappropriate disclosure of personal or sensitive information, inappropriate access to internal data sources, and in particular cyber security threats to the Group and its customers as a result of attacks through the use of computer systems
- Information technology – risks to the availability, performance and capacity of IT systems/telephony/internet/networks
- Legal & regulatory - failure to identify, interpret or respond to legal or regulatory change, lack of contractual arrangements in place to protect the Group
- People – inability to attract, manage and retain competent employees to fulfil role requirements
- Process – ineffective design or execution of operational processes, payment or transaction processing failure
- Property – risks relating to provision of safe and secure working environments, and inadequate protection of physical assets, employees and customers against external threats
- Third-party suppliers – inappropriate supplier selection and contractual arrangements, or inadequate ongoing management of critical suppliers or material outsource partners

Mitigation

The management of operational risk is a key area of management focus and we currently adopt the Basic Indicator Approach ("BIA") to operational risk. In 2015, substantial focus was placed on reviewing and enhancing operational risk controls, as articulated in the Basel Committee on Banking Supervision criteria for the sound management of operational risk, which continues into 2016.

The Operational Risk Management Framework has two key objectives:

- Minimise the impact of losses suffered, from day-to-day operations (expected losses) and from extreme events (unexpected losses)
- Improve the effective management of the Group and protect its reputation and brand value

The prime responsibility for the management of operational risk and compliance with the Operational Risk Management Framework lies with business units and central functions. The Operational Risk function within Group Risk acts in a second line of defence capacity and provides oversight of and challenge to the operational risk profile, escalating issues as appropriate.

The Operational Risk oversight function is responsible for establishing and maintaining an appropriate Group-wide Operational Risk Management Framework and for overseeing the operational risk profile across the Group.

Senior management across the Group identify and assess operational risks within their respective areas and assess the effectiveness of key controls that mitigate those risks following the Risk & Control Self-Assessment process. This includes an assessment as to whether management actions are required to bring the risk within risk appetite, whether the level of risk is accepted, or whether escalation of the risk is required.

Operational risk event reporting is in place across the Group and corrective actions, and recoveries are tracked accordingly.

We have placed emphasis on ensuring that the IT infrastructure, performance, resilience, and security meet the ongoing needs of the business. In particular, significant investment in cyber risk controls to ensure that we maintain appropriate levels of controls to counter the increasing threat of cyber-crime across the banking and financial services industries.

Principal risk drivers
continued

Operational risk continued

We currently have a significant change agenda which includes the concurrent running of numerous projects. These projects include IT-based projects designed to ensure that our infrastructure remains modern and scaleable, to support our growth strategy. Therefore we are exposed to execution risk on these projects.

Mitigation to the risks arising from ongoing changes and project activity is through a robust project governance structure and delivery framework. This approach was used to manage a series of projects during the year and ensures there are appropriate controls in place covering scoping and planning, design, initiation, monitoring and risk assessment. Following completion, post-implementation reviews are held to ensure any process or project improvements which are identified are implemented for future projects.

Conduct risk

Conduct risk is the risk of causing unfair outcomes or detriment to our customers, regulatory censure and/or undermining market integrity as a result of our behaviour, decision-making, activities or processes. We extend the definition of "customer" to include both Retail and SME commercial customers (but exclude intermediaries and/other third parties) across all business segments, including both regulated and non-regulated activities, thereby applying our conduct risk policies to all lending and deposit-taking activities.

Risk appetite

We have a zero appetite for systemic unfair outcomes, which may result in significant detriment to our customers. Systemic unfair outcomes may arise from poor product design, poor sale processes or unacceptable operational practices which risk repeated or continual outcomes which are detrimental to customers.

Exposures

Whilst we have a zero appetite, we recognise that occasional failures in operational processes may occur, for example administration and processing errors or interruptions to IT systems. These occasional events may have an impact on customers, leading to customer detriment.

There is a risk that customers can suffer detriment due to actions, processes or products which originate from within the Group. Conduct risk can arise through the design of products that do not meet customers' needs, mishandling complaints where we have behaved inappropriately towards our customers, inappropriate sale processes and exhibiting behaviour that does not meet market or regulatory standards.

Customer detriment could affect our reputation, lead to loss of market share due to damage to our brand, may lead to customer redress payments and could lead to regulatory action and censure.

Monitoring and mitigation

In acknowledgement of the occasional events which may have an impact on customers, we have set a trigger and escalation framework around the detriment caused through such non-systemic process failings. We monitor and mitigate conduct risk by ensuring our products, services, business processes and procedures are designed to consistently deliver fair customer outcomes which are subject to ongoing assurance, monitoring, testing and reporting where we may be operating outside of risk appetite.

Conduct risk metrics and KPIs (which include among others, staff performance levels, training, customer feedback, complaints, product retention rates, cancellations, arrears levels and customer service standards) are in place to evidence fair outcomes, identify any emerging issues and document remedial actions.

Our recruitment, training and development programmes have a clear customer focus and reward mechanisms are aligned with fair customer outcomes. Escalation processes are in place to ensure any issues are addressed and key lessons understood and acted upon.

Monitoring and testing of customer processes and outcomes is undertaken within each business area and is supported by independent review and oversight through the Group Risk function.

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Statement of Directors' responsibilities in respect of the Annual Report and Accounts and the financial statements

The Directors are responsible for preparing the Annual Report and Accounts and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' Report, Remuneration Report and Corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Phillip Monks
Chief Executive Officer

9 March 2016

Independent auditor's report to the members of Aldermore Group PLC only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Aldermore Group PLC for the year ended 31 December 2015 set out on pages 137 to 186. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Impairment of loans and advances to customers

Refer to page 65 (Audit Committee Report), page 146 (accounting policy), page 151 (Use of estimates and judgements) and note 20 (financial disclosures)

The Risk – The impairment provision relating to the Group's loan portfolios requires the Directors to make significant judgements and assumptions over the recoverability of loan balances.

The Group performs an assessment of its loans for impairment as described in note 3(a). The loan provision is most sensitive to assumptions made when assessing the collective provision, in particular in respect of the probability of default and the emergence period. This is because the Group has limited historical experience to support the assumptions made due to the relatively unseasoned nature of its loan portfolios underwritten during a relatively benign economic period.

To assess the probability of default, the Group uses a credit bureau to provide it with probabilities of default based on all available credit data for comparable borrowers. As a result, these probabilities are then adjusted (in almost all cases downwards) to reflect the Group's actual borrowers and the nature of its lending. The adjustments ("scalars") are based on Group's internal data, with the scalars incorporating a buffer to reflect the fact the Group's own historic data is limited.

The emergence period is assessed based on loans for which the Group is able to reliably measure the time between the trigger event occurring and the loans being identified as impaired. As the Group has limited historical data available, particularly in Asset Finance, the estimated emergence period is adjusted upwards (in the form of an overlay) and is based on market insight.

The Group's individual provisions can also require judgement, particularly in SME Commercial Mortgages and Asset Finance, where the valuation of collateral can be difficult to establish due to its specialised nature; as well as the exit strategy adopted, which can significantly impact the timing and value of the cash flows.

Our response – our audit procedures included:

- We tested the design, implementation and operating effectiveness of key controls over the capture, monitoring and reporting of loans and advances to customers.
- We assessed the accuracy of the impairment model for collectively assessed loans, with assistance from our IT specialists, by re-performing a sample of calculations produced by the impairment model and compared the methodology used to our interpretation of the requirements of the relevant accounting standards.
- For loans assessed collectively for impairment we:
  - considered the competency, reputation and objectivity of the credit bureau that provides the probabilities of default;
  - critically considered the assumptions made in respect of the probabilities of default (inclusive of the scalars) and the emergence periods against our understanding of the Group as well as our knowledge of the wider market;
  - considered the consistency of the probabilities of default (inclusive of the scalars) and the emergence periods with the limited historic internal data available; and
  - considered the accuracy of previous estimates of the collective provision.
- For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the financial statements, we specifically challenged the Group's assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and reviewing latest correspondence and valuations.
- We benchmarked the Group's key metrics, such as arrears trends and provision coverage, to externally available data, with particular focus on similar lending.
- We also considered compliance with the relevant accounting standards including the adequacy of the Group disclosures in relation to impairment.

Independent auditor's report to the members of Aldermore Group PLC only continued

Income Recognition

Refer to page 65 (Audit Committee Report), page 144 (accounting policy), page 153 (Use of estimates and judgements) and note 5 (financial disclosures)

The Risk – Measuring interest income on loans and advances to customers under the effective interest rate method (Note 2(a)) requires the Directors to apply judgements, with the most critical being the expected life assumption. A net credit of £0.4 million was recognised in the income statement during the year as a result of a change in the expected life assumptions.

The Group has a number of portfolios (including organic and acquired loans) across a variety of sectors and products which results in a large number of expected life assumptions. The sensitivity to a change in expected life can vary greatly over the portfolios depending on the underlying borrower and the other parameters also included in the effective interest rate calculation such as reversionary interest rates at the end of the fixed term, transaction costs and discounts or premia in place at inception.

The expected life assumptions utilise repayment profiles which represent how customers are expected to repay. The Group has limited historical experience to support these profiles due to the relatively unseasoned nature of its lending. Consequently, the Group makes its expected life assumptions based on its forecasting process which takes into account historical data but also, for the forecast period, the Group's expertise and experience in the sector. As such, any change in the expected life assumptions depend on the Directors' assessment of whether there is any emerging experience or market information that indicates a different repayment profile and by how much. As the forecast profiles extend significantly into the future this creates a high level of estimation uncertainty. As a result, the later years of the repayment profiles are removed when calculating any change in estimate because they are not considered sufficiently reliable.

In addition, repayment profiles will be affected by future changes in the market, for example, interest rates and the ability of borrowers to remortgage. This has the greatest impact on the acquired loan portfolios because repayments are linked to base rate with minimal incentive for the borrowers to remortgage until there is a change in interest rates. This means any change in the repayment profile causes the discount received on purchase of the acquired portfolios to be adjusted and spread over the revised expected life.

Our response – our audit procedures included:

- We agreed a sample of data inputs used to measure interest income, including the loans split by product type, to reports from the Group reporting system
- We tested application controls, with the involvement of IT specialists, over the completeness and accuracy of the reports
- We assessed the accuracy of the models by re-performing a sample of calculations and comparing the methodology used to our interpretation of the requirements of the relevant accounting standard
- We challenged the appropriateness of key assumptions, including the expected lives, by comparing these to the available historical customer trends within the Group, internal forecasts, and to our own expectations based on our knowledge of the Group and experience of the industry in which it operates. This included an assessment as to how far forward the forecast expected life profiles should be considered
- For comparable lending and where available, we benchmarked the Group's expected life assumptions to peer data and/or market information
- We also considered the adequacy of the Group's disclosures about the changes in estimate that occurred during the period and the sensitivity disclosure across the key loan books

Recoverability of the goodwill attributable to the Invoice Finance business (£4.1 million)

Refer to page 66 (Audit Committee Report), page 149 (accounting policy), page 154 (Use of estimates and judgements) and note 24 (financial disclosures)

The Risk – The Group tests the recoverable amount of the carrying value of the Invoice Finance cash generating unit ("CGU") annually for impairment (or sooner if there are indications of impairment). An impairment loss is recognised when its carrying amount exceeds its recoverable amount (which is the higher of its value in use ("VIU") and its fair value less costs of disposal ("FVLCD")). As explained in note 24, impairment testing requires the Directors to make significant assumptions to assess the recoverable amount.

A refocusing of the Invoice Finance business during the year has led to the Group revising its forecasts whilst the impact is fully assessed. This has significantly impacted the future cash flow assumptions used within the VIU calculation and as a result, the VIU calculation is highly sensitive to the following assumptions, net fee income, impairment losses on loans and advances to customers, indirect costs allocated to the CGU and the post tax discount rate.

If the assumptions included in the revised forecasts approved by the Board are used to calculate the VIU, then the goodwill would have been fully impaired. However, as explained in note 24, the Directors have recognised no impairment against the carrying value of the goodwill allocated to the Invoice Finance CGU. This is because the FVLCD have been determined to be greater than the carrying amount. This has required the Directors to make significant judgements and assumptions over the comparability of the CGU with recent disposals in the market.

Our response – our audit procedures included:

- We assessed the appropriateness of the goodwill impairment model, with assistance from our Valuation specialists, and compared the methodology used to our interpretation of the requirements of the relevant accounting standards and market practice
- We critically evaluated the cash flow forecasts and challenged the key assumptions including, net fee income, loan impairment, the level of indirect costs allocated to the CGU and that the post tax discount rate was reflective of the specific risks associated with the business to the extent such risks were not already reflected in the cash flow forecasts
- We compared the cash flow forecasts with the latest Board approved budget
- We evaluated the historical accuracy of the Group's forecasting ability by comparing the budget used in the prior years against actual performance of the business in the current year
- We critically evaluated recent disposals in this sector and their comparability with the Invoice Finance CGU
- We challenged the valuation methodology used by the Directors to determine the FVLCD and used alternative valuation techniques, including a Price to Earnings basis, taking into account reasonable levels of costs of disposal
- We challenged the recoverable amount by performing sensitivity analysis on both the VIU and FVLCD bases of calculation as well as assessing the differences between the VIU and FVLCD
- We also considered the adequacy of the Group's disclosures

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £3.0 million, determined with reference to a benchmark of Group profit before tax of £94.7 million, of which it represents 3.2 per cent.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.15 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100 per cent of total Group revenue, Group profit before tax, and total Group assets.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on page 67 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of risk management, internal control and viability reporting on page 43, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2018; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Independent auditor's report to the members of Aldermore Group PLC only continued

6 We have nothing to report in respect of the matters on which we are required to report by exception continued

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration Report to be audited 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.
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 79 and 43 respectively, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 44 relating to the Company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 132, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mike Peck

Michael Peck (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

9 March 2016

Consolidated income statement

For the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
Interest income	5	**300.4**	227.8
Interest expense	6	**(101.5)**	(87.6)
Net interest income		**198.9**	**140.2**
Fee and commission income	7	**25.2**	26.4
Fee and commission expense	8	**(7.0)**	(7.8)
Net expense from derivatives and other financial instruments at fair value through profit or loss	9	**(2.1)**	(4.1)
Gains on disposal of available for sale debt securities		**2.3**	2.9
Other operating income	10	**7.4**	7.4
Total operating income		**224.7**	**165.0**
Provisions	32	**(2.3)**	(3.6)
Costs in respect of initial public offering	11	**(4.1)**	(6.0)
Other administrative expenses		**(107.9)**	(91.6)
Administrative expenses	11	**(114.3)**	(101.2)
Depreciation and amortisation	15	**(5.3)**	(3.9)
Operating profit before impairment losses		**105.1**	**59.9**
Impairment losses on loans and advances to customers	20	**(10.4)**	(9.6)
Profit before taxation		**94.7**	**50.3**
Taxation	17	**(16.4)**	(11.9)
Profit after taxation – attributable to equity holders of the Group		**78.3**	**38.4**
Basic earnings per share (pence)	18	**22.7**	13.0
Diluted earnings per share (pence)	18	**22.6**	12.9

The notes and information on pages 142 to 181 form part of these financial statements.

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

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Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit after taxation	**78.3**	**38.4**
Other comprehensive (expense)/income:		
Items that may subsequently be transferred to the income statement:		
Available for sale debt securities:		
Fair value movements	**(0.9)**	3.5
Amounts transferred to the income statement	**(2.1)**	(2.5)
Taxation	**0.6**	(0.2)
Total other comprehensive (expense)/income	**(2.4)**	**0.8**
Total comprehensive income attributable to equity holders of the Group	**75.9**	**39.2**

The notes and information on pages 142 to 181 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Assets			
Cash and balances at central banks		**105.3**	79.6
Loans and advances to banks	19	**94.2**	117.4
Debt securities	21	**606.1**	509.7
Derivatives held for risk management	22	**6.7**	8.2
Loans and advances to customers	20	**6,144.8**	4,801.1
Fair value adjustment for portfolio hedged risk		**1.1**	7.2
Other assets	26	**1.4**	3.3
Prepayments and accrued income	27	**5.1**	6.7
Deferred taxation	17	**16.4**	6.6
Property, plant and equipment	25	**3.4**	2.8
Intangible assets	24	**24.0**	22.6
Total assets		**7,008.5**	**5,565.2**
Liabilities			
Amounts due to banks	28	**405.1**	305.9
Customers' accounts	29	**5,742.0**	4,459.0
Derivatives held for risk management	22	**35.4**	54.2
Fair value adjustment for portfolio hedged risk		**(0.8)**	1.5
Other liabilities	30	**21.9**	18.6
Accruals and deferred income	31	**25.7**	21.1
Current taxation		**12.5**	8.1
Provisions	32	**1.1**	2.0
Debt securities in issue	33	**193.9**	279.1
Subordinated notes	34	**38.1**	36.8
Total liabilities		**6,474.9**	**5,186.3**
Equity			
Share capital	35	**34.5**	23.7
Share premium account	35	**73.4**	–
Contingent convertible securities	37	**74.0**	73.7
Capital redemption reserve		**0.1**	–
Warrant reserve		**–**	2.2
Available for sale reserve		**(1.0)**	1.4
Retained earnings		**352.6**	277.9
Total equity		**533.6**	**378.9**
Total liabilities and equity		**7,008.5**	**5,565.2**

The notes and information on pages 142 to 181 form part of these financial statements.

