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AC Acquisitions Limited

Financial Statements for the period ended 31 December 2009

Registered number 06764335

Company Information

Directors

S Barry

JD Callender

PB Cartwright

FS McFadyen

M Molyneux

DP Monks

PC Myers

M Stephens

Secretary

S Haynes

Registered office

25 Bedford Street

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Auditors

KPMG Audit Plc

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Neville Street

Leeds

LS1 4DW

Registered No.

06764335

Contents

Directors' report

For the period ended 31 December 2009

Financial statements

The directors present their consolidated report and financial statements of AC Acquisitions Limited ('the Company') and its subsidiaries (together within 'the Group') for the period ended 31 December 2009

Results and dividends

The Group results for the period are set out in the consolidated profit and loss account on page 12 The directors do not recommend the payment of a dividend in respect of the period

Principal activities and review of business

AC Acquisitions Limited was incorporated on 3 December 2008 On 20 May 2009 it acquired the non-trading holding company, Aldermore Holdings Limited (formerly Ruffler Holdings Limited)

Aldermore Holdings Limited is a non-trading holding company for Aldermore Bank PLC (formerly Ruffler Bank Plc)

Aldermore Bank PLC (formerly Ruffler Bank Plc) ('Aldermore') is authorised to accept deposits under the Financial Services & Markets Act 2000 and the provision of banking and related services During the period Aldermore also undertook invoice financing services focusing on small to medium sized enterprises and the provision of commercial mortgages

Principal Activities and Business Review

Aldermore Bank PLC, the trading subsidiary of AC Acquisitions Limited, is authorised to accept deposits under the Financial Services & Markets Act 2000 and the principal activities of Aldermore Bank PLC during 2009 were the provision of banking and related services The strategic objective of Aldermore Bank PLC is to be a provider of secured financial products to the SME and residential mortgage markets, funded by capital and retail deposits

The operating loss before taxation for the period ended 31 December 2009 for the Group was £15 6m The loss is a direct result of significant investment across the business in infrastructure, systems and recruitment to enable future growth and scale to be achieved The number of employees in the Group at 31 December 2009 was 259

The Tier 1 and 2 capital of Aldermore Bank PLC at 31 December 2009 was £46,012k The regulatory capital requirement was £30,999k, therefore Aldermore Bank PLC had capital surplus of £15,013k and capital adequacy ratio of 148%

Liquidity

Period-end cash balances for Aldermore Bank PLC, the trading subsidiary of AC Acquisitions Limited, were £83 5m giving a liquidity ratio (Cash divided by Deposit balances) of 36 4% Aldermore Bank PLC internal liquidity target is 20%, meaning Aldermore Bank PLC had excess liquidity of £37 6m

Investment in the Business Systems and Support Structure

Fixed asset additions in the period of £683k were mainly focused on new IT systems and infrastructure This investment is ongoing and the business is forecast to spend over £2m during 2010 on enhancing the technology infrastructure further

Directors' report (continued)

For the period ended 31 December 2009

Asset Finance and Leasing

During 2009, Aldermore Bank PLC grew its asset finance business through origination of IT leases to the public sector, professions and corporate sectors Aldermore Bank PLC will continue to offer hire purchase products to the leisure industry, in particular coin operated machines, however Aldermore Bank PLC is actively managing down its exposure to the fairground industry At present Aldermore Bank PLC sources new business from specialist brokers, but plans to seek vendor partnerships to help diversify distribution

Commercial Property Mortgage Finance

Through the effective integration of Base, Aldermore Bank PLC is now an established UK SME commercial mortgage lender offering specialist products and solutions via intermediaries Aldermore Bank PLC has a conservative approach to underwriting commercial property loans and during the period resumed lending in the commercial mortgage sector, limiting underwriting to select customers for first-charge, low-LTV commercial mortgage loans

Invoice Discounting

On 17 November 2009, Aldermore Bank PLC acquired the invoice discounting business formerly known as Cattles Invoice Finance, the business is currently known as Absolute Invoice Finance ("Absolute")