These financial statements were approved by the Board and were signed on its behalf by:

Phillip Monks
Director

9 March 2016
Registered number: 06764335

James Mack
Director

9 March 2016

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Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
Cash flows from operating activities			
Profit before taxation		**94.7**	50.3
Adjustments for non-cash items and other adjustments included within the income statement	38	**9.1**	(9.4)
(Increase) in operating assets	38	**(1,317.9)**	(1,487.8)
Increase in operating liabilities	38	**1,368.1**	962.8
Income tax paid		**(20.2)**	(9.7)
Net cash flows generated/(used in) from operating activities		**133.8**	**(493.8)**
Cash flows from investing activities			
Purchase of debt securities		**(414.0)**	(531.9)
Proceeds from sale and maturity of debt securities		**279.0**	346.2
Capital repayments of debt securities		**32.9**	48.2
Interest received on debt securities		**10.5**	11.2
Purchase of property, plant and equipment and intangible assets		**(7.3)**	(5.4)
Net cash (used in) investing activities		**(98.9)**	**(131.7)**
Cash flows from financing activities			
Proceeds from issue of shares		**75.0**	–
Issuance costs of Initial Public Offering		**(2.7)**	–
Proceeds from exercise of warrants		**5.6**	–
Capital repayments on debt securities issued		**(85.7)**	(52.8)
Debt securities issuance costs		**–**	(2.1)
Proceeds from issue of debt securities		**–**	333.3
Issuance costs of contingent convertible securities		**–**	(1.5)
Proceeds from issue of contingent convertible securities		**–**	75.1
Coupon paid on contingent convertible securities		**(3.5)**	–
Interest paid on debt securities		**(3.0)**	(2.5)
Interest paid on subordinated notes		**(5.2)**	(5.2)
Net cash from financing activities		**(19.5)**	**344.3**
Net increase/(decrease) in cash and cash equivalents		**15.4**	**(281.2)**
Cash and cash equivalents at start of the year	38	**134.0**	415.2
Movement during the year		**15.4**	(281.2)
Cash and cash equivalents at end of the year	38	**149.4**	**134.0**

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Note	Share capital £m	Share premium account £m	Contingent convertible securities £m	Capital redemption reserve £m	Warrant reserve £m	Available for sale reserve £m	Retained earnings £m	Total £m
Year ended 31 December 2015									
As at 1 January		**23.7**	**–**	**73.7**	**–**	**2.2**	**1.4**	**277.9**	**378.9**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(2.4)**	**78.3**	**75.9**
Transactions with equity holders:									
– Capital reorganisation prior to IPO	35	**6.3**	**–**	**–**	**0.1**	**–**	**–**	**(6.4)**	**–**
– Share issue proceeds from IPO	35	**3.9**	**71.1**	**–**	**–**	**–**	**–**	**–**	**75.0**
– Share issuance costs		**–**	**(2.7)**	**–**	**–**	**–**	**–**	**–**	**(2.7)**
– Share-based payments, including tax reflected directly in retained earnings	36	**–**	**–**	**–**	**–**	**–**	**–**	**3.4**	**3.4**
– Coupon paid on contingent convertible securities, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**(2.8)**	**(2.8)**
– Tax credit on AT1 issue costs		**–**	**–**	**0.3**	**–**	**–**	**–**	**–**	**0.3**
– Exercise of share warrants	35	**0.6**	**5.0**	**–**	**–**	**(2.2)**	**–**	**2.2**	**5.6**
As at 31 December		**34.5**	**73.4**	**74.0**	**0.1**	**–**	**(1.0)**	**352.6**	**533.6**
Year ended 31 December 2014									
As at 1 January		**23.7**	**237.3**	**–**	**–**	**2.2**	**0.6**	**1.5**	**265.3**
Total comprehensive income		–	–	–	–	–	0.8	38.4	39.2
Transactions with equity holders:									
– Reduction in share premium		–	(237.3)	–	–	–	–	237.3	–
– Issuance of contingent convertible securities	37	–	–	75.1	–	–	–	–	75.1
– Issuance costs	37	–	–	(1.4)	–	–	–	–	(1.4)
– Share-based payments		–	–	–	–	–	–	0.7	0.7
As at 31 December		**23.7**	**–**	**73.7**	**–**	**2.2**	**1.4**	**277.9**	**378.9**

During the year ended 31 December 2015, the Company completed its Initial Public Offering ("IPO"). The Company also undertook a capital reorganisation in advance of admission to the London Stock Exchange ("LSE"). Further details of both transactions are provided in Note 35.

Notes to the consolidated financial statements

1. Basis of preparation

a) Accounting basis

The consolidated financial statements of Aldermore Group PLC (the "Company") and its subsidiary undertakings (together, the "Group") include its principal subsidiary, Aldermore Bank PLC (the "Bank").

Both the Group consolidated financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), and as adopted by the European Union ("EU"). For IAS 39 "Financial Instruments: Recognition and Measurement" the exclusion regarding hedge accounting (the so-called "carve out") decreed by the EU on 19 November 2014 is taken into account.

By including the Company financial statements here together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The principal activity of the Company is that of an investment holding company.

Note on rounding

In preparing the 2015 financial statements, the 2014 comparative numbers were restated from the original £ thousands to £ millions to one decimal place. As a result of rounding issues arising from this change, the presentation of some of the comparative numbers may differ slightly to the 2014 financial statements. All percentage movements as shown in the document are calculated using underlying figures.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company (jointly referred to as the Group) made up to 31 December each year.

Control is achieved when the Company:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation.

Securitisation vehicles

The Group has securitised certain loans and advances to customers by the transfer of the beneficial interest in such loans to securitisation vehicles (see Note 20). The securitisation enabled the subsequent issue of debt securities by a securitisation vehicle to investors who have the security of the underlying assets as collateral. The securitisation vehicles are fully consolidated into the Group's accounts as the Group has control as defined above.

The transfer of the beneficial interest in these loans to the securitisation vehicle are not treated as sales by the Group. The Group continues to recognise these assets within its own statement of financial position after the transfer as it continues to retain substantially all the risks and rewards from the assets.

c) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority ("PRA").

d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the financial statements:

- Derivative financial instruments are measured at fair value through profit or loss
- Debt securities designated at fair value through profit or loss
- Available for sale debt securities are valued at fair value through other comprehensive income
- Fair value adjustments for portfolios of financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships, which reflect changes in fair value attributable to the risk being hedged

e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Note 3.

f) Presentation of risk disclosures

The disclosures required under IFRS 7 "*Financial instruments: disclosures*" have been included within the audited sections of the Risk Report on page 105. Where information is marked as audited, It is incorporated into these financial statements by this cross reference and it is covered by the Independent Auditors report on page 133.

g) Future accounting developments

All standards or amendments to existing standards which have been endorsed by the EU and which are available for early adoption for annual periods commencing on or after 1 January 2015 have been adopted by the Group.

There are also a number of standards, amendments and interpretations which have been issued by the IASB but which have not yet been endorsed by the EU. The most significant of these is IFRS 9: "*Financial instruments*", the planned replacement for IAS 39: "*Financial Instruments: recognition and measurement*".

IFRS 9 introduces new requirements for the classification and measurement of financial assets, hedge accounting and the impairment of financial assets. Under IFRS 9 financial assets are classified and measured based on the business model under which they are held and the characteristics of their contractual cash flows. In addition, IFRS 9 is replacing the incurred loss approach to impairment of IAS 39 with one based on expected losses, and is replacing the rules based hedging requirements of IAS 39 with new requirements that align hedge accounting more closely with risk management activities.

IFRS 9, including the final version of the requirements in respect of impairment, was issued on 24 July 2014. The IASB has decided to apply IFRS 9 for annual periods beginning on or after 1 January 2018. IFRS 9 is required to be applied retrospectively, but prior periods need not be restated. IFRS 9, including its commencement date, will be subject to endorsement by the EU.

In addition, the IASB has commenced a separate project for macro hedging, which is exploring a new way to account for the dynamic risk management of open portfolios and is likely to be of future relevance to the Group. That project is still at the Discussion Paper stage and as yet the likely final form of any amendments to IFRS 9, or their required implementation date, is not clear. The adoption of IFRS 9 is expected to have a material impact on the Group's financial statements. Work is ongoing to quantify the impact.

It is not anticipated that changes in approach to impairment would have a significant impact on the Group's impairment provisions in respect of specifically impaired loans, as the current impairment provisions on such loans are based on estimates of expected losses. In respect of other loans against which collective provisions are raised, our current approach, as explained in Note 3, is to estimate probabilities of default for the next 12 months. This approach is similar to that which will be required under IFRS 9 except in order to measure incurred losses, as required by IAS 39, management then adjust the calculated 12 month expected loss for an emergence period reflective of the underlying asset enabling management to reflect only the impairment considered to have been incurred at the reporting date. In addition, for those loans where there has been a credit deterioration, although the loans are not considered to be yet impaired, IFRS 9 will require the recognition of full life expected losses. Whilst management's current approach to calculating collective impairment provisions (as described above) has similarities to the approach required under IFRS 9, it should be noted that IFRS 9 is a complex accounting standard and management's detailed modelling approach under IFRS 9 will require further investigation and consideration before implementation.

As described above, under IFRS 9, impairment provisions on all financial assets are recognised based on either 12 month expected losses or lifetime expected losses. This will result in the acceleration of the recognition of impairment provisions and will lead to more volatile impairment charges in the income statement. However, whilst IFRS 9 represents a significant change compared to IAS 39, the quantum of impairment losses recorded against any one loan over the life of the loan will not change as IFRS 9 alters only the timing of recognition of the impairment losses.

Notes to the consolidated financial statements continued

1. Basis of preparation continued

The IASB has also issued IFRS 15: "*Revenue from contracts with customers*". The impact for the Group is currently being assessed. The Standard will be effective for annual reporting periods beginning on or after 1 January 2018, with retrospective application subject to EU endorsement.

On 13 January 2016, the IASB issued IFRS 16: "*Leases*" as a replacement for IAS 17: "*Leases*". The Standard will be effective for annual reporting periods beginning on or after 1 January 2019, with early application being permitted for companies that also apply IFRS 15, subject to EU endorsement. The impact for the Group is currently being assessed. A significant change will be the inclusion of a "right of use asset" within the statement of financial position in respect of the benefit the Group receives where it leases assets under operating leases, together with a financial liability in respect of the obligation to make operating lease payments. Within the income statement, an operating charge will be reflected in respect of the use of the asset together with interest expense in relation to the financing, replacing the current operating lease charges included in administrative expenses.

2. Significant accounting policies

a) Interest income and expense

Interest income and expense are recognised in the income statement on an effective interest rate ("EIR") basis. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider the assets' future credit losses.

At each reporting date, management makes an assessment of the expected remaining life of its financial assets, including any acquired loan portfolios, and where there is a change in those assessments the remaining amount of any unamortised discount or premiums is adjusted so that the interest income continues to be recognised prospectively on the amortised cost of the financial asset at the original EIR. The adjustment arising is recognised within interest income in the income statement for the current period.

The calculation of the EIR includes all transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premium arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis
- Interest on available for sale debt securities calculated on an EIR basis
- Interest income recognised on finance leases where the Group acts as the lessor (see Note 2(o))
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk, together with changes in the fair value of the hedged item attributable to the hedged risk
- Interest income on financial assets designated at fair value so as to avoid an accounting mismatch with derivatives held as an "economic" hedge and the matching interest component of the derivative

Interest income includes amounts the Group charges its invoice finance clients as interest each day on the balance of their outstanding loans. This interest income is recognised in the income statement on an EIR basis.

b) Fee and commissions and other operating income

i. Fee and commission income

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

Within the Invoice Finance segment of the Group, customers are charged a factoring fee for managing their sales ledgers. This fee is recognised within fee and commissions income over the period in which the ledger management service is provided. Other fee and commission income includes fees charged for mortgage services, arrears, and insurance commission receivable. Fee income is recognised as the related services are performed.

Arrangement fees and others fees relating to loans and advances to customers are included within interest income as part of the EIR calculation.

ii. Fee and commission expense

Fee and commission expense predominantly consists of introducer commissions, legal and valuation fees and company search fees. Where these fee and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable they are recognised within fee and commission expense as the services are received.

iii. Other operating income

Other operating income predominantly arises from the provision of invoice finance services and includes disbursements and collect out income. This income is recognised within other operating income when the service is provided.

c) Net income from derivatives and other financial instruments at fair value through profit or loss

Net income from derivatives and other financial instruments at fair value through profit or loss relates to non trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement and financial assets designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest and foreign exchange differences, with the exception of interest income on financial assets designated at fair value and the matching interest component of the hedging derivatives. The assets designated at fair value are treated in this manner so as to avoid an accounting mismatch with derivatives held as an "economic" hedge.

d) Financial instruments – recognition and derecognition

i. Recognition

The Group initially recognises loans and advances, amounts due to banks, customer accounts and subordinated notes issued on the date that they are originated.

Regular way purchases and sales of debt securities and derivatives are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

ii. Derecognition

Financial assets are derecognised when they are qualifying transfers and:

- The rights to receive cash flows from the assets have ceased; or
- The Group has transferred substantially all the risks and rewards of ownership of the assets

When a financial asset is derecognised in its entirety, the difference between the carrying amount, the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss, that had been recognised in other comprehensive income, is recognised in the income statement.

When available for sale financial assets are derecognised, the cumulative gain or loss, including that previously recognised in reserves, is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through the income statement.

iii. Funding for Lending Scheme ("FLS")

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the FLS are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The treasury bills that the Group borrows against the transferred assets are not recognised in the statement of financial position, but where they are sold to third parties by the Group under agreements to repurchase, the cash received is recognised as an asset within the statement of financial position together with the corresponding obligation to return it which is recognised as a liability at amortised cost within "Amounts due to banks". Interest is accrued over the life of the agreement on an EIR basis.

e) Financial assets

i. Overview

The Group classifies its financial assets (excluding derivatives) as either:

- Loans and receivables
- Available for sale
- Financial assets designated at fair value through profit or loss

ii. Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to banks and customers.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

iii. Available for sale

Available for sale financial assets are debt securities that are not held for trading and are intended to be held for an indefinite period of time. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current quoted bid prices in active markets for identical assets that the Group can access at the reporting date. Where there is no active market or the debt securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment losses are recognised in the income statement. Other fair value changes are recognised in other comprehensive income and presented in the available for sale reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

iv. Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss are assets which have been designated as such to eliminate or significantly reduce a measurement and recognition inconsistency or where management specifically manages an asset or liability on that basis. These assets are measured at fair value based on current quoted bid prices in active markets for identical assets that the Group can access at the reporting date. Gains and losses arising from changes in the fair value are brought into the income statement within "Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss" as they arise. The Group disposed of all of its financial assets designated at fair value through profit or loss during the year.

f) Financial liabilities

i. Overview

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs for financial liabilities other than derivatives. Financial liabilities, other than derivatives, are subsequently measured at amortised cost.

ii. Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the EIR.

iii. Subordinated notes

Subordinated notes issued by the Group are assessed as 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 EIR method after taking account of any discount or premium on the issue and directly attributable costs that are an integral part of the EIR. The amount of any discount or premium is amortised over the period to the expected call date of the instrument.

All subordinated notes issued by the Group are classified as financial liabilities. The warrants attached to the subordinated notes, which gave the holders the right to subscribe for shares in Aldermore Group PLC (the "Parent Company"), were included in equity as a warrant reserve at the residual value attributable to the warrants, after deducting from the face value of the instrument, as a whole, the amounts determined separately as the fair value of the subordinated notes at the date of issue. All the warrants were exercised during the year as described in Note 35.

g) Impairment – financial assets

i. Assessment

At each reporting date the Group assesses its financial assets not at fair value through profit or loss as to whether there is objective evidence that the assets are impaired. Objective evidence that financial assets are impaired may include:

- Significant financial difficulty of the borrower
- A breach of contract such as default or delinquency in interest or principal repayments
- The granting of a concession for economic or legal reasons relating to the borrower's financial condition that the Group would not otherwise grant
- Indications that a borrower or issuer will enter bankruptcy or other financial reorganisation
- The disappearance of an active market for a debt security because of the issuer's financial difficulties
- National or local economic conditions that correlate with defaults within groups of financial assets e.g. increases in unemployment rates or decreases in property prices relating to the collateral held

The Group considers evidence for the impairment of loans and advances at both the individual asset and collective level. In certain cases where a borrower is experiencing significant financial distress, the Group may use forbearance measures to assist them and mitigate against default. Any forbearance measures agreed are assessed on a case by case basis.

ii. Scope

The Group considers evidence of impairment of financial assets at both an individual asset and collective level.

Individual impairment

All individually significant financial assets are assessed for individual impairment using a range of risk criteria. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets are considered to be individually impaired where they meet one or more of the following criteria:

- A default position equivalent to 3 or more missed monthly repayments (or a quarterly payment which is over 30 days past due)
- Litigation proceedings have commenced
- Act of insolvency, e.g. bankruptcy, administration or liquidation, or appointment of an LPA Receiver
- Invoice finance accounts are classified as in default when there is cessation of additional advances and/or when the facility is in collect out
- Where there is evidence of fraud

Collective impairment

All financial assets that are not found to be individually impaired are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

iii. Measurement

Impairment provisions on financial assets individually identified as impaired are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR.

When assessing collective impairment, the Group estimates incurred losses using a statistical model which multiplies the probability of default ("PD") for each class of customer (using external credit rating information) by the loss given default ("LGD") multiplied by the estimated exposure at default ("EaD") to arrive at the projected expected loss. An emergence period is subsequently applied to the projected expected loss to determine the estimated level of incurred losses at each reporting date. In addition an adjustment is made to discount the imputed cash flows from the model at the assets' original EIR to arrive at the recorded collective provisions. The model's results are adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to differ from those suggested by historical modelling.

In assessing the level of collective impairment provisions, the Group uses statistical modelling of historical trends of probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes to ensure they remain appropriate.

Impairment losses are recognised immediately in the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of a financial asset is deemed uncollectible or forgiven after all collection procedures have been completed and the amount of the loss has been determined. Write-offs are charged against amounts previously reflected in the allowance account or directly to the income statement. Any additional amounts recovered after a financial asset has been previously written off are offset against the write-off charge in the income statement once they are received. Allowances for impairment losses are released at the point when it is deemed that, following a subsequent event, the risk has reduced such that an allowance is no longer required.

Interest on impaired financial assets is recognised at the same EIR as applied at the initial recognition of the financial asset but applied to the book value of the financial asset net of any individual impairment allowances that have been raised.

iv. Impairment of financial assets classified as available for sale

Impairment losses on available for sale debt securities are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to the income statement. The cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in the income statement. Changes in impairment provisions attributable to the effective interest method are reflected as a component of interest income.

If in a subsequent period the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed.

h) Financial instruments – fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non performance risk.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimises the use of unobservable inputs. The chosen valuation techniques incorporate all the factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration received or given.

If an asset measured at fair value has a bid and an offer price, the Group measures assets and long positions at a bid price and liabilities at an offer price.

i) Derivative financial instruments

The Group enters into derivative transactions only for the purpose of reducing exposures to fluctuations in interest rates, exchange rates and market indices; they are not used for proprietary trading purposes.

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties. As the Group's derivatives are covered by master netting agreements with the Group's counterparties, with any net exposures then being further covered by the payment or receipt of periodic cash margins, the Group has used a risk free discount rate for the determination of their fair values.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the current legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within "Amounts due to banks". Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in "Loans and advances to banks".

j) Hedge accounting

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective, the strategy in undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated.

i. Fair value hedge accounting for portfolio hedges of interest rate risk

The Group applies fair value hedge accounting for portfolio hedges of interest rate risk. As part of its risk management process, the Group identifies portfolios whose interest rate risk it wishes to hedge. The portfolios comprise either only assets or only liabilities. The Group analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates as the hedged item an amount of the assets or liabilities from each portfolio that it wishes to hedge.

The Group measures monthly the change in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as a separate item, "Fair value adjustment for portfolio hedged risk", either within assets or liabilities as appropriate. This amount is amortised on a straight-line basis to the income statement over the remaining average life of the original hedge relationship, from the month in which it is first recognised.

The Group measures the fair value of each hedging instrument monthly. The value is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

k) Embedded derivatives

A derivative may be embedded in another instrument, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on the statement of financial position with "Derivatives held for risk management" at fair value. Movements in fair value are posted to the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular asset or liability.

Embedded derivatives contained within equity instruments are considered separately. The embedded derivative on the contingent convertible securities is not separated as the Group has an accounting policy not to separate a feature that has already been considered in determining that the entire issue is a non-derivative equity instrument.

l) Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost on transition to IFRSs, less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset or costs incurred in bringing the asset to use. Depreciation is provided on all property, plant and equipment, at rates calculated to write-off the cost of each asset to realisable values on a straight-line basis over its expected useful life, as follows:

- Fixtures, fittings and equipment — five years
- Computer hardware — one to five years

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

m) Intangible assets

i. Goodwill

Goodwill is stated at deemed cost upon transition to IFRSs, less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment on an annual basis. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

ii. Computer systems

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Software is amortised on a straight-line basis in the income statement over its useful life, from the date that it is available for use. The estimated useful life of software is one to five years.

n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

i. Goodwill

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to operating segments. An impairment loss is recognised if the carrying amount of a segment is less than its recoverable amount.
The recoverable amount of a segment is the greater of its value in use and its fair value less costs to sell. Value in use is calculated from forecasts by management of post tax profits for the subsequent five years, and a residual value, discounted at a risk adjusted interest rate appropriate to the cash generating unit. Fair value is determined through review of precedent transactions for comparable businesses.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

ii. Intangible assets

If impairment is indicated, the asset's recoverable amount (being the greater of value in use and fair value less costs to sell) is estimated. Value in use is calculated by discounting the future cash flows from continuing use of the asset. If the carrying value of the asset is less than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement.

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.

o) Assets leased to customers

Leases of assets to customers are finance leases as defined by IAS17. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised, within interest income in the income statement, over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return ignoring tax cash flows.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

p) Assets leased from third parties

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 income statement, within administrative expenses or staff costs (in the case of company cars), on a straight-line basis over the period of the lease. The Group holds no assets under finance leases.

q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Group has an obligation to contribute to the Financial Services Compensation Scheme ("FSCS") to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Group has an obligation in accordance with IAS 37. The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits. The FSCS provision is recognised at the commencement of the scheme year in line with IFRIC 21.

r) 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 using the exchange rates ruling at the balance sheet date. Exchange differences are charged or credited to the income statement.

s) Taxation

Taxation comprises current and deferred tax, and is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future
- Taxable temporary differences arising on the initial recognition of goodwill

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

t) Pension costs

The cost of providing retirement benefits is charged to the income statement 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 Group has no defined benefit pension scheme.

u) Shareholders' funds

i. Capital instruments

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Company to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, or where the instrument will or may be settled in the Company's own equity instruments but includes no obligation to deliver a variable number of the Company's own equity instruments, then it treated as an equity instrument. Accordingly, the Company's share capital and contingent convertible securities are presented as components of equity within shareholders' funds. Any dividends, interest or other distributions on capital instruments are recognised in equity. Any related tax is accounted for in accordance with IAS 12.

ii. Share premium

Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of the shares issued.

v) Capital raising costs

Costs directly incremental to the raising of share capital are netted against the share premium account. Costs directly incremental to the raising of convertible securities included in equity are offset against the proceeds from the issue within equity.

w) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

x) Investment in group undertakings

Investments in group undertakings are initially recognised at cost. At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired. If such an indication exists, the Company estimates the investment's recoverable amount. The investment is written down to the recoverable amount if this is lower than its carrying value. The impairment loss is recognised in the income statement.

y) Warrants

The Company's subsidiary, Aldermore Bank PLC, previously issued subordinated notes with attached warrants. The warrants gave the holders the right to subscribe for shares in the Company. These warrants were exercised during the year resulting in an increase in share capital and share premium. On the exercise of the warrants, the warrant reserve was re-classified to retained earnings.

z) Share-based payment transactions

Employees (including Senior Executives) of the Group may receive remuneration in the form of equity settled share-based payment transactions to reward strong long-term business performance and to incentivise growth for the future.

The grant date fair value is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The grant date fair value is determined using valuation models which take into account the terms and conditions attached to the awards. Inputs into valuation models may include the risk free interest rate, the expected volatility of the Company's share price and other various factors which relate to performance conditions attached to the awards.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market performance conditions or non-vesting conditions the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Within the Parent Company stand alone financial statements the share-based payment transactions are recognised as an investment in Group undertakings with an associated credit to the share-based payment reserve.

3. Use of estimates and judgements

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to loan impairment provisions, EIRs, deferred tax, share-based payments and Invoice Finance goodwill.

a) Loan impairment provisions

Loan portfolios across all segments of the Group are reviewed on at least a monthly basis to assess for impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and by the reporting date. The calculation of impairment loss is management's best estimate of losses incurred in the portfolio at the balance sheet date and reflects expected future cash flows based on both the likelihood of a loan or advance being written off and the estimated loss on such a write-off.

At 31 December 2015, gross loans and advances to customers totalled £6,165.5 million (31 December 2014: £4,823.6 million) against which impairment allowances of £20.7 million (31 December 2014: £22.5 million) had been made (see Note 20). The Group's accounting policy for loan impairment provisions on financial assets classified as loans and receivables is described in Note 2(g). Impairment allowances are made up of two components, those determined individually against specific assets and those determined collectively. Of the impairment allowance of £20.7 million at 31 December 2015, £10.2 million (31 December 2014: £14.0 million) relates to individual provisions and £10.5 million (31 December 2014: £8.5 million) relates to collective provisions.

Notes to the consolidated financial statements continued

3. Use of estimates and judgements continued

The section below provides details of the critical elements of judgement within the loan impairment calculations. Less significant judgements are not disclosed.

i. Individual

Individual impairment allowances are established against the Group's individually significant financial assets that are deemed by management to be impaired. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions, the financial status of the customer and the realisable value of the security held. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

ii. Collective

The collective impairment allowance is also subject to estimation uncertainty and in particular is sensitive to changes in economic and credit conditions, including the interdependency of house prices, unemployment rates, interest rates, borrowers' behaviour and consumer bankruptcy trends. All of these factors can influence the key assumptions detailed below. It is, however, inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance.

The key assumptions used in the collective model are: probability of default ("PD"), the loss given default ("LGD") and the loss emergence period ("EP") (the time between a trigger event occurring and the loans being identified as individually impaired). An additional element is included within the collective provision to reflect fraud losses that are incurred as at the reporting date but are yet to be individually identified. The Group uses two types of underlying models to calculate the LGD, depending on the availability of default data. For the mortgage businesses, the models use a range of key assumptions to derive an expected LGD. The key assumptions are based on management expertise and are validated against available data. For Asset Finance and Invoice Finance, the models are empirical based models which mainly use past lost data to determine the risk drivers behind the loss. This allows the portfolios to be segmented into homogenous buckets to derive an LGD. Further details in respect of assumptions and details of the sensitivity of the estimate to changes in significant assumptions are as follows:

iii. Probability of default

The PD is based on external individual customer credit rating information, sourced from an external credit bureau, updated for each reporting date. This external credit rating information gives a PD in the next 12 months where "default" is defined as loans which are 2 months or more in arrears ("2 MIA") and incorporates credit information from a broad range of financial services products for each customer.

Management make an estimate so as to adjust the external data to reflect both the individual nature of the Group's lending and the Group's policy of classifying loans which are 3 months or more in arrears ("3 MIA") as "impaired". This adjustment is achieved by using two management assumptions: firstly a "conversion rate" that reflects how many of the loans which fall into 2 MIA will also fall into 3 MIA; and secondly a scalar that adjusts the external PDs to reflect the individual nature of the Group's lending.

- A 10 per cent absolute increase in the "conversion rate" assumed by management between 2 MIA and 3 MIA (e.g. a PD increasing from 50 per cent to 60 per cent), when the loans are considered to be individually impaired would increase the impairment allowance by £0.3 million
- A 10 per cent relative worsening of the scaling factors applied to external data in order to arrive at PDs appropriate to the individual nature of lending being undertaken would increase the impairment allowance by £0.6 million

iv. Loss given default

The model calculates the LGD from the point of repossession. Not all cases that are 3 MIA will reach repossession. Management therefore adjust the model by applying an assumption of the percentage of accounts 3 MIA that will reach repossession.

- A 10 per cent absolute reduction in this assumption would decrease the impairment allowance by £0.3 million

The LGD is also sensitive to the application of the House Price Index ("HPI") and Forced Sale Discount ("FSD") which affect the underlying value of the collateral which is expected to be received

- A 10 per cent relative reduction in the HPI would increase the overall impairment allowance by £1.3 million
- A 5 per cent absolute increase in the FSD would increase the overall impairment provision by £1.0 million

The above assumptions are important factors when calculating the LGD to be applied for the mortgage business. For the Asset Finance and Invoice Finance model, the assumption with most judgement is the absolute LGD value calculated.

- A 10 per cent relative increase in the LGDs used would increase the overall impairment allowance by £0.6 million

v. Emergence period

The Group's collective models estimate the expected losses for the next 12 months, which are then scaled back to reflect the level of incurred loss as at the reporting date, using the emergence period. The emergence period is the time taken from the trigger event (such as a job loss) to the Group identifying the loan is impaired. The emergence period varies by business line and requires management to make judgements because of the limited data available.

A three-month increase in all emergence periods would increase the overall impairment allowance by £3.6 million.

b) Effective interest rate

IAS 39 requires interest earned from mortgages to be measured under the EIR method. Management must therefore use judgement to estimate the expected life of each type of instrument and hence the expected cash flows relating to it. The accuracy of the EIR would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

A critical estimate in determining EIR is the expected life to maturity of the Group's commercial, Buy-to-Let and residential mortgage portfolios, as a change in the estimates will have an impact on the period over which the directly attributable costs and fees, and any discount received on the acquisition of the mortgage loan portfolios, are recognised.

As at 31 December 2015 a reassessment was made of the estimates used in respect of the expected lives of the commercial, Buy-to-Let and residential mortgage portfolios and also of those for the asset finance portfolios. As a consequence an overall adjustment of £0.4 million was recorded to increase the value of the loan portfolios and the interest income recognised in the current period, so that interest can continue to be recognised at the original effective the interest rate over the remaining life of the relevant lending portfolios. The adjustment made at 31 December is analysed as follows:

	Impact on 2015 interest income £m
Asset Finance – organic lending	**(1.6)**
SME Commercial – acquired portfolios	**(0.7)**
SME Commercial – organic lending	**(0.9)**
Buy-to-Let – acquired portfolios	**(0.6)**
Buy-to-Let – organic portfolios	**0.1**
Residential – acquired portfolios	**(1.1)**
Residential – organic lending	**5.2**
	0.4

A change in the estimated expected lives, after taking account of the above adjustment, to extend the expected lives of the commercial, Buy-to-Let and residential portfolios by six months would have the effect of reducing the cumulative profit before tax recognised as at 31 December 2015 by £1.5 million (31 December 2014: £2.4 million). Included within this sensitivity of £1.5 million, is a £2.8 million cumulative reduction in profit relating to acquired portfolios (31 December 2014: £2.9 million) due to a change in the unwind of the discount which is offset by a £1.3 million cumulative increase in profit relating to the organic portfolios (31 December 2014: £0.5 million).

A 0.1 per cent increase in the rate of early redemptions, expressed as a percentage of the outstanding balance in respect of asset finance portfolios would have the impact of reducing cumulative profit before tax recognised as at 31 December 2015 by £0.3 million (31 December 2014: £0.2 million).

c) Deferred tax

Taxation involves estimation techniques to assess the liability in terms of possible outcomes. The assessment of the recoverability or otherwise of deferred tax assets is based mainly on a determination of whether sufficient profits will be generated within five years to realise deferred tax assets.

This is reviewed at each reporting date with a detailed exercise conducted to establish the validity of profit forecasts and other information including timescales over which the profits are expected to arise and the deferred tax assets will reverse. Deferred tax is determined using tax rates enacted or substantively enacted by the statement of financial position date and which are expected to apply when the related deferred tax assets are realised.

The judgement required in the assessment of whether to recognise a deferred tax asset is set out in Note 2 (s). The Group estimates that even after reasonably possible changes in the profit forecasts, the Group would have sufficient profits against which to realise the deferred tax assets.

Based on the analysis of the timing and level of reversal of existing taxable temporary differences, management conclude that a net deferred tax asset of £16.4 million should be recognised at the balance sheet date.

d) Share-based payments

The fair value of the share awards is calculated using statistical models. The inputs to these models require management judgement to estimate the probability and timings of events taking place in the future. The significant inputs used in the models include the exercise price, share price, expected volatility, expected life and the risk free rate. The share-based payment recognised can be materially affected by these assumptions. Further information on the key assumptions can be found in Note 36.

Notes to the consolidated financial statements continued

3. Use of estimates and judgements continued

e) Invoice Finance goodwill

At 31 December 2015, the Group held goodwill balances totalling £12.6 million, £8.5 million of which is attributable to the SME Commercial Mortgages segment, with the remaining balance of £4.1 million attributable to the Invoice Finance segment.

IAS 36 requires an assessment of goodwill balances for impairment on at least an annual basis. An impairment charge should be recognised where the recoverable amount from the segment is less than the carrying value of the goodwill.

The recoverable amount is the greater of either the Value in Use ("VIU") of a business or its Fair Value less Costs of Disposal ("FVLCD"). VIU is determined by discounting the future cash flows forecasted to be generated from the continuing use of the segment and requires judgement to be applied, specifically in relation to the assumptions used within the discounted future cash flow calculation. FVLCD is defined as the price that would be expected to be received if sold in an orderly transaction between market participants and equally requires judgement to be applied, specifically in assessing comparable transactions in order to derive a fair value.

Management has considered both methods for calculating the recoverable amount.

The VIU calculation is sensitive to key inputs into the calculation, including the forecasted future cash flows and the discount rate applied. During 2015 the business was refocused and management revised their projections for the business while the impact of this is being assessed. Using these updated projections, under the VIU method, the goodwill relating to the Invoice Finance business of £4.1 million would be fully impaired, although management note a reasonably small change in the key assumptions would result in the goodwill balance being supportable.

Management has determined the FVLCD by reviewing recent transactions for similar businesses and applying the Price/Tangible Book Value ratio from those transactions to the Aldermore Invoice Finance business. Management have performed an exercise to assess the comparability of the businesses involved in recent transactions with the Aldermore Invoice Finance business. Before relying on the market value, analysis has been performed to understand the differing valuations produced by both the FVLCD and VIU methods.

Management believe that the Price/Tangible Book Value ratio is the most appropriate Fair Value methodology to use but note that applying an alternative Price/Earnings methodology also supports the goodwill balance.

After considering the above, management has concluded it is appropriate to use FVLCD and therefore are satisfied that the goodwill balance of £4.1 million in relation to the Invoice Finance segment is supportable. The estimated value would be required to fall approximately 25 per cent before the goodwill balance would be fully impaired.

4. Segmental information

The Group has five reportable operating segments as described below which are based on the Group's five lending segments plus Central Functions. Each segment offers groups of similar products and services and are managed separately based on the Group's internal reporting structure.

In the prior period, the Group had four reportable operating segments. In late 2015, the Group concluded that it was necessary to split out the Buy-to-Let segment from SME Commercial and Residential Mortgages segments, where it was previously reported. This split ensures a closer alignment to the Group's evolving operating model and greater transparency over the Buy-to-Let segmental results. The prior year comparatives have been re-presented on the new basis.

Residential Mortgages, SME Commercial mortgages and Buy-to-Let are operated under a single management team and supported by a single IT platform. Shared administrative expenses in the mortgages business have been apportioned across these segments on the basis of business activity levels in each segment. However, the characteristics of the three businesses are sufficiently different and accordingly the segments are reported separately to the Board. Therefore, the three businesses represent separate operating segments in accordance with IFRS 8.

For each of the reportable segments the Board, which is the Group's Chief Operating Decision Maker, reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Asset Finance – Lease and hire purchase financing for SMEs, focusing on sectors with strong returns and liquid secondary asset markets.
- Invoice Finance – Provides UK SMEs with working capital solutions through invoice discounting, factoring and asset based lending.
- SME Commercial Mortgages – Property finance needs of professional, commercial property investors, and owner-occupier SMEs. Targets prime and specialist prime segments with loan sizes generally below £5 million.
- Buy-to-Let – Offers a wide range of standard and specialist Buy-to-Let mortgages for residential units, multi-unit freehold or houses with multiple occupation ("HMO") to both individuals and companies.
- Residential Mortgages – Prime residential mortgages targeting underserved segments of creditworthy borrowers that provide attractive and sustainable margins.

Central Functions include the reconciling items between the total of the five reportable operating segments and the consolidated income statement. As well as common costs, Central Functions includes the Group's Treasury and Savings functions which are responsible for raising finance on behalf of the operating segments. The costs of raising finance are all recharged by Central Functions to operating segments, apart from those costs relating to the subordinated notes (Note 6) and the net expense/income from derivatives held at fair value.

Common costs are incurred on behalf of the operating segments and typically represent savings administration costs, back office costs and support function costs such as Finance, Risk and Human Resources. The costs are not directly attributable to the operating segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group are included below. Performance is measured based on the segmental result as included in the internal management reports.