Absolute provides working capital finance, with the principal product lines being factoring and invoice discounting, and related services Products are targeted at small and medium enterprises (SMEs) with a turnover typically ranging from £100k to £25m Through the acquisition of Absolute, Aldermore Bank PLC will offer invoice discounting and factoring products to UK SMEs As an established lender in this sector, Absolute will continue trading in much the same way but will benefit from enhanced risk management controls and support from Aldermore Bank PLC

Property Development and Bridging Finance

Given the recent weaknesses in the UK property sector, Aldermore Bank PLC continues to be cautious about property development financing and bridging facilities Aldermore Bank PLC has a small portfolio of residential property development loans and as the residential property market has stabilised somewhat will maintain a presence in this market, but on a very conservative basis

Other Business Lines

Aldermore Bank PLC has two other business lines, personal loans and corporate lending Aldermore Bank PLC does not intend to continue in these areas and the loans currently outstanding will continue to be managed by the bank and will run off through natural maturity or redemption

Directors' report (continued)

For the period ended 31 December 2009

Summary of loan values by type for Aldermore Bank PLC, the trading subsidiary of AC Acquisitions Limted

Analysis of loans and advances to customers	As at 31 December 2009 £'000
Asset finance	22,175
Commercial Mortgages	34,184
Invoice Finance	79,712
Other	24,503
Total	160,574

Other Assets

Aldermore Bank PLC has a small portfolio of asset backed securities These investments are in AAA rated bonds secured on UK originated assets All investments are in Sterling, no foreign currency bonds were bought As at 31 December 2009 the value of these investments was £37 4million The portfolio has a significant level of credit enhancement, providing substantial principal protection against losses

Customer Deposits

The primary source of funding for Aldermore Bank PLC is from retail deposits Retail deposit products are offered to the general public via the internet, post, and telephone The recent growth in assets has been funded through the deposits base Deposit balances in Aldermore Bank PLC have increased from £65 8m at 31 March 2009 to £229 6m at 31 December 2009

Future Developments

On 23 February 2010 AnaCap Derby Co-Investment (No 1) L P, of which Morgan Stanley is the sole investor, and AnaCap Financial Partners II LP invested a further £20m in AC Acquisitions Limited This in turn has been invested in Aldermore Bank PLC via a subscription of ordinary share capital

On 2 March 2010 the Group acquired the assets and employees of Heritable Asset Finance for £23m On the 30 June 2010 Aldermore Bank PLC acquired a residential mortgage portfolio from Merrill Lynch International Bank Limited for £24 9m The book value of assets acquired was £31 4m

Going Concern

As referred to in Note 1(b), the Directors have made a full assessment of the current state of the balance sheet of the Group and the longer term strategy of the business Although loss making during the period to 31 December 2009, the Directors believe that the Group has sufficient resources to continue lending and deposit taking throughout 2010 and to continue its expansion The Group has firm backing from its investors to enable it to maintain the regulatory capital requirements as set out by the Financial Services Authority

The Group is forecasting to beome profit making in the latter part of 2010

Directors' report (continued)

For the period ended 31 December 2009

Principal Risks and Uncertainties

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

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

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

<u>Credit Risk</u>

Credit risk is the risk of principal loss arising from defaults and losses in the event of default under mortgage, lease and loan contracts Credit risks are managed through the use of a detailed lending criteria, careful assessment and suitable product structures The Credit Risk & Lending Policy outlines the approach to lending, underwriting criteria, mandates, concentration limits and product terms Each new business area has a dedicated team which assesses credit risk, with the Head of Credit Management having oversight of the lending activities

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

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

<u>Market Risk</u>

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

<u>Interest Rate Risk</u>

Interest rate risk is the risk of loss through unhedged or mismatched asset and liability positions sensitive to changes in interest rates Where possible the bank seeks to match the interest rate structure of assets with liabilities, or deposits,

Directors' report (continued)