Segmental information for the year ended 31 December 2015

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Central Functions £m	Total £m
Interest income – external customers	**75.7**	**7.6**	**44.8**	**111.0**	**66.4**	**(5.1)**	**300.4**
Interest expense – external customers	**–**	**–**	**–**	**–**	**–**	**(101.5)**	**(101.5)**
Interest (expense)/income – internal	**(23.9)**	**(2.3)**	**(10.6)**	**(37.7)**	**(22.6)**	**97.1**	**–**
Net fees and other income – external customers	**4.3**	**15.2**	**0.8**	**3.0**	**2.2**	**0.3**	**25.8**
Total operating income	**56.1**	**20.5**	**35.0**	**76.3**	**46.0**	**(9.2)**	**224.7**
Administrative expenses including depreciation and amortisation	**(12.0)**	**(14.5)**	**(4.8)**	**(9.0)**	**(5.1)**	**(74.2)**	**(119.6)**
Impairment losses on loans and advances to customers	**(4.8)**	**(1.5)**	**(2.0)**	**(1.3)**	**(0.8)**	**–**	**(10.4)**
Segmental result	**39.3**	**4.5**	**28.2**	**66.0**	**40.1**	**(83.4)**	**94.7**
Tax							**(16.4)**
Profit after tax							**78.3**
Assets	**1,346.7**	**160.8**	**829.2**	**2,417.9**	**1,390.2**	**863.7**	**7,008.5**
Liabilities	**–**	**–**	**–**	**–**	**–**	**(6,474.9)**	**(6,474.9)**
Net assets/(liabilities)	**1,346.7**	**160.8**	**829.2**	**2,417.9**	**1,390.2**	**(5,611.2)**	**533.6**

Segmental information for the year ended 31 December 2014

	Asset Finance[1] £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Central Functions[1] £m	Total £m
Interest income – external customers	56.7	9.3	37.0	91.6	34.5	(1.3)	227.8
Interest expense – external customers	–	–	–	–	–	(87.6)	(87.6)
Interest (expense)/income – internal	(19.8)	(3.3)	(9.5)	(34.3)	(14.3)	81.2	–
Net fees and other income – external customers	3.1	17.5	1.1	2.9	1.7	(1.5)	24.8
Total operating income	**40.0**	**23.5**	**28.6**	**60.2**	**21.9**	**(9.2)**	**165.0**
Administrative expenses including depreciation and amortisation	(11.9)	(14.7)	(3.0)	(9.3)	(4.1)	(62.1)	(105.1)
Impairment losses on loans and advances to customers	(2.7)	(3.4)	(3.0)	0.3	(0.8)	–	(9.6)
Segmental result	**25.4**	**5.4**	**22.6**	**51.2**	**17.0**	**(71.3)**	**50.3**
Tax							(11.9)
Profit after tax							**38.4**
Assets	1,044.3	180.6	552.4	2,044.1	979.7	764.1	5,565.2
Liabilities	–	–	–	–	–	(5,186.3)	(5,186.3)
Net assets/(liabilities)	**1,044.3**	**180.6**	**552.4**	**2,044.1**	**979.7**	**(4,422.2)**	**378.9**

[1] A £1.6 million write-off in relation to an Asset Finance intangible asset has been recorded within Central Functions as the asset was under construction at the time of write-off.

Notes to the consolidated financial statements continued

5. Interest income

	2015 £m	2014 £m
On financial assets not at fair value through profit or loss:		
On loans and advances to customers	**305.4**	227.8
On loans and advances to banks	**0.7**	1.5
On debt securities	**11.1**	5.1
	317.2	**234.4**
On financial assets at fair value through profit or loss:		
Net interest expense on financial instruments hedging assets	**(18.5)**	(12.1)
Net interest income on debt securities designated at fair value	**1.7**	5.5
	300.4	**227.8**

Included within interest income on loans and advances to customers for the year ended 31 December 2015 is a total of £3.2 million (31 December 2014: £2.0 million) relating to impaired financial advances.

Included within net interest expense on financial instruments hedging assets are fair value gains of £2.7 million (31 December 2014: loss of £8.8 million) on derivatives held in qualifying fair value hedging arrangements, together with losses of £6.1 million (31 December 2014: gains of £7.2 million) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on loans and advances to customers.

6. Interest expense

	2015 £m	2014 £m
On financial liabilities not at fair value through profit or loss:		
On customers' accounts	**91.6**	80.0
On amounts due to banks	**2.8**	1.5
On debt securities in issue	**3.5**	3.3
On subordinated notes	**6.5**	6.4
	104.4	**91.2**
On financial liabilities at fair value through profit or loss:		
Net interest income on financial instruments hedging liabilities	**(4.5)**	(4.8)
Other	**1.6**	1.2
	101.5	**87.6**

Included within net interest income on financial instruments hedging liabilities are fair value losses of £1.8 million (31 December 2014: gains of £1.6 million) on derivatives held in qualifying fair value hedging arrangements, together with gains of £2.3 million (31 December 2014: losses of £1.5 million) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on customers' accounts.

7. Fee and commission income

	2015 £m	2014 £m
Invoice finance fees	**12.6**	14.5
Valuation fees	**4.1**	4.4
Documentation fees	**3.2**	2.5
Other fees	**5.3**	5.0
	25.2	**26.4**

Details of "Other" fee and commission income are provided in Note 2 (b).

8. Fee and commission expense

	2015 £m	2014 £m
Introducer commissions	**1.7**	1.9
Legal and valuation fees	**2.7**	2.5
Company searches and other fees	**1.6**	1.8
Credit protection and insurance charges	**0.8**	1.2
Other	**0.2**	0.4
	7.0	**7.8**

9. Net (expense) from derivatives and other financial instruments at fair value through profit or loss

	2015 £m	2014 £m
Net gains/(losses) on derivatives	**5.0**	(17.3)
Net (losses)/gains on assets designated at fair value through profit or loss	**(0.2)**	9.1
Net (losses)/gains on available for sale assets held in fair value hedges	**(6.9)**	4.1
	(2.1)	**(4.1)**

10. Other operating income

	2015 £m	2014 £m
Disbursements, collect out and other invoice finance income	**6.4**	7.1
Other	**1.0**	0.3
	7.4	**7.4**

11. Administrative expenses

	Note	2015 £m	2014[1] £m
Staff costs	12	**62.1**	50.0
Legal and professional and other services		**25.8**	23.5
Information technology costs		**7.3**	8.3
Office costs		**4.9**	4.0
Provisions	32	**2.3**	3.6
Other		**11.9**	11.8
		114.3	**101.2**

[1] The prior year comparatives have been re-presented to reclassify £0.6 million relating to share-based payments, from "Other" to "Staff costs".

Included in other administrative expenses are costs relating to temporary staff of £5.0 million (31 December 2014: £4.5 million), travel and subsistence of £3.2 million (31 December 2014: £2.8 million) and staff recruitment of £1.6 million (31 December 2014: £2.1 million).

Information technology costs for the year ended 31 December 2014 included £1.6 million in relation to a write-off of intangible assets.

Costs associated with the IPO

Included within administrative expenses for the year is £4.1 million (31 December 2014: £6.0 million) of costs associated with the IPO. The £4.1 million consists of £0.4 million for a one-off share award to employees and £3.7 million for fees associated with listing.

Incremental costs directly attributable to the issuance of capital, including advisory and underwriting fees, have been charged directly to equity. Other costs associated with the listing have been allocated between administrative expenses and equity, based on the proportion of new shares issued in the IPO compared to the total number of shares. Total costs associated with the listing for the year ended 31 December 2015 are £6.8 million, comprising £4.1 million charged to the income statement and £2.7 million charged to equity.

Notes to the consolidated financial statements continued

12. Staff costs

	2015 £m	2014 £m
Wages and salaries	**50.8**	43.2
Social security costs	**6.2**	5.0
Other pension costs	**1.6**	1.2
Share-based payments	**3.5**	0.6
	62.1	**50.0**

The analysis above includes staff costs in relation to Executive and Non-Executive Directors.

The average number of persons employed by the Group during the year, excluding Non-Executive Directors, was 845 (31 December 2014: 757).

13. Remuneration of Directors

	2015 £'000	2014 £'000
Directors' emoluments	**2,639.4**	2,797.0
Payments in respect of personal pension plans	**26.5**	24.0
Compensation for loss of office	**–**	20.0
Contributions to money purchase scheme	**20.9**	61.0
Loan forgiveness	**139.6**	–
Long-term incentive schemes	**7,784.3**	555.0
	10,610.7	**3,457.0**

The above disclosure is prepared in accordance with schedule 5 of the Accounting Regulations.

Compensation for loss of office in 2014 of £20,000 relates to two Directors.

Loan forgiveness

From 1 January 2015 until admission to the LSE a number of Directors had loans with the Company. Upon admission the Company forgave loans totalling £0.1 million. At 31 December 2015 there is one loan to a Director for the value of £0.05 million under normal terms of business (31 December 2014: two loans, £0.1 million).

Long-term incentive schemes

The Directors held certain shares pre-IPO which converted into ordinary shares on IPO. The reported gains have been calculated on the market value of shares held at IPO (£1.92) less the actual cost on any share bought pre-IPO, regardless of whether such shares were acquired as an investment or an incentive. The aggregate gains on such shares held by Directors on IPO was £7,782,900.

Total aggregate emoluments

The aggregate emoluments of all Directors (comprising salary/fees, benefits, market adjusted allowance and bonuses) during the year was £10,588,400.

14. Pension and other post-retirement benefit commitments

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £1.6 million (31 December 2014: £1.2 million) were charged to the income statement during the year in respect of these schemes. The Group made payments amounting to £26,500 (31 December 2014: £24,000) in aggregate in respect of Directors' individual personal pension plans during the year. There were outstanding contributions of £0.3 million at the year end (31 December 2014: £0.2 million).

15. Depreciation and amortisation

	Note	2015 £m	2014 £m
Depreciation	25	**1.1**	0.9
Amortisation of intangible assets	24	**4.2**	3.0
		5.3	**3.9**

16. Profit on ordinary activities before taxation

The profit on ordinary activities is after charging:

	2015 £m	2014 £m
Operating lease rentals (including service charges)		
– land and buildings	**2.3**	1.9
– plant and equipment	**0.5**	0.5
Foreign exchange losses	**0.1**	–
The remuneration of the Group's external auditors, KPMG LLP, and their associates is as follows:		
Fees payable to the Group's auditor for the audit of the annual accounts (excluding VAT)	**0.1**	0.1
Fees payable to the Group's auditor for the audit of the accounts of subsidiaries (excluding VAT)	**0.4**	0.3
Audit fees	**0.5**	**0.4**
Fees payable to the Group's auditor and its associates for other services (excluding VAT):		
Audit related assurance services[1]	**0.1**	0.6
Other taxation advisory services	**0.2**	0.2
Corporate finance services[2]	**0.3**	0.8
Other assurance services[3]	**0.1**	0.6
All other services	**0.1**	–
Non-audit fees	**0.8**	**2.2**
	1.3	**2.6**

[1] Audit related assurance services for the year ended 31 December 2014 comprise services provided in relation to IFRS conversion audit and interim profit verifications during the year. Also included was work in relation to the Group's issuance of Additional Tier 1 contingent convertible securities.

[2] Fees payable for corporate finance services for the year include £0.3 million (2014: £0.8 million) for the Reporting Accountants' reports in relation to the Group's Initial Public Offering.

[3] Other assurance services for the year ended 31 December 2014 relate to services provided in relation to the audit of the Group's results in preparation for its Initial Public Offering.

17. Taxation

a) Tax charge

	2015 £m	2014 £m
Current tax on profits for the year	**25.1**	15.5
Under/(over) provision in previous periods	**1.1**	(0.1)
Total current tax	**26.2**	**15.4**
Deferred tax	**(5.2)**	(3.7)
(Over)/under provision in previous periods	**(0.9)**	0.2
Effect of change in tax rates (including the Bank surcharge) on the net deferred tax asset	**(3.7)**	–
Total deferred tax	**(9.8)**	**(3.5)**
Total tax charge	**16.4**	**11.9**

A tax credit of £0.6 million was recognised in other comprehensive income during the year ended 31 December 2015 (31 December 2014: £0.2 million, tax charge) in respect of available for sale debt securities. A tax credit of £1.0 million (31 December 2014: £nil) was reflected directly in equity in respect of tax relief for AT1 coupon and issue costs.

Notes to the consolidated financial statements continued

17. Taxation continued

b) Factors affecting tax charge for the year

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax in the UK of 20.25 per cent (31 December 2014: 21.5 per cent). The differences are explained below:

	2015 £m	2014 £m
Profit before tax	**94.7**	**50.3**
Tax at 20.25% (2014: 21.5%) thereon	**19.2**	10.8
Effects of:		
Expenses not deductible for tax purposes	**0.7**	0.7
Under provision in previous period	**0.2**	0.1
Effect of change in tax rates (including the Bank surcharge) on the net deferred tax asset	**(3.7)**	0.3
	16.4	**11.9**

c) 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 probable that there will be suitable future taxable profits against which the unwinding of the asset can be offset.

Analysis of recognised deferred tax asset:

	Balance at start of the year £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance at end of the year £m
Year ended 31 December 2015				
Capital allowances less than depreciation	**6.5**	**10.0**	**–**	**16.5**
Gains on available for sale debt securities recognised through other comprehensive income	**(0.3)**	**0.1**	**–**	**(0.2)**
Other temporary differences	**0.4**	**(0.8)**	**–**	**(0.4)**
Share-based payment timing differences	**–**	**0.5**	**–**	**0.5**
	6.6	**9.8**	**–**	**16.4**
Year ended 31 December 2014				
Capital allowances less than depreciation	3.3	3.2	–	6.5
Gains on available for sale debt securities recognised through other comprehensive income	(0.1)	–	(0.2)	(0.3)
Other temporary differences	0.1	0.3	–	0.4
	3.3	**3.5**	**(0.2)**	**6.6**

Reductions in the UK corporation tax rate from 23 per cent to 21 per cent (effective from 1 April 2014) and 20 per cent (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 19 per cent with effect from 1 April 2017 and to 18 per cent with effect from 1 April 2020. In addition, the Chancellor announced the introduction of a corporation tax surcharge applicable to banking companies with effect from 1 January 2016. The surcharge will be levied at a rate of 8 per cent on the profits of banking companies chargeable to corporation tax after an annual allowance of £25 million. These changes, which were all substantively enacted on 26 October 2015 will result in an overall increase in the Group's tax charge for years commencing from 1 January 2016.

Deferred tax as at 31 December 2015 has been provided for at the revised substantively enacted rates that will apply when deferred tax assets are realised or deferred tax liabilities are settled. The impact of this change increased the net deferred tax asset recognised as at 31 December 2015 by £3.7 million, with a corresponding reduction to the tax charge recognised in the income statement.

There were no unrecognised deferred tax balances at 31 December 2015 (31 December 2014: £nil).

18. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares in issue during the year.

	2015	2014*
Profit after taxation – attributable to equity holders of the Group (£million)	**78.3**	38.4
Coupon paid on contingent convertible securities, net of tax (£million)	**(2.8)**	–
Profit attributable to ordinary shareholders of the Group (£million)	**75.5**	38.4
Weighted average number of ordinary shares in issue (million)	**332.4**	296.2
Basic earnings per share (p)	**22.7**	**13.0**

The ordinary shares in issue used in the denominator in the calculation of basic earnings per share are the ordinary shares of the Company since the share reorganisation that occurred on the Company's admission to the LSE on 13 March 2015. Further details of the share reorganisation are provided in Note 35. Prior to that date, the ordinary shares in issue figure was based on the A1, A2, D and E ordinary shares in issue. The B and C ordinary shares were excluded from the calculation on the basis that they had no entitlement to dividends or other distributions of the Company.

*The calculation of basic and diluted earnings per share in the prior period has been restated to reflect the impact of the bonus share issue that was made to existing shareholders as part of the share reorganisation that occurred on the Company's admission to the LSE on 13 March 2015.

The calculation of diluted earnings per share has been based on the same profit attributable to ordinary shareholders of the Group as for basic earnings and the weighted average number of ordinary shares outstanding after the potential dilutive effect of share-based payment awards to Directors and employees. The share warrants, giving rise to dilution for 2014, were exercised on 9 September 2015 and new shares were issued and listed on the London Stock Exchange (for details see Note 35).

	2015	2014*
Weighted average number of ordinary shares in issue (million) (basic)	**332.4**	296.2
Effect of share warrants prior to their exercise	**2.2**	2.8
Effect of share-based payment awards	**0.1**	–
Weighted average number of ordinary shares in issue (million) (diluted)	**334.7**	299.0
Diluted earnings per share (p)	**22.6**	**12.9**

19. Loans and advances to banks

	2015 £m	2014 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	**51.6**	60.4
Cash collateral on derivatives placed with banks	**31.7**	46.1
Other loans and advances to banks	**10.9**	10.9
	94.2	**117.4**

There were no individual or collective provisions for impairment held against loans and advances to banks. £10.9 million is recoverable more than 12 months after the reporting date (2014: £10.9 million) and relates to cash held by the Group's securitisation vehicle, Oak No.1 PLC.

Notes to the consolidated financial statements continued

20. Loans and advances to customers

	2015 £m	2014 £m
Gross loans and advances	**6,165.5**	**4,823.6**
less: allowance for impairment losses	**(20.7)**	(22.5)
	6,144.8	**4,801.1**
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	**5,345.5**	4,205.8

At 31 December 2015, loans and advances to customers of £1,445.5 million (31 December 2014: £719.9 million) were pre-positioned with the Bank of England and HM Treasury Funding for Lending Scheme. These loans and advances were available for use as collateral with the Scheme, against which £750.0 million of UK Treasury Bills had been drawn as at the reporting date (31 December 2014: £485.0 million).

At 31 December 2015, loans and advances to customers include £206.5 million (31 December 2014: £293.1 million) which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to Oak No. 1 PLC which is a securitisation vehicle consolidated into these financial statements. The carrying value of these loans on 10 April 2014, when the beneficial interest was transferred, was £362.3 million. These loans secured £333.3 million of funding for the Group. All the assets pledged are retained within the statement of financial position as the Group retains substantially all the risks and rewards relating to the loans.

Allowance for impairment losses

	Individual £m	Collective £m	Total £m
Year ended 31 December 2015			
Balance as at 1 January	**14.0**	**8.5**	**22.5**
Impairment loss for the year:			
Charge to the income statement	**6.8**	**3.6**	**10.4**
Unwind of discounting	**(1.6)**	**(1.6)**	**(3.2)**
Write-offs net of recoveries	**(9.0)**	**–**	**(9.0)**
Balance as at 31 December	**10.2**	**10.5**	**20.7**

	Individual £m	Collective £m	Total £m
Year ended 31 December 2014			
Balance as at 1 January	14.7	6.3	21.0
Impairment loss for the year:			
Charge to the income statement	6.4	3.2	9.6
Unwind of discounting	(1.0)	(1.0)	(2.0)
Write-offs net of recoveries	(6.1)	–	(6.1)
Balance as at 31 December	**14.0**	**8.5**	**22.5**

Finance lease receivables

Loans and advances to customers include the following finance leases where the Group is the lessor:

	2015 £m	2014[1] £m
Gross investment in finance leases, receivable:		
Less than one year	**528.9**	383.6
Between one and five years	**913.4**	689.9
More than five years	**22.8**	16.6
	1,465.1	**1,090.1**
Unearned finance income	**(166.0)**	(130.4)
Net investment in finance leases	**1,299.1**	**959.7**
Net investment in finance leases, receivable:		
Less than one year	**453.3**	290.7
Between one and five years	**824.1**	652.8
More than five years	**21.7**	16.2
	1,299.1	**959.7**

[1] The 2014 comparatives have been re-presented to exclude block discounting facilities and unsecured lending which were previously included.

The Group enters into finance lease and hire purchase arrangements with customers in a wide range of sectors including plant and machinery, cars and commercial vehicles. The accumulated allowance for uncollectible minimum lease payments receivable is £3.9 million (31 December 2014: £2.2 million).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2015 or 31 December 2014.

21. Debt securities

	2015 £m	2014 £m
Debt securities designated at fair value through profit or loss:		
UK Government gilts	**–**	116.4
Supranational bonds	**–**	38.0
	–	**154.4**
Available for sale debt securities:		
UK Government gilts and treasury bills	**94.4**	21.5
Supranational bonds	**267.9**	293.0
Corporate bonds	**29.9**	24.5
Asset-backed securities	**74.9**	16.3
Covered bonds	**139.0**	–
	606.1	**355.3**
	606.1	**509.7**

At 31 December 2015, £566.6 million (31 December 2014: £459.1 million) of debt securities are expected to be recovered more than 12 months after the reporting date. There were no impairment losses in respect of available for sale debt securities.

The Group disposed of its holding of debt securities designated at fair value through profit or loss during the year.

Notes to the consolidated financial statements continued

22. Derivatives held for risk management

Amounts included in the statement of financial position are analysed as follows:

	2015		2014	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Instrument type				
Interest rate (not in hedging relationships)	**0.8**	**1.4**	1.1	23.2
Interest rate (fair value hedges)	**5.9**	**33.9**	6.6	30.6
Equity	**–**	**–**	0.4	0.4
Foreign exchange	**–**	**0.1**	0.1	–
	6.7	**35.4**	**8.2**	**54.2**

All derivatives are held either as fair value hedges qualifying for hedge accounting or are held for the purpose of managing risk exposures arising on the Group's other financial instruments.

a) Fair value hedges of interest rate risk

The Group uses interest rate swaps within qualifying hedge accounting relationships to manage its exposure to changes in the fair values of certain fixed rate lending and savings products and debt securities held, attributable to changes in market interest rates.

Further details regarding the Group's approach to hedge accounting, including a description of the Group's exposure to volatility are provided in the risk report on page 125.

b) Other derivatives held for risk management

The Group uses other derivatives, not designated in qualifying hedge relationships, to manage its exposure to the following:

- Interest rate risk on certain debt securities held which are designated at fair value through profit or loss
- Interest rate basis risk on certain mortgage loans
- Equity market risk on equity linked products offered to depositors
- Foreign exchange risk on currency loans provided to invoice finance customers

23. Investment in subsidiaries

The Company has an interest in the total ordinary share capital of the following subsidiaries (except the securitisation vehicles), all of which are registered in England and operate in the UK. All subsidiary undertakings are included in these consolidated financial statements.

Subsidiary undertakings (direct interest)	Principal activity	Shareholding %
Aldermore Bank PLC	Banking and related services	100
Dormant subsidiary undertakings (indirect interest)		
Aldermore Invoice Finance (Holdings) Limited	Dormant	100
Aldermore Invoice Finance Limited	Dormant	100
Aldermore Invoice Finance (Oxford) Limited	Dormant	100
AR Audit Services Limited	Dormant	100
Securitisation vehicles		
Oak No.1 Mortgage Holdings Limited	Holding company for securitisation vehicle	*
Oak No.1 PLC	Securitisation vehicle	*

* The share capital of the securitisation vehicles is not owned by the Group but the vehicles are included in the consolidated financial statements as they are controlled by the Group.

24. Intangible assets

	Computer systems £m	Goodwill £m	Total £m
Cost			
1 January 2015	**19.2**	**12.6**	**31.8**
Additions	**5.6**	**–**	**5.6**
31 December 2015	**24.8**	**12.6**	**37.4**
1 January 2014	16.3	12.6	28.9
Additions	4.5	–	4.5
Write-off	(1.6)	–	(1.6)
31 December 2014	**19.2**	**12.6**	**31.8**
Amortisation			
1 January 2015	**9.2**	**–**	**9.2**
Charge for the year	**4.2**	**–**	**4.2**
31 December 2015	**13.4**	**–**	**13.4**
1 January 2014	6.2	–	6.2
Charge for the year	3.0	–	3.0
31 December 2014	**9.2**	**–**	**9.2**
Net book value			
31 December 2015	**11.4**	**12.6**	**24.0**
31 December 2014	**10.0**	**12.6**	**22.6**

Goodwill arose on the acquisitions of Ruffler Holdings Limited (subsequently renamed Aldermore Holdings Limited), Base Commercial Mortgages Holdings Limited and Absolute Invoice Finance (Holdings) Limited. For the purpose of impairment testing, goodwill is allocated to the Group's operating segments. The aggregate amount allocated to each segment is as follows:

	2015 £m	2014 £m
SME Commercial Mortgages	**8.5**	8.5
Invoice Finance	**4.1**	4.1
	12.6	**12.6**

No impairment losses on goodwill were recognised during the year ended 31 December 2015 (31 December 2014: £nil).

The Value in Use ("VIU") for SME Commercial Mortgages and Invoice Finance segment have been determined by discounting the future cash flows to be generated from the continuing use of the segment. VIU at 31 December 2015 has been determined in a similar manner as at 31 December 2014.

Key assumptions used in the calculation of VIU were the following:

- Cash flows were projected based on past experience, actual operating results and the five-year business plan (31 December 2014: the five-year business plan). Cash flows after the planning period were extrapolated using a constant growth rate of 2 per cent (31 December 2014: 3 per cent) into perpetuity
- Pre-tax discount rates of 13.0 per cent and 14.3 per cent (31 December 2014: 13.0 per cent and 15.0 per cent) respectively were applied in determining the recoverable amounts for the SME Commercial Mortgages and Invoice Finance operating segments. These discount rates were based on the weighted average cost of funding for the segments taking into account the Group's regulatory capital requirement and expected market returns for debt and equity funding, adjusted for risk premiums to reflect the systemic risk of the individual segments

The VIU of the SME Commercial Mortgage segment is significantly above the carrying value of the attributable goodwill and net assets. The Group estimates that reasonably possible changes in the above assumptions are not expected to cause the recoverable amount of SME Commercial Mortgage to reduce below the carrying amount.

Notes to the consolidated financial statements continued

24. Intangible assets continued

Goodwill attributable to Invoice Finance

During 2015, the Invoice Finance business was refocused and management revised their projections for the business while the impact of this is being assessed. Using these updated projections, under the VIU method, the goodwill relating to the Invoice Finance business of £4.1 million would be fully impaired, although management note a reasonably small change in the key assumptions would result in the goodwill balance being supportable.

Under IAS 36, the recoverable amount is the greater of either the VIU of a business or its Fair Value less Costs of Disposal ("FVLCD"). Management has therefore also considered the FVLCD valuation method.

Management considers the goodwill attributable to the Invoice Finance business to be a critical accounting judgement. Note 3 provides further details of the method used to calculate the FVLCD valuation method. Under the FVLCD method, the goodwill balance of £4.1 million in relation to the Invoice Finance segment is supportable. The estimated value would be required to fall approximately 25 per cent before the goodwill balance would be fully impaired. The valuation calculated using the FVLCD method is categorised as level 3 under the fair value hierarchy of IFRS 13.

25. Property, plant and equipment

	Fixtures, fittings and equipment £m	Computer hardware £m	Total £m
Cost			
1 January 2015	**3.2**	**3.4**	**6.6**
Additions	**0.7**	**1.0**	**1.7**
31 December 2015	**3.9**	**4.4**	**8.3**
1 January 2014	2.6	3.1	5.7
Additions	0.6	0.3	0.9
31 December 2014	**3.2**	**3.4**	**6.6**
Depreciation			
1 January 2015	**1.8**	**2.0**	**3.8**
Charge for the year	**0.5**	**0.6**	**1.1**
31 December 2015	**2.3**	**2.6**	**4.9**
1 January 2014	1.4	1.5	2.9
Charge for the year	0.4	0.5	0.9
31 December 2014	**1.8**	**2.0**	**3.8**
Net book value			
31 December 2015	**1.6**	**1.8**	**3.4**
31 December 2014	**1.4**	**1.4**	**2.8**

26. Other assets

	2015 £m	2014 £m
Amounts recoverable within one year	**1.4**	3.1
Amounts recoverable after one year	**–**	0.2
	1.4	**3.3**

27. Prepayments and accrued income

	2015 £m	2014 £m
Amounts recoverable within 12 months:		
Accrued income	**1.9**	2.6
Other prepayments	**3.2**	4.1
	5.1	**6.7**

28. Amounts due to banks

	2015 £m	2014 £m
Amounts repayable within 12 months:		
Due to banks – repurchase agreements	**398.6**	304.2
Due to banks – deposits	**5.2**	0.6
Cash collateral received on derivatives	**1.3**	1.1
	405.1	**305.9**

Collateral given under repurchase agreements

The face value of securities sold under agreements to repurchase at 31 December 2015 was £400.0 million (31 December 2014: £305.0 million) all of which were drawn down from the Bank of England under the terms of the Funding for Lending Scheme. The Group conducts these repurchase transactions under the terms of applicable General Master Repurchase Agreement guidelines. Consideration received in return for the collateral is recorded as "Amounts due to banks" and is accounted for as a financial liability at amortised cost.

29. Customers' accounts

	2015 £m	2014 £m
Amounts repayable within one year	**4,288.8**	3,438.5
Amounts repayable after one year	**1,453.2**	1,020.5
	5,742.0	**4,459.0**

30. Other liabilities

	2015 £m	2014 £m
Amounts payable within 12 months:		
Amounts payable to Invoice Finance customers	**9.4**	10.1
Other taxation and social security costs	**4.3**	3.8
Trade creditors	**3.2**	2.9
Other payables	**5.0**	1.8
	21.9	**18.6**

31. Accruals and deferred income

	2015 £m	2014 £m
Amounts payable within 12 months:		
Accruals	**24.0**	19.1
Deferred income	**1.7**	2.0
	25.7	**21.1**

Notes to the consolidated financial statements continued

32. Provisions

	Financial Services Compensation Scheme £m	Customer redress £m	Total £m
1 January 2015	**1.2**	**0.8**	**2.0**
Utilised during the year	**(2.3)**	**(0.9)**	**(3.2)**
Provided during the year	**2.2**	**0.1**	**2.3**
31 December 2015	**1.1**	**–**	**1.1**
1 January 2014	0.7	0.5	1.2
Utilised during the year	(2.1)	(0.7)	(2.8)
Provided during the year	2.6	1.0	3.6
31 December 2014	**1.2**	**0.8**	**2.0**

Financial Services Compensation Scheme ("FSCS")

In common with all regulated UK deposit takers, the Group's principal subsidiary, Aldermore Bank PLC, 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, which includes capital and interest levies. 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.

The FSCS provision at 31 December 2015 of £1.1 million (31 December 2014: £1.2 million) represents the interest levy for the 2015/2016 scheme year (31 December 2014: interest levy for the 2014/2015 scheme year).

Customer redress

The Group has a small number of loans which are regulated under the Consumer Credit Act ("CCA") and had identified that, following changes to the CCA in 2008, certain letters and statements were sent to customers that did not fully comply with the requirements prescribed by the CCA. Accordingly, these customers were entitled to redress for interest and fees charged on the relevant loans as a result of this technical non-compliance, notwithstanding there is unlikely to have been any customer detriment. During the year ended 31 December 2014, a provision of £1.0 million was recorded in relation to CCA non-compliance. A further provision of £0.1 million has been recorded in the year ended 31 December 2015. Remedial payments to customers affected were all made during the year and accordingly there is £nil provision at 31 December 2015.

33. Debt securities in issue

Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:

	2015 £m	2014 £m
In more than one year	**193.9**	279.1

Debt securities in issue with a principal value of £194.8 million (31 December 2014: £280.5 million) are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicle, Oak No. 1 PLC. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage customers in respect of the underlying assets. There is no obligation for the Group to make good any shortfall. Further disclosure relating to the underlying assets is contained in Note 20.

34. Subordinated notes

	2015 £m	2014 £m
Subordinated notes	**38.1**	36.8

During 2012, the Group issued £40 million subordinated 12.875 per cent loan notes, repayable in 2022, with an option for the Group to redeem early after five years. The interest rate is fixed until May 2017. The loan notes were issued at a discount and are carried in the statement of financial position at amortised cost using an EIR of 18.597 per cent. In addition to the loan notes, warrants were issued by the Group's Parent Company, Aldermore Group PLC. The warrants were valued at £2.2 million, and this was treated as a warrant reserve within equity in accordance with the accounting policy in Note 2(f). On 9 September 2015, the warrants were exercised resulting in 5.5 million ordinary £0.10 shares being issued (see Note 35).

35. Share capital

Type	2015 £'000	2014 £'000
Ordinary shares of £0.10 each	**34,474.0**	–
A1 ordinary shares of £0.10 each	–	3,569.4
A2 ordinary shares of £0.10 each	–	5,870.4
B ordinary shares of £0.10 each	–	385.5
C ordinary shares of £0.0001 each	–	13.2
D ordinary shares of £0.10 each	–	5,440.5
E ordinary shares of £0.10 each	–	8,458.4
	34,474.0	**23,737.4**

On 13 March 2015, the Company reorganised its share capital in preparation for listing on the LSE. The restructuring can be summarised as follows:

- 1,025,586 A1 ordinary shares, 131,593,114 C ordinary shares and 568,253 E ordinary shares were re-designated as deferred shares
- 406,886 C ordinary shares (nominal value of £0.0999 per share) were issued and allotted to C ordinary shareholders on a pro-rata basis by way of bonus issue using distributable reserves, resulting in an increase of £40,648 in share capital
- Each C ordinary share with a nominal value of £0.0999 was consolidated with a C ordinary share with a nominal value of £0.0001, resulting in 406,886 C ordinary shares with a nominal value of £0.10 each being in issue
- The following shares were re-designated as ordinary shares: 34,668,414 A1 ordinary shares, 58,704,268 A2 ordinary shares, 3,854,632 B ordinary shares, 406,886 C ordinary shares, 54,405,224 D ordinary shares, and 84,016,023 E ordinary shares
- 63,944,554 ordinary shares were issued and allotted on a pro-rata basis to all shareholders (excluding holders of deferred shares) by way of bonus issue using distributable reserves, resulting in an increase of £6,394,455 in share capital
- The Company bought back 133,186,953 deferred shares for an aggregate price of £1 using distributable reserves. This resulted in the creation of a capital redemption reserve of £172,543 and a reduction in the Company's share capital of the same amount

Following the reorganisation, 117,934,783 ordinary shares of £0.10 each were issued in the IPO at a price of £1.92 per share. Of the 117,934,783 shares in the offer, 78,872,283 were sold by existing shareholders, with the remaining 39,062,500 being issued by the Company, resulting in an increase in share capital of £3,906,250 and share premium account of £71,093,750 (excluding costs).

Ordinary shares have full voting rights, dividend rights and distribution rights in the event of sale or wind up.

At 13 March 2015, after completion of the IPO, there were 339,062,500 shares in circulation.

Following the listing, the Company granted 174,920 shares to eligible employees as free share awards under the Share Incentive Plan ("SIP"). Further details regarding the SIP are provided in Note 36. The shares vested on 17 April 2015, resulting in an increase of £17,492 in share capital and a reduction in retained earnings of the same amount.

On 9 September 2015, the share warrants attached to the subordinated notes (see Note 2(f)) were exercised resulting in the issue of 3,668,110 ordinary £0.10 shares at a price of £0.89 per share and 1,834,054 ordinary £0.10 shares at a price of £1.23 per share. The aggregate nominal value of the shares issued was £550,216.40, whilst the total consideration was £5,520,504.32. The shares were issued to Centerbridge Credit Partners L.P., Centerbridge Credit Partners TE Intermediate I, L.P., Centerbridge Special Credit Partners AIV III, L.P., and Centerbridge Special Credit Partners II, L.P. The mid-market closing price of the Company's shares on 9 September 2015, the date that the share warrants were exercised, was £2.93. The share issue resulted in an increase in share capital of £550,216 and share premium account of £4,970,288. The warrant reserve of £2,200,000 was transferred within equity to retained earnings.

At 31 December 2015, there were 344,739,584 ordinary £0.10 shares in circulation resulting in share capital of £34,473,958.

Notes to the consolidated financial statements continued

36. Share-based payments

The Group implemented a number of new share schemes during the year as described below:

	Plan	Eligible Employees	Nature of award	Vesting conditions	Grant date
A)	Performance Share Plan	Selected senior employees	Conditional share award	Continuing employment or leavers in certain limited circumstances and achievement of earnings per share and Total Shareholder Return performance conditions	2 March 2015
B)	Pre-IPO award under the Performance Share Plan	Selected senior employees	Conditional share award	Continuing employment or leavers in certain limited circumstances and achievement of Total Shareholder Return based performance conditions	2 March 2015
C)	Restricted Share Plan	Selected senior employees	Conditional share award	Continuing employment or leavers in certain limited circumstances	2 March 2015
D)	Share Incentive Plan	All employees	Non-conditional share award	Employment at date of grant	17 April 2015
E)	Sharesave Plan	All employees	Option to purchase shares at the vesting date	Monthly contributions to the scheme and continuing employment or leavers in certain limited circumstances	29 October 2015
F)	Deferred Share Plan	Selected senior employees	Deferred conditional share award	Continuing employment or leavers in certain limited circumstances	See f) below

Further details of each of the schemes are provided below.

a) Performance Share Plan

The Performance Share Plan ("PSP") is open to senior employees including the Executive team. The grant date of awards was 2 March 2015, with individuals being required to remain in employment until 2 March 2018. The awards are subject to a two-year holding period which ends on 2 March 2020 and are exercisable between that date and 1 March 2025.

Awards under the PSP are subject to performance conditions. Performance conditions are set by the Remuneration Committee each time awards are granted and determine the extent to which awards can become available to individuals.

The performance conditions for these first awards relate to the growth in Total Shareholder Return ("TSR") for the period to 31 December 2017, measured from the date of admission to the LSE (13 March 2015) for 50 per cent of each award and Earnings Per Share ("EPS") performance for the year ended 31 December 2017 for the remaining 50 per cent of each award. The outcome of the performance conditions, as assessed by the Remuneration Committee, will determine the vesting outcome of the awards and the shares available for exercise.

In addition, there are *"underpin"* performance conditions which must be met, including in relation to the TSR element of the award. The value of the TSR achieved, over the performance period, must be equal to or greater than the TSR of the median company of FTSE 350 companies, excluding Investment Trusts.

b) Pre-IPO award under the PSP

The Pre-IPO awards were granted to individuals, as a one-off reward to those who contributed significantly to the development of the Group in the build-up to its IPO. The awards were granted to a number of senior employees, including the Executive team.

The grant date of the awards was 2 March 2015. The awards are subject to performance conditions which must be satisfied in order for individuals to be entitled to receive the shares awarded. If the performance conditions are achieved the awards will vest on 31 December 2016.

The performance conditions relate to growth in TSR for the period to 31 December 2016, measured from the date of admission to the LSE (13 March 2015). The outcome of the performance conditions determine the extent to which shares awarded become available to individual participants. Similar *"underpin"* performance conditions apply to the awards as those in the PSP (see a) above), including the TSR condition based on the median of FTSE 350 companies excluding Investment Trusts.

c) Restricted Share Plan

The Restricted Share Plan ("RSP") is open to a small number of senior employees engaged in risk functions. The grant date of awards was 2 March 2015, with individuals being required to remain in employment until 2 March 2018. The awards are subject to a two-year holding period which ends on 2 March 2020 and are exercisable between that date and 1 March 2025.

There are no financial performance conditions attached to the awards under the RSP.

d) Share Incentive Plan

All employees are eligible to participate in the Share Incentive Plan ("SIP"). An award of "free shares" was granted under the SIP on 17 April 2015. Each eligible employee received shares worth £200, with an additional £200 for each year of service up to a maximum award of £1,000. The shares are subject to a minimum holding period of the shorter of three years from their award date or the date to when the employee ceases to be employed. There are no performance conditions associated with the share awards. Participants in the SIP are the beneficial owners of the shares granted to them, but not the registered owner. Voting rights over the shares are normally exercised by the registered owner at the direction of the participant.

e) Sharesave Plan

All employees are eligible to participate in the Sharesave Plan. The grant date of the awards was 29 October 2015, with individuals in the Plan contributing a set amount each month for three years, commencing in January 2016. At the end of the contribution period there is the option to buy shares in Aldermore Group PLC at an option price of £2.52, which was fixed at the grant date.

There are no financial performance conditions attached to the awards but the options are subject to service conditions based on employment and whether the employee continues to contribute to the Plan. Employees have the option but not the obligation to buy shares depending upon the share price at the end of the Plan. There are no holding conditions at the end of the Plan.

f) Deferred Share Plan

The Deferred Share Plan ("DSP") is open to senior employees including the Executive team and represents the portion of the Annual Incentive Plan that is deferred to align the interests of senior employees and the Executive team with shareholders. Shares within the DSP may accrue dividend equivalents which may be settled in shares or cash equivalents. The awards are typically released in tranches of one-third on the first, second and third anniversary of the award, subject to continued employment.

There are no financial performance conditions attached to the awards under the DSP. Share awards for the deferred element of the 2015 bonuses will be granted under this scheme in 2016. Shares worth £1.2 million are expected to be granted. Awards under the DSP are accounted for as equity settled share-based payments.

Awards/options granted, forfeited and vested

The table below details the number of awards/options granted, forfeited and vested during the year, the number outstanding as at 31 December 2015 and the average fair values at grant date of the awards made during the year:

Plan	Awards/ options granted Number	Awards/ options forfeited Number	Awards/ options vested Number	Awards outstanding at 31 December 2015 Number	Average fair value per award at grant date (rounded) £	Total fair value to be recognised over the vesting period £m	2015 income statement charge £m
Performance Share Plan	1,539,629	(133,398)	–	1,406,231	1.13	1.6	1.2
Pre-IPO award under the PSP	7,549,101	(115,092)	–	7,434,009	0.31	2.3	0.5
Restricted Share Plan	105,753	–	–	105,753	1.92	0.2	0.1
Share Incentive Plan	174,920	–	(174,920)	–	2.41	0.4	0.4
Sharesave Plan	794,966	–	–	794,966	0.79	0.6	–

Where there have been leavers from the schemes, the individual circumstances of each leaver is considered and the IFRS 2 charge expensed over a shorter period or the shares forfeited as appropriate.

The B, C and E ordinary shares granted to employees in previous periods were included in the reorganisation of the Company's share capital which took place on 13 March 2015 in preparation for the Company's listing on the LSE. Of the 132 million C ordinary shares granted to employees, 113,593,114 were converted to deferred shares, on 13 March 2015, which the Company repurchased for total consideration of £1 and the remaining C shares were converted into ordinary shares on the same date.

As the awards under the DSP have yet to be granted, it is not possible to provide details of the specific number of awards granted. A charge of £1.2 million has been recorded in the 2015 income statement.

Determination of grant date fair values

Share awards

Share awards are not entitled to dividends until the awards vest, but the number of shares subject to vested PSP and RSP awards may be increased to reflect the value of dividends that would have been paid up to the end of the holding period for the awards. This is designed to deliver a benefit similar to that which ordinary shareholders may receive in respect of any dividends paid during the vesting period. Accordingly, the grant date fair value of the awards with no performance conditions other than service conditions has been taken as the market value of the Company's ordinary shares at the grant date.

Notes to the consolidated financial statements continued

36. Share-based payments continued

In respect of awards for which there are non-market performance conditions (e.g. EPS), the grant date fair value per award has been taken as the market value of an ordinary share at the grant date. A forecast is made of the number of awards expected to vest in order to determine the overall share-based payment charge to be recognised over the vesting period.

In respect of awards for which there are market performance conditions (e.g. TSR), the grant date fair value of each award is required to reflect the likelihood of achieving the market conditions within the valuation. For the awards concerned, the grant date fair values for each award were determined using stochastic simulation models with the following significant inputs:

	Pre-IPO	PSP
Ordinary share price	£1.92	£1.92
Risk free rate	0.59% p.a.	0.90% p.a.
Probability distributions of TSRs for Aldermore and the median FTSE 350 (excluding Investment Trust companies)	Log normal	Log normal
Annual volatility (of logarithm of TSR) for Aldermore share price (based on recently floated banks)	24%	24%
Annual volatility (of logarithm of TSR) for median of FTSE 350 (excluding Investment Trust companies) (based on 5 years data)	15%	15%
Correlation between volatilities	None	None

Share options (Sharesave Plan)

Options granted under the Sharesave Plan have no entitlement to dividends until they are exercised. The grant date fair value of the options were determined using a Black Scholes valuation model with the following significant inputs:

	Sharesave Plan
Share price at grant date	£2.62
Exercise price	£2.52
Risk free rate	0.89% p.a.
Expected volatility of Company share price	39.18%[1]
Expected life	3.25 years

1 Based on Aldermore Group PLC share price volatility, from the date of listing (13 March 2015) to the grant date, measured on an annualised basis.

The overall share-based payment charge for the year ended 31 December 2015 totalled £3.4 million (31 December 2014: £0.6 million).

37. Contingent convertible securities

On 9 December 2014, the Company issued £75 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “Securities”). Net proceeds arising from the issuance, after deducting issuance costs and the associated tax credit totalled £74.0 million.

The Securities are perpetual and have no fixed redemption date. Redemption of the Securities is at the option of the Company on 30 April 2020 and annually thereafter. The Securities bear interest at an initial rate of 11.875 per cent per annum until 30 April 2020 and thereafter at the relevant Reset Interest Rate as provided in the Information Memorandum. Interest is payable on the Securities annually in arrears on each interest payment date commencing 30 April 2015 and is non-cumulative. The Borrower has the full discretion to cancel any interest scheduled to be paid on the Securities.

The Securities are convertible into ordinary shares of the Company in the event of the Group’s Common Equity Tier 1 ratio falling below 7 per cent.

As the Securities contain no obligation on the Company to make payments of principal or interest, they have been classified as equity instruments as required by IAS 32. Accordingly, the Securities have been included in equity at the fair value of the proceeds received less any direct costs attributable to the issue of the Securities, net of tax relief thereon. Any interest paid on the Securities, net of tax relief thereon, is a distribution to holders of equity instruments and has been recognised directly in equity on the payment date. Although there are number of additional terms relating to events such as acquisition and wind up, there are no circumstances in which the Group has an unavoidable obligation to issue a variable number of its own shares.

The Group has not separated any embedded derivative features because the Group has an accounting policy not to separate a feature that has already been considered in determining that the entire issue is a non-derivative equity instrument.

38. Statement of cash flows

a) Adjustments for non-cash items and other adjustments included within the income statement

	2015 £m	2014 £m
Depreciation and amortisation	**5.3**	3.9
Write-off of intangible assets	**–**	1.6
Amortisation of securitisation issuance cost	**0.5**	0.4
Discount accretion on subordinated notes	**1.4**	1.2
Impairment losses on loans and advances	**10.4**	9.6
Unwind of discounting	**(3.2)**	(2.0)
Write-offs net of recoveries	**(9.0)**	(6.0)
Net losses/(gains) on debt securities designated at fair value through profit or loss	**0.2**	(9.5)
Losses/(gains) on hedged available for sale debt securities recognised in profit or loss	**6.9**	(4.1)
Net (gains) on disposal of available for sale debt securities	**(2.1)**	(2.5)
Interest expense on subordinated notes	**5.1**	5.2
Interest income on debt securities	**(12.8)**	(10.7)
Interest expense on debt securities in issue	**3.0**	2.9
Equity settled share-based payment charge	**3.4**	0.6
	9.1	**(9.4)**

b) (Increase) in operating assets

	2015 £m	2014 £m
Loans and advances to customers	**(1,341.9)**	(1,428.8)
Loans and advances to banks	**14.4**	(45.7)
Derivative financial instruments	**1.5**	0.7
Fair value adjustments for portfolio hedged risk	**6.1**	(7.2)
Other operating assets	**2.0**	(6.8)
	(1,317.9)	**(1,487.8)**

c) Increase in operating liabilities

	2015 £m	2014 £m
Amounts due to banks	**99.2**	(80.0)
Customers' accounts	**1,283.0**	995.0
Derivative financial instruments	**(18.8)**	36.3
Fair value adjustments for portfolio hedged risk	**(2.3)**	1.5
Other operating liabilities	**7.0**	10.0
	1,368.1	**962.8**

Notes to the consolidated financial statements continued

38. Statement of cash flows continued

d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on demand and overnight deposits classified as cash and balances at central banks (unless restricted) and balances within loans and advances to banks. The following balances have been identified as being cash and cash equivalents.

	2015 £m	2014 £m
Cash and balances at central banks	**105.3**	79.6
Less restricted balances	**(7.5)**	(6.0)
Loans and advances to banks	**51.6**	60.4
	149.4	**134.0**

Restricted balances comprise minimum balances required to be held at the Bank of England as they are not readily convertible to cash in hand or demand deposits. Loans and advances to banks as at 31 December 2015 include £10.9 million held by the securitisation vehicle, Oak No.1 PLC, which is not available to the other members of the Group (31 December 2014: £10.9 million).

39. Commitments and contingencies

At 31 December 2015, the Group had undrawn commitments to lend of £556.0 million (31 December 2014: £404.6 million). These relate mostly to irrevocable lines of credit granted to customers.

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings	2015 £m	2014 £m
In less than one year	**1.9**	1.5
Between one and five years	**6.0**	3.0
More than five years	**2.4**	0.5
	10.3	**5.0**

Equipment	2015 £m	2014 £m
In less than one year	**0.4**	0.2
Between one and five years	**0.2**	0.3
	0.6	**0.5**

At 31 December 2015, the majority of operating leases for equipment related to 70 cars that the Group held under lease (31 December 2014: 49). The majority of these leases are due to expire in 2017.

Legislation

As a financial services Group, Aldermore Group PLC is subject to extensive and comprehensive regulation. The Group must comply with numerous laws and regulations, which significantly affect the way it does business. Whilst the Group believes there are no unidentified areas of failure to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

40. Related parties

a) Controlling parties

The Group was previously controlled by AnaCap Financial Partners, II L.P. (52.3 per cent. of voting rights) and AnaCap Financial Partners, L.P. (47.7 per cent. of voting rights) who were the sole voting shareholders of Aldermore Group PLC.

On 13 March 2015, the Company was admitted to the LSE, offering 117,934,783 ordinary shares, of which 78,872,283 shares were sold by the Selling shareholders. Upon admission, AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P., AnaCap Derby Co-Investment (No.1.) L.P. and AnaCap Derby Co-Investment (No.2.) (collectively "the Principal Shareholders") and the Company entered into the "Relationship agreement". Details of the Relationship agreement were provided within the Prospectus issued prior to the admission to the LSE.

On 15 September 2015 the Principal Shareholders sold 40,885,613 Ordinary £0.10 shares on the open market.

At 31 December 2015, AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P., AnaCap Derby Co-Investment (No.1.) L.P. and AnaCap Derby Co-Investment (No.2.) L.P held 11.26 per cent, 11.01 per cent, 9.54 per cent and 8.33 per cent of the Company's ordinary share capital respectively. Although Anacap is no longer a controlling party for the Group it continues to have significant influence and is therefore considered to be a related party.

The Group had agreements in place with Syscap Limited ("Syscap") at the start of the year. Syscap were previously under the control of Anacap Financial Partners II L.P. and AnaCap Financial Partners, L.P. Syscap ceased to be a related party when Anacap sold their interest on 20 February 2015. During the year the following agreements were in place between the Group and Syscap:

- The Group provides £5 million of block discounting facilities to Syscap Limited, a provider of business finance solutions. The facilities 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 the Group's standard commercial policies. Pricing on the facilities is subject to normal commercial terms
- Until 20 February 2015 Syscap introduced business of £9.6 million (year ended 31 December 2014: £21.9 million) and received commission of £0.1 million (year ended 31 December 2014: £0.4 million) of which £nil was outstanding as at 20 February 2015 (31 December 2014: £nil)

In addition, Anacap charged the Group investment monitoring fees of £29,000 for the year ended 31 December 2015 (year ended 31 December 2014: £0.2 million). The balance outstanding at 31 December 2015 is £nil (31 December 2014: £0.1 million).

During 2015, the Group also incurred fees of £0.1 million in relation to the Shareholder-representative Directors (year ended 31 December 2014: £nil).

b) Key management personnel

Key Management Personnel ("KMP") comprise Directors of the Group and members of the Executive Committee. Details of the compensation paid (in accordance with IAS 24) to KMP are:

	2015 £'000	2014 £'000
Emoluments	**5,035.8**	3,366.0
Payments in respect of personal pension plans	**45.9**	24.0
Compensation for loss of office	**–**	20.0
Contributions to money purchase scheme	**71.3**	72.0
Loan forgiveness	**162.3**	–
Share-based payments	**1,196.5**	555.0
	6,511.8	**4,037.0**

Compensation for loss of office for the year ended 31 December 2014 of £20,000 relates to two key persons.

The Group made payments of £45,900 in aggregate in respect of four key persons' personal pension plans during the year ended 31 December 2015 (31 December 2014: £24,000, two key persons).

Key persons' emoluments includes £0.8 million of deferred bonus (31 December 2014: £nil).

Notes to the consolidated financial statements continued

40. Related parties continued

Share-Based Payments ("SBP")

As at 31 December 2014, certain KMP held a number of shares in the B, C and E classes. In preparation for the IPO, the rights to these shares were varied and the holdings re-designated.

A number of KMP were awarded shares in the Company under new share incentive plans created upon IPO. In total, KMP were granted awards over 5,938,906 shares. Further details of the share schemes, including performance conditions are provided in Note 36. In addition, a number of KMP participated in the Sharesave Plan, holding options over a total of 17,855 shares at 31 December 2015.

The aggregate value of transactions and outstanding balances related to KMP (as defined by IAS 24 *"Related Party Disclosure"*) were as follows:

	2015 £'000	2014 £'000
Deposits		
At 1 January	**1,565.0**	1,067.0
Net movement	**454.2**	498.0
At 31 December	**2,019.2**	**1,565.0**

The table above includes transactions and balances relating to KMP in post at the end of the year.

At 31 December 2015 there are two loans with KMP for the value of £0.1 million (31 December 2014: four loans, £0.2 million). From 1 January 2015 until admission to the LSE a number of KMP had loans with the Company. Upon admission the Company forgave loans totalling £0.2 million. A number of KMP continue to have loans and deposits in the ordinary course of business with the Group.

During 2014 and up to Admission, interest rates charged on loan balances outstanding from related parties were lower than the rates that would be charged in arm's length transactions. Interest was charged on these loans at an annual rate of 0.8 per cent above 1 month LIBOR.

All deposit arrangements have been operated by the Group on commercial terms and conditions.

41. Financial instruments and fair values

The following table summarises the classification and carrying amounts of the Group's financial assets and liabilities:

31 December 2015	Loans and receivables £m	Available for sale £m	Designated at fair value through profit or loss £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	**105.3**	–	–	–	–	–	**105.3**
Loans and advances to banks	**94.2**	–	–	–	–	–	**94.2**
Debt securities	–	**606.1**	–	–	–	–	**606.1**
Derivatives held for risk management	–	–	–	**6.7**	–	–	**6.7**
Fair value adjustment for portfolio hedged risk	–	–	–	–	**1.1**	–	**1.1**
Loans and advances to customers	**6,144.8**	–	–	–	–	–	**6,144.8**
Other assets	**0.4**	–	–	–	–	–	**0.4**
Total financial assets	**6,344.7**	**606.1**	–	**6.7**	**1.1**	–	**6,958.6**
Non-financial assets							**49.9**
Total assets							**7,008.5**
Amounts due to banks	–	–	–	–	–	**405.1**	**405.1**
Customers' accounts	–	–	–	–	–	**5,742.0**	**5,742.0**
Derivatives held for risk management	–	–	–	**35.4**	–	–	**35.4**
Fair value adjustment for portfolio hedged risk	–	–	–	–	**(0.8)**	–	**(0.8)**
Other liabilities	–	–	–	–	–	**17.6**	**17.6**
Debt securities in issue	–	–	–	–	–	**193.9**	**193.9**
Subordinated notes	–	–	–	–	–	**38.1**	**38.1**
Total financial liabilities	–	–	–	**35.4**	**(0.8)**	**6,396.7**	**6,431.3**
Non-financial liabilities							**43.6**
Total liabilities							**6,474.9**

Notes to the consolidated financial statements continued

41. Financial instruments and fair values continued

31 December 2014	Loans and receivables £m	Available for sale £m	Designated at fair value through profit or loss £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	79.6	–	–	–	–	–	79.6
Loans and advances to banks	117.4	–	–	–	–	–	117.4
Debt securities	–	355.3	154.4	–	–	–	509.7
Derivatives held for risk management	–	–	–	8.2	–	–	8.2
Fair value adjustment for portfolio hedged risk	–	–	–	–	7.2	–	7.2
Loans and advances to customers	4,801.1	–	–	–	–	–	4,801.1
Other assets	1.2	–	–	–	–	–	1.2
Total financial assets	**4,999.3**	**355.3**	**154.4**	**8.2**	**7.2**	**–**	**5,524.4**
Non-financial assets							40.8
Total assets							**5,565.2**
Amounts due to banks	–	–	–	–	–	305.9	305.9
Customers' accounts	–	–	–	–	–	4,459.0	4,459.0
Derivatives held for risk management	–	–	–	54.2	–	–	54.2
Fair value adjustment for portfolio hedged risk	–	–	–	–	1.5	–	1.5
Other liabilities	–	–	–	–	–	14.8	14.8
Debt securities in issue	–	–	–	–	–	279.1	279.1
Subordinated notes	–	–	–	–	–	36.8	36.8
Total financial liabilities	**–**	**–**	**–**	**54.2**	**1.5**	**5,095.6**	**5,151.3**
Non-financial liabilities							35.0
Total liabilities							**5,186.3**

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. As a wide range of valuation techniques are available, it may be inappropriate to compare this fair value information to that of independent market or other financial institutions.

	2015		2014	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value[1] £m
Cash and balances at central banks	**105.3**	**105.3**	79.6	79.6
Loans and advances to banks	**94.2**	**94.2**	117.4	117.4
Loans and advances to customers	**6,144.8**	**6,194.1**	4,801.1	4,831.0
Other assets	**0.4**	**0.4**	1.2	1.2
Total financial assets	**6,344.7**	**6,394.0**	**4,999.3**	**5,029.2**
Amounts due to banks	**405.1**	**405.1**	305.9	305.9
Customers' accounts	**5,742.0**	**5,752.8**	4,459.0	4,469.4
Other liabilities	**17.6**	**17.6**	14.8	14.8
Debt securities in issue	**193.9**	**194.8**	279.1	281.3
Subordinated notes	**38.1**	**48.0**	36.8	47.9
Total financial liabilities	**6,396.7**	**6,418.3**	**5,095.6**	**5,119.3**

[1] During the year the methodology used to calculate the fair value of loans and advances to customers has been enhanced based on more granular discounted cash flow calculations. Accordingly, the 31 December 2014 comparatives have been represented on this basis.

Key considerations in the calculation of the disclosed fair values for those financial assets and liabilities carried at amortised cost include the following:

a) Cash and balances at central banks

These represent amounts with an initial maturity of less than three months and as such their carrying value is considered a reasonable approximation of their fair value.

b) Loans and advances to banks

These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly the carrying value of the assets is considered to be not materially different from their fair value.

c) Loans and advances to customers

For fixed rate lending products the Group has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent products plus the credit spread attributable to the borrower. For standard variable rate lending products, and fixed rate products when they revert to the Group's standard variable rate, the interest rate on such products is considered equivalent to a current market product rate and as such the Group considers the discounted future cash flows of these mortgages to be equal to their carrying value. The fair value estimations do not incorporate adjustments for changes in future credit risk, since loans were granted, however, incurred loss provisions are deducted from the fair value amounts.

d) Other assets and liabilities

These represent short-term receivables and payables and as such their carrying value is not considered to be materially different from their fair value.

e) Amounts due to banks

These mainly represent securities sold under agreements to repurchase which were drawn down from the Bank of England under the terms of the Funding for Lending Scheme. These transactions are collateralised by UK Government Treasury Bills, which have a low susceptibility to credit risk, so adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly the carrying value of the liabilities are not considered to be materially different from their fair value.

f) Customers' accounts

The fair value of fixed rate customers' accounts have been determined by discounting estimated future cash flows based on rates currently offered by the Group for equivalent deposits. Customers' accounts at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value. The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

g) Debt securities in issue

As the securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values.

h) Subordinated notes

The estimated fair value of the subordinated notes is based on discounted cash flows using interest rates for similar liabilities with the same remaining maturity, credit ranking and rating. The calculated fair value takes no account of the warrants issued separately to the holders of the subordinated notes, which have been separately accounted for as a capital contribution within equity on issue. The warrants were exercised during September 2015 (see Note 35).

Notes to the consolidated financial statements continued

41. Financial instruments and fair values continued

The following table provides an analysis of financial assets and liabilities held on the consolidated statement of financial position at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	–	6.7	–	6.7
Debt securities:				
Asset backed securities	–	74.9	–	74.9
UK Gilts and Supranational bonds	362.3	–	–	362.3
Corporate bonds	29.9	–	–	29.9
Covered bonds	139.0	–	–	139.0
	531.2	81.6	–	612.8
Financial liabilities:				
Derivatives held for risk management	–	35.4	–	35.4
	–	35.4	–	35.4

31 December 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	–	8.2	–	8.2
Debt securities:				
Asset backed securities	–	16.3	–	16.3
UK Gilts and Supranational bonds	468.9	–	–	468.9
Corporate bonds	24.5	–	–	24.5
	493.4	24.5	–	517.9
Financial liabilities:				
Derivatives held for risk management	–	54.2	–	54.2
	–	54.2	–	54.2

Level 1: Fair value determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determined using directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable.

Level 3: Fair value determined using one or more significant inputs that are not based on observable market data.

The fair values of UK Gilts, Supranational bonds, Corporate bonds and Covered bonds are based on quoted bid prices in active markets.

The fair value of asset backed securities are based on indicative prices provided by market counterparties, but before relying on these prices, the Group has obtained an understanding of how the prices were derived to ensure that each investment is assigned an appropriate classification within the fair value hierarchy.

The fair values of derivative assets and liabilities are determined using widely recognised valuation methods for determining the fair values of common derivative financial instruments such as interest rate swaps that used only observable market data that require little management judgement and estimation. Credit value and debit value adjustments have not been applied as the derivative assets and liabilities are largely collateralised.

Fair value measurement – financial assets and liabilities held at amortised cost

All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for debt securities in issue which are Level 1 and loans and advances to customers which are Level 3.

Fair value of transferred assets and associated liabilities

Securitisation vehicle

The sale of the beneficial ownership of the loans and advances to customers to the securitisation vehicle by the Bank fail the derecognition criteria, and consequently, these loans remain on the statement of financial position of the Group. The Bank therefore recognises a deemed loan financial liability on its statement of financial position and an equivalent deemed loan asset is held on the securitisation vehicle's statement of financial position. As the securitisation vehicle is consolidated into the Group with the Bank the deemed loans net out in the consolidated accounts. The deemed loans are repaid as and when principal repayments are made by customers against these transferred loans and advances.

The securitisation vehicle has issued fixed and floating rate notes which are secured on loans and advances to customers. The notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgagors in respect of the underlying assets.

The Group retains substantially all of the risks and rewards of ownership. The Group benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of these mortgages. The Group continues to bear the credit risk of these mortgage assets.

The results of the securitisation vehicle listed in Note 23 are consolidated into the results of the Group. The table below shows the carrying value and fair value of the assets transferred to the securitisation vehicle and its associated liabilities. The carrying value presented below are the carrying amounts recorded in the Group accounts. Some of the notes issued by the securitisation vehicle are held by the Group and as such are not shown in the consolidated statement of financial position of the Group.

31 December 2015	**Carrying amount of transferred assets not derecognised £m**	**Carrying amount of associated liabilities £m**	**Fair value of transferred assets not derecognised £m**	**Fair value of associated liabilities £m**	**Net position £m**
Oak No. 1 Plc	**206.5**	**193.9**	**209.9**	**194.8**	**15.1**

31 December 2014	Carrying amount of transferred assets not derecognised £m	Carrying amount of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net position £m
Oak No. 1 Plc	293.1	279.1	295.5	281.3	14.2

42. Country-by-Country reporting

The Capital Requirements (Country-by-Country reporting) Regulations came into effect in 1 January 2014 and introduce reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

All companies consolidated within the Group's financial statements are UK registered entities. Note 23 to these financial statements includes an analysis of subsidiary undertakings and their principal activities. All of the subsidiary undertakings were incorporated in England.

For the year ended 31 December 2015

	Jurisdiction income/expense arose	**£m**
Total operating income	**UK**	**224.7**
Profit before tax	**UK**	**94.7**
Corporation tax (paid)	**UK**	**(20.2)**
Employees (average FTE equivalent)	**UK**	**822**

43. Post balance sheet events

There have been no material post balance sheets events.

The Company statement of financial position

As at 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Assets			
Loans and advances to banks	3	**0.5**	1.4
Investment in Group undertakings	4	**411.5**	334.0
Other assets	6	**–**	0.2
Amounts due from Group undertakings	7	**0.4**	–
Total assets		**412.4**	**335.6**
Liabilities			
Accruals and deferred income	8	**–**	0.8
Total liabilities		**–**	**0.8**
Equity			
Share capital	9	**34.5**	23.7
Share premium account	9	**73.4**	–
Contingent convertible securities	11	**74.0**	73.7
Capital redemption reserve		**0.1**	–
Share-based payment reserve		**3.4**	0.9
Warrant reserve		**–**	2.2
Retained earnings		**227.0**	234.3
Total equity		**412.4**	**334.8**
Total liabilities and equity		**412.4**	**335.6**

The notes and information on pages 185 to 186 form part of these financial statements.

These financial statements were approved by the Board and were signed on its behalf by:

Phillip Monks
Director

9 March 2016
Registered number: 06764335

James Mack
Director

9 March 2016

The Company statement of cash flows

For the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
Cash flows from operating activities			
(Loss) before taxation	2	**(1.2)**	(0.3)
(Increase)/decrease in operating assets	6	**0.2**	(0.2)
(Decrease)/increase in operating liabilities	8	**(0.9)**	0.2
Net cash flows (used in)/generated from operating activities		**(1.9)**	**(0.3)**
Cash flows from investing activities			
Investment in Group undertakings	4	**(74.1)**	(74.3)
Net cash used in investing activities		**(74.1)**	**(74.3)**
Cash flows from financing activities			
Proceeds from issue of shares	9	**75.0**	–
Issuance costs of Initial Public Offering		**(2.7)**	–
Proceeds from exercise of warrants		**5.6**	–
Net cash flows from contingent convertible securities	11	**–**	73.7
Coupon paid on contingent convertible securities, net of tax		**(2.8)**	–
Net cash from financing activities		**75.1**	**73.7**
Net (decrease) in cash and cash equivalents		**(0.9)**	**(0.9)**
Cash and cash equivalents at start of the year	3	**1.4**	2.3
Movement during the year		**(0.9)**	(0.9)
Cash and cash equivalents at end of the year	3	**0.5**	**1.4**

The Company statement of changes in equity

For the year ended 31 December 2015

	Share capital £m	Share premium account £m	Contingent convertible securities £m	Capital redemption reserve £m	Share-based payment reserve £m	Warrant reserve £m	Retained earnings £m	Total £m
Year ended 31 December 2015								
As at 1 January	**23.7**	**–**	**73.7**	**–**	**0.9**	**2.2**	**234.3**	**334.8**
Loss for the year	–	–	–	–	–	–	(1.2)	(1.2)
Transactions with equity holders:								
– Capital reorganisation prior to IPO	6.3	–	–	0.1	–	–	(6.4)	–
– Share issue proceeds from IPO	3.9	71.1	–	–	–	–	–	75.0
– Share issuance costs	–	(2.7)	–	–	–	–	–	(2.7)
– Share-based payments, including tax reflected directly in retained earnings	–	–	–	–	3.4	–	–	3.4
– Coupon paid on contingent convertible securities, net of tax	–	–	–	–	–	–	(2.8)	(2.8)
– Tax credit on contingent convertible securities issue costs	–	–	0.3	–	–	–	–	0.3
– Exercise of the share warrants	0.6	5.0	–	–	–	(2.2)	2.2	5.6
– Transfer of capital contribution to retained earnings	–	–	–	–	(0.9)	–	0.9	–
As at 31 December	**34.5**	**73.4**	**74.0**	**0.1**	**3.4**	**–**	**227.0**	**412.4**
Year ended 31 December 2014								
As at 1 January	**23.7**	**237.3**	**–**	**–**	**0.3**	**2.2**	**(2.7)**	**260.8**
Loss for the year	–	–	–	–	–	–	(0.3)	(0.3)
Transactions with equity holders:								
– Reduction in share premium	–	(237.3)	–	–	–	–	237.3	–
– Issue of contingent convertible securities	–	–	75.1	–	–	–	–	75.1
– Issue costs	–	–	(1.4)	–	–	–	–	(1.4)
– Share-based payments	–	–	–	–	0.6	–	–	0.6
As at 31 December	**23.7**	**–**	**73.7**	**–**	**0.9**	**2.2**	**234.3**	**334.8**

During the year ended 31 December 2015, the Company completed its initial public offering ("IPO"). The Company also undertook a capital reorganisation in advance of admission to the London Stock Exchange ("LSE"). Further details of both transactions are provided in Note 35 to the consolidated financial statements.

Notes to the Company financial statements

1. Basis of preparation

a) Accounting basis

The financial statements for Aldermore Group PLC (the "Company") have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"). The significant accounting policies adopted are set out in Note 2 to the consolidated financial statements.

b) Going concern

As detailed in Note 1(c) of the consolidated financial statements, the Directors have performed an assessment of the appropriateness of the going concern basis. The Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

c) Income statement

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement.

2. Net loss attributable to equity shareholders of the Company

On including the standalone Company financial statements here together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

	2015 £m	2014 £m
Net loss attributable to equity shareholders of the Company	**(1.2)**	(0.3)

3. Loans and advances to banks

	2015 £m	2014 £m
Repayable on demand	**0.5**	1.4

There were no collective or individual provisions for impairment against loans and advances to banks. All amounts are considered to be cash and cash equivalents.

4. Investment in Group undertakings

	2015 £m	2014 £m
As at 1 January	**334.0**	259.1
Capital injections – share capital	**74.1**	–
Capital contributions – share-based payments	**3.4**	0.6
Additional Tier 1 perpetual loan	**–**	74.3
As at 31 December	**411.5**	**334.0**

As at 31 December 2015, £nil worth of investments (31 December 2014: £nil) were classed as impaired.

During the year the Company injected £74.1 million in Aldermore Bank PLC. This injection reflected the external capital raised by the Company as a result of the Initial Public Offering and exercise of the share warrants.

Investment in subsidiaries

The Company owns 100 per cent of the issued share capital of Aldermore Bank PLC, which is a registered bank. Details of subsidiary undertakings of the Bank are provided in Note 23 to the consolidated financial statements.

All the companies listed in Note 23 to the consolidated financial statements are related parties to the Company.

Additional Tier 1 Perpetual Loan

On 9 December 2014 the Company set up a perpetual loan of indefinite duration that is repayable at the option of the Bank, and bears interest at an initial rate of 11.875 per cent per annum until 30 April 2020 and thereafter at the relevant Reset Interest Rate as provided in the loan agreement. The loan has been classified as an investment in a subsidiary undertaking and is carried at cost in accordance with IAS 27. Interest on the loan is recognised on payment as that is the point at which the unconditional receipt by the Company is established.

Notes to the Company financial statements continued

5. Related party transactions

Details of related party transactions of the Company are provided in Note 40 to the consolidated financial statements.

6. Other assets

	2015 £m	2014 £m
Other assets	–	0.2

7. Amounts owed to Group undertakings

	2015 £m	2014 £m
Group relief on contingent convertible securities issue costs	**0.4**	–

8. Accruals and deferred income

	2015 £m	2014 £m
Amounts payable within 12 months:		
Accruals	–	0.8

9. Share capital

Details of share capital of the Company are provided in Note 35 to the consolidated financial statements.

10. Share-based payments

Details of share-based payments issued by the Company are provided in Note 36 to the consolidated financial statements.

11. Contingent convertible securities

Details of the contingent convertible securities issued by the Company are provided in Note 37 to the consolidated financial statements.

12. Risk management

Through its Risk Management Framework, the Group is responsible for determining its principal risks, and the level of acceptable risks, as stipulated in the Group's risk appetite statement, thus ensuring that there is an adequate system of risk management so that the levels of capital and liquidity held are consistent with the risk profile of the business.

The risk management disclosures of the Group on pages 105 to 130 apply to the Company where relevant and therefore no additional disclosures are included in this note.

13. Fair value of financial assets and liabilities

The Directors consider its financial assets and liabilities apart from investments in subsidiaries are approximately equal to their carrying value. Accordingly no further disclosures in respect of fair values are provided.

14. Controlling party information

Details of controlling party information of the Company are provided in Note 40 to the consolidated financial statements.

15. Post balance sheet events

There are no material post balance sheet events.

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Glossary

AIP: Annual Incentive Plan. Annual bonus scheme that is open to selected senior employees.

ALCO: Asset and Liabilities Committee. Responsible for managing the Group's exposure to capital, liquidity, interest rate and market risk.

Allowance for impairment losses: Allowances held against assets on the statement of financial position as a result of the raising of a charge against profit for the incurred losses in the lending book. The allowance represents management's best estimate of losses incurred in the loan portfolio at the reporting date.

AnaCap: See "Principal Shareholders" below.

Arrears: Customers are said to be in arrears or non-performing when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue. Corporate customers may also be considered non-performing prior to being behind in fulfilling their obligations. This can happen when a significant restructuring exercise begins.

AT1 Capital: See "Contingent Convertible Securities" below.

Bank: Aldermore Bank PLC, the principal subsidiary of Aldermore Group PLC.

Basis points (bps): One hundredth of a per cent (0.01 per cent). 100 basis points is 1 per cent. It is used in quoting movements in interest rates or yields on securities.

BBR: Bank of England Base Rate.

Board: The Board of Directors of Aldermore Group PLC.

Buy-to-Let (BTL): A commercial practice of buying a property to let to tenants, rather than for the borrower to live in.

Capital Requirements Directive (CRD IV): This encompasses the Capital Requirements Directive and the Capital Requirements Regulation (CRR) as well as the PRA's Policy Statement PS7/13: *"Strengthening capital standards"*. CRD IV implements Basel III within the European Union (including the UK) and is a strengthening of the requirements laid out in Basel II.

Capital Requirements Regulation (CRR): The European Union has implemented the Basel III capital proposals through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), collectively known as CRD IV. CRD IV was implemented on 1 January 2014.

Capital resources: Capital held, allowable under regulatory rules, less specific regulatory adjustments and deductions that are required to be made. Capital includes retained earnings, share capital and share premium.

Capital risk: The risk that the Group has insufficient capital to cover regulatory requirements and growth plans.

CCA: Consumer Credit Act.

CEO: Chief Executive Officer, Phillip Monks.

CET1: See Fully loaded CRD IV Common Equity Tier 1 (CET1) capital

CFO: Chief Financial Officer, James Mack.

CFP: Contingency Funding Plan. Outlines what actions the Group could take to ensure it complies with the liquidity adequacy rules, maintains sufficient capital and operated within its risk appetite and limits, as set and approved by the Board. Forms part of the Group's Recovery and Resolution Plan (see "RRP" below).

Chairman: Glyn Jones.

CML: Council of Mortgage Lenders, the main trade body representing UK mortgage lenders, of which Aldermore Bank PLC is a full member.

Collateral: A borrower's pledge, usually a property, which acts as security for repayment of the loan.

Company: Aldermore Group PLC as a standalone entity.

Conduct risk: The risk of detriment to the Group's customers due to the inappropriate execution of its business activities and processes.

Contingent Convertible Securities: Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities, also referred to as AT1 Capital. The Group issued £75 million of AT1 securities on the Irish Stock Exchange on 9 December 2014.

COO: Chief Operating Officer, Paul Myers.

Cost of risk: Cost of risk is defined as credit impairment losses divided by average gross loans for a given period.

Cost/income ratio: Administrative expenses, including depreciation and amortisation, divided by total operating income.

Coverage ratio: The proportion of individually impaired loans and advances that are covered by individual allowances for impairment losses.

Credit risk: The risk of financial loss arising from a borrower failing to meet their financial obligations to the Group in accordance with agreed terms.

Credit Support Annex (CSA): The swap Credit Support Annex agreement requires the Group or a swap counterparty to hold cash in a deposit account, depending on whether the swap is in or out of the money.

CRO: Chief Risk Officer, Steve Barry.

Customers' accounts: Money deposited by individuals and companies that are not credit institutions. Such funds are recorded as liabilities in the Group's statement of financial position under "customers' accounts".

Debt securities in issue: Securities issued by the Group that are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicle, Oak No. 1 PLC.

Derivative: A financial instrument that has a value based on the expected future price movements of the instrument to which it is linked.

Disclosure and Transparency Rules (DTR): A set of rules implemented by the United Kingdom Listing Authority which covers matters relating to financial reporting.

Effective Interest Rate (EIR): The effective interest rate method calculates the amortised cost of a financial asset or financial liability, and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or financial liability. Calculation of the effective interest rate takes into account all contractual terms of the financial instrument but includes all amounts received or paid that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

Emergence Period (EP): The time between a trigger event occurring and the loans being identified as individually impaired.

EPS: Earnings per share.

EU: European Union.

Executive Directors: Phillip Monks (CEO) and James Mack (CFO).

Executive Committee: Under the leadership of the CEO, the Executive Committee is responsible for the management of the Group. Comprises Phillip Monks (CEO), James Mack (CFO), Steve Barry (CRO), Paul Myers (COO), Carl D'Ammassa (Group Managing Director – Business Finance), Charles Haresnape (Group Managing Director – Mortgages), Ali Humphries (Group HR Director) and Vicki Harris (Group Strategy and Marketing Director).

Expected loss (EL): A measure of anticipated loss for exposures captured under an internal ratings based credit risk approach. The 12 month expected loss amount is the exposure, arising from a potential default of a counterparty, over the next 12 months in respect of the amount expected to be outstanding at default.

Exposure at default (EaD): An estimate of the amount expected to be owed by a customer at the time of a customer's default.

External audit: An independent opinion, by an external firm KPMG LLP, on the Group and Company's financial statements.

Glossary continued

Fair Value: Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Financial Conduct Authority (FCA): The FSA was replaced as the UK's financial regulator on 1 April 2013 by two new regulatory bodies: the Prudential Regulation Authority (PRA) and the FCA. The FCA is responsible for the regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets.

Financial instruments: Any document with monetary value. Examples include cash and cash equivalents, but also securities such as bonds and stocks which have value and may be traded in exchange for money.

Financial Services Authority (FSA): An independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000, which regulated the financial services industry. It was replaced as the UK's financial regulator on 1 April 2013 by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

Financial Services Compensation Scheme (FSCS): The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers, up to a specified limit, if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

Forbearance: Forbearance takes place when a concession is made on the contractual terms of a loan in response to borrowers financial difficulties. Forbearance options are determined by assessing the customer's personal circumstances.

Forced Sale Discount (FSD): The difference in sale proceeds between a sale under normal conditions and a sale at auction.

FTSE 250: The share index consisting of the 101st to 350th largest company listed on the London Stock Exchange. Aldermore Group PLC has been a member of the FTSE 250 since June 2015.

Fully loaded CRD IV Common Equity Tier 1 (CET1) capital: A measure of capital that is predominantly common equity as defined by the Capital Requirements Regulation. CET 1 capital is the highest quality of capital and comprises share capital, share premium, capital redemption reserve, available for sale assets and retained earnings. The book values of goodwill and intangible assets as well as other regulatory adjustments, including the full 12 month amount of expected loss over provisions, are deducted from Common Equity Tier 1 capital for the purposes of capital adequacy.

Funding for Lending Scheme (FLS): The Bank of England launched the Funding for Lending scheme. Originally due to end in January 2015, the FLS was extended for another year in December 2014 and will now end in January 2016.

Gap: The Bank's net exposure between fixed and variable rate elements being managed within its market risk, e.g. interest rate movements (see Market risk).

Hedging: A technique used by the Group to offset risks on one instrument by purchasing a second instrument that is expected to perform in the opposite way.

Help to Buy: "Help to Buy" was formed as part of the 2013 Budget announcement by the Government and is part of a package of measures designed to increase the availability of low-deposit mortgages for creditworthy households and to boost the supply of new housing.

HMO: Houses of multiple occupancy. A property rented out by at least 3 people who are not from 1 "household" (e.g. a family) but share facilities like the bathroom and kitchen. It's sometimes called a "house share".

HPI: House Pricing Index.

IASB: International Accounting Standards Board. A London-based organisation which seeks to set and enforce standards for accounting procedures. It is responsible for maintaining the International Financial Reporting Standards (IFRS).

IFRSs: International Financial Reporting Standards, the accounting standards subject to endorsement by the EU by which the Group prepared its statutory accounts commencing from 1 January 2014.

Impaired loans: Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment allowance: A loss allowance held on the statement of financial position as a result of the raising of a charge against profit for the incurred losses in the lending book. An impairment loss allowance may be either individual or collective.

Independent Non-Executive Directors: A Director that is free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Individual Capital Guidance (ICG): The PRA's statement as to the regulatory capital under Pillar 2a that it expects the Group to hold over the Pillar 1 requirement.

Individual Liquidity Adequacy Assessment (ILAA): The Group's assessment of its liquidity risks, controls and quantification of liquid assets required to survive severe financial shocks addressed through the use of stress tests prescribed by the PRA (see Liquidity risk).

Individually significant: Large value loans that exceed a balance threshold established by the Group, above which it is deemed appropriate to assess accounts for impairment on an individual basis.

Initial Public Offering (IPO): The act of offering ordinary equity shares of a company on a public stock exchange for the first time. The Group completed its IPO on 13 March 2015.

Interest rate risk: The risk of financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates.

Internal audit: The examination of the Group's records and reports by its employees. Internal audits are conducted to ensure compliance with Board directives and management policies and are usually intended to prevent fraud.

Internal Capital Adequacy Assessment Process (ICAAP): The Group's own assessment, as part of Basel II and Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.

KMP: Key management personnel, namely Directors of the Group and members of the Executive Committee.

KPIs: Key performance indicators.

Leverage ratio: A CRD IV measure, calculated as the ratio of Tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives. The leverage ratio is a supplementary measure to the risk based capital requirements and is intended to constrain the build-up of excess leverage in the banking sector.

LIBOR (London Interbank Offered Rate): The interest rate participating banks offer to other banks for loans on the London market.

Liquid Asset Buffer: The stock of assets which the Bank has available in order to manage its liquidity risk. These assets have relatively short maturity dates.

Liquidity risk: The risk that the Group is not able to meet its obligations as they fall due, or can only do so at excessive cost.

Loan to value (LTV): A ratio which expresses the amount of a mortgage outstanding as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).

Loans to Deposit Ratio: The ratio of loans and advances to customers net of allowance for impairment losses divided by customer deposits.

Loss given default (LGD): An estimate of the actual loss that would occur in the event of default expressed as a percentage of the Exposure at Default.

LPA: Law of Property Act.

LSE: London Stock Exchange.

Glossary continued

Market risk: The financial impact from movements in market prices on the value of assets and liabilities. The majority of the Bank's market risk arises from changes in interest rates.

MIA: Months in arrears.

Net interest income: The difference between interest received on assets and interest paid on liabilities after taking into account the effect of hedging derivatives.

Net Interest Margin (NIM): Net interest income as a percentage of average interest-earning assets.

Net revenue margin: Total operating income as a percentage of average interest-earning assets.

NPL (non-performing loans) ratio: Individually impaired loans expressed as a percentage of gross loans.

Oak No 1 PLC: The Group's securitisation vehicle.

Operational risk: The risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime.

Origination: The process of creating or acquiring a loan or mortgage.

Parent Company: Aldermore Group PLC.

Past due: When a counterparty has failed to make a payment when contractually due.

Pillar 1: Minimum capital requirement under Capital Requirements Regulation.

Principal Shareholders: Collectively AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P., AnaCap Derby Co-Investment (No.1) L.P. and AnaCap Derby Co-Investment (No.2) L.P.

Probability of default (PD): The likelihood that a loan will not be repaid and will fall into default. To calculate PD, the Group assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating.

Prudential Regulation Authority (PRA): The FSA was replaced as the UK's financial regulator on 1 April 2013 with two new regulatory bodies: the PRA and the FCA. The PRA, a subsidiary of the Bank of England, is responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks.

PSP: Performance Share Plan. A share plan that is open to selected senior employees.

Pts: Percentage points

RAF: Risk Appetite Framework

Recovery and Resolution Plan (RRP): The FSA required all UK deposit takers and large investment firms to draw up a Recovery and Resolution Plan by 31 December 2012. The Recovery Plan assesses and documents the recovery options available in situations of financial stress or negative financial shocks, either market-wide or idiosyncratic. The Resolution Plan will provide authorities with sufficient information to enable them to determine a detailed roadmap to resolve a failed financial institution, without resorting to Government (effectively taxpayer) support.

Return on Equity (RoE): The ratio of profit for the year (after tax) to average shareholders' equity, expressed as a percentage.

Risk Weighted Assets (RWA): A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with Basel II.

RMBS: Residential Mortgage Backed Securities. See "Securitisation" below.

RMF: Risk Management Framework. The Risk Management Framework outlines the governance, policies, procedures, systems, tools, techniques and activities by which the Board and senior management establish and monitor the Group's risk appetite and effectively manage risk.

RSP: Restricted Share Plan. A share plan that is open to selected senior employees.

SBP: Share-Based Payments.

Securitisation: Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. A company sells assets to a securitisation vehicle which then issued securities backed by the assets. This allows the credit quality of the assets to be separated from the credit rating of the original company. Assets used in the securitisations undertaken to date include mortgages to create residential mortgage backed securities (RMBS). The Group established Oak No 1 PLC as part of its funding and capital management activities.

Senior Independent Director: Danuta Gray joined the Board as the Senior Independent Director in September 2014. The Senior Independent Director is available to shareholders if they have concerns that the normal channels of communication to shareholders via the Chairman, Chief Executive Officer or other Executive Directors have failed to resolve any issues, or for which such channels of communication are inappropriate.

SIP: Share Incentive Plan. A share plan that is open to all employees.

SMEs: Small and medium sized businesses engaging with the Group as customers.

SREP: Supervisory Review Evaluation Process. The SREP is a process by which the PRA will (taking into account the nature, scale and complexity of a firm's activities) review the arrangements, strategies, processes and mechanisms implemented by a firm to comply with its regulatory requirements laid down in PRA rules and the CRR, evaluate the risks to which the firm is or might be exposed, assess the risks that the firm poses to the financial system, and evaluate the further risks revealed by stress testing.

Standard Variable Rate (SVR): A variable and basic rate of interest charged on a mortgage. This may change in reaction to market conditions resulting in monthly repayments going up or down. Within Aldermore the SVR is called the Aldermore Managed Rate (AMR).

Strategic risk: The risk which can affect the Group's ability to achieve its corporate and strategic objectives.

The Bank: Aldermore Bank PLC, the principal subsidiary of Aldermore Group PLC.

The Group: The Aldermore Group PLC standalone entity and its subsidiary undertakings, including its principal subsidiary, Aldermore Bank PLC.

Tier 1: A regulatory measure of financial (capital) strength. Tier 1 is divided into Common Equity Tier 1 (CET1) and Additional Tier 1 capital. CET 1 capital comprises share capital, share premium, capital redemption reserve, available for sale assets and retained earnings. The book values of goodwill and intangible assets are deducted from CET1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as Contingent convertible Securities are included in Additional Tier 1 capital.

Tier 1 ratio: Tier 1 capital divided by Risk Weighted Assets.

Tier 2: Tier 2 capital comprises the Group's subordinated notes and collective impairment allowance (for exposures treated on a Basel II standardised basis). Certain regulatory deductions may be made for the purposes of assessing capital adequacy.

Total capital ratio: The sum of the Tier 1 capital ratio and the Tier 2 capital ratio.

TSR: Total Shareholder Return. A measure of performance that combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

Unsecured lending: Lending for which there is no collateral for the loan.

Value at risk (VaR): VaR measures the daily maximum potential gain or loss due to market volatility within a statistical confidence level of 95 per cent and a one day holding period. The VaR methodology employed is historical simulation using a time series of one year to latest day.

Shareholder information

Annual General Meeting (AGM)

The AGM will be held at 10.30am on 17 May 2016 at the offices of Linklaters LLP, 1 Silk Street, London, EC2Y 8HQ. Further details about the meeting, including proposed resolutions, can be found in the Notice of AGM which will be posted to shareholders and made available on the Company's website at www.investors.aldermore.co.uk

Reports and communications

The Group issues regulatory announcements through the Regulatory News Service (RNS); shareholders can view releases via the "News and Results" section of the Company's website at www.investors.aldermore.co.uk. You will also find frequently asked questions and answers on shareholding matters.

A summary of our statutory reports and shareholder communications which can also be found in the "News and Results" section of the Company's website are listed below:

Information on your shareholding

The Company's registrars are Equiniti Limited. If you have any questions about your shareholding or you require any other guidance you can contact Equiniti as follows:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0371 384 2030

Overseas: +44 (0)121 415 7047

Lines open 8:30am to 5:30pm Monday to Friday.

A range of shareholder information is available online at Equiniti's website, www.shareview.co.uk, including the portfolio service which gives you access to more information on your investments such as balance movements and indicative share prices. You can also obtain forms that you may need to manage your shareholding (for example a change of address form or a stock transfer form) and can register your email address to receive shareholder information and the Annual Report and Accounts electronically.

Share price information

Shareholders can access both the latest and historical share prices via our website at www.investors.aldermore.co.uk as well as in listings in most national newspapers. For a real-time buying or selling price, you will need to contact a stockbroker.

		Available format			
	Month	**Online**	**RNS**	**Paper**	**Email**
Preliminary results	Mar	✓	✓		
Annual Report and Accounts	Apr	✓		✓	
Pillar 3 report	Apr	✓			
Notice of AGM and voting materials	Apr	✓		✓	
Q1 update	May	✓	✓		
Interim results	Aug	✓	✓		
Q3 update	Nov	✓	✓		

Electronic shareholder communications

Shareholders can choose to receive all Company information, such as the Annual Report and Accounts and AGM notice, electronically. This way of receiving information has a number of advantages including quicker delivery of documents and the ability to access reports and results on the internet wherever you are. There are also cost and environmental benefits due to the reduction in printing, packaging and posting costs.

Registering for electronic shareholder communications is very straightforward and can be done online at any time at www.shareview.co.uk, which is a website provided by our registrar, Equiniti.

Further information on the options available to you for receiving shareholder communications is included with the 2016 AGM mailing. Please note that if you do not return the Response Form included with the mailing by 6 May 2016, we will assume that you have consented to being notified by hard copy letter whenever documents are available on the Company's website and you will no longer receive hard copies by post. You are free at any time to change your mind and elect to receive paper documentation by contacting Equiniti using the contact details noted on page 194.

Share dealing facilities

Please note that the Company itself does not endorse any one service for the buying and selling of its shares that may be offered by Equiniti and you are free to buy and sell your shares through any broker.

Share fraud – warning to shareholders

In recent years, a number of other companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as "boiler rooms". These "brokers" can be very persistent and extremely persuasive. We are not aware of any Aldermore Group investors having been targeted, but we would urge you to remain vigilant.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. 5,000 people contact the Financial Conduct Authority ("FCA") about share fraud each year, with victims losing an average of £20,000

If you do not know the source of a call, check the details through the FCA website, www.fca.org.uk, and if you have any specific information, report it to the FCA using the Consumer Helpline (0800 111 6768) or the online reporting form at www.fca.org.uk/scams

If you have any concerns whatsoever, do not take any action and do not part with any money without being certain that:

- You fully understand the transaction
- You know who you are dealing with and that they are registered with and authorised by the FCA
- You have consulted a financial adviser if you have any doubts. Remember, if it sounds too good to be true, it almost certainly is. You run the risk of losing any money you pay out

If you are worried that you may already have been a victim of fraud, report the facts immediately using the Action Fraud Helpline.

Action Fraud Helpline 0300 123 2040
www.actionfraud.police.uk

More information about "boiler room" and other investment-type frauds can also be found at www.fca.org.uk/scams

Key contact information

Company information

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Registered in England
Company number: 06764335

Corporate website: www.aldermore.co.uk

Investor Relations website: www.investors.aldermore.co.uk

Company Secretary: company.secretary@aldermore.co.uk

Registrar

Equiniti Limited

Aspect House, Spencer Road, Lancing
West Sussex BN99 6DA

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0371 384 2030 from within the UK
+44 (0)121 415 7047 from outside the UK

Lines open 8:30am to 5:30pm Monday to Friday.

Shareholder information

www.shareview.co.uk

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