For the period ended 31 December 2009

creating a natural hedge Where this is not possible the Group will enter into swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets

Liquidity Risk

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

Operational Risk

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

Other Risks

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

Further information on risk management is contained within note 28

Directors' report (continued)

For the period ended 31 December 2009

Performance Analysis based on Key Performance Indicators

The following metrics for Aldermore Bank PLC, the trading subsidiary of AC Acquisitions Limited, represent the core key performance indicators for the bank

Total Capital Adequacy Ratio at 31 December 2009	148%
Tier 1 Capital Adequacy Ratio at 31 December 2009	146%
Asset growth (non cash) between 31 March 2009 and 31 December 2009	231% (£145 4m)
Retail deposit growth between 31 March 2009 and 31 December 2009	247% (£163 5m)
Liquidity ratio 31 December 2009	36 4%
Loss for period ended 31 December 2009	£12 9m
Net Interest Margin at 31 December 2009	1 3%

Results and dividends

The results for the period are set out in the consolidated profit and loss account on page 12

No dividends are paid or payable in respect of the period ending 31 December 2009

Payment policy

It is the Group's policy to pay suppliers as they fall due, in accordance with the negotiated terms of business At 31 December 2009, the Group had trade creditors of £2,019,000 The trade creditor days figure was 35 at 31 December 2009

Equal opportunities for disabled people

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

Staff communication

The Group provides regular updates to all employees Following the acquisition of Absolute Invoice Finance Holdings Limited the business is developing a communications framework which will be implemented during 2010

Directors' report (continued)

For the period ended 31 December 2009

Directors

The following directors have held office since 3 December 2008

S Barry	(Appointed 14 October 2009)	
JD Callender	(Appointed 20 May 2009)	
PB Cartwright	(Appointed 3 December 2008)	
FS McFadyen	(Appointed 20 May 2009)	
M Molyneux	(Appointed 20 May 2009)	
DP Monks	(Appointed 20 May 2009)	
PC Myers	(Appointed 25 August 2009)	
S Proost	(Appointed 18 May 2009)	(Resigned 8 June 2009)
M Stephens	(Appointed 20 May 2009)	

Certain Directors benefited from qualifying third party indemnity provisions in place during the nine months ended 31 December 2009 and at the date of this report

Charitable donations

During the period the Group made no charitable donations

Directors' report (continued)

For the period ended 31 December 2009

Statement of disclosure to auditors

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

Auditors

In accordance with the Companies Act 2006 KPMG Audit Plc ("KPMG") has been appointed as auditors of the Company Pursuant to Section 487 of the Companies Act 2006, a resolution is to be put to the forthcoming Annual General Meeting which, if passed, would result in the Company not being required to appoint its auditors annually KPMG would then continue as the Group's auditors

This report was approved by the Board on 1 September 2010 and was signed on its behalf by

DP Monks
Director

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the group and parent financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent 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 the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

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

Independent Auditors' report to the members of AC Acquisitions Limited

We have audited the financial statements of AC Acquisitions Limited for the period ended 31 December 2009 set out on pages 12 to 42 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK GenerallyAccepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards requireus to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2009 and the group's loss for the period then ended,
- have been properlyprepared inaccordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent Auditors' report to the members of AC Acquisitions Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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 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

Jonathan Bingham (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

1 The Embankment

Neville Street

Leeds

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1 September 2010

Consolidated Profit and Loss Account

For the period ended 31 December 2009

	Notes	Group 2009 £'000
Interest receivable	2	5,354
		5,354
Interest payable	3	(3,707)
Net interest income		1,647
Fees and commissions receivable	4	1,386
Fees and commissions payable		(192)
Other operating income	5	893
Operating income		3,734
Of which:		
Acquisitions – Aldermore Holdings Limited		
		3,734
		3,734
Administrative expenses		(14,228)
Depreciation and amortisations		(574)
Provision for bad and doubtful debts	12	(4,512)
Loss on ordinary activities before taxation	9	(15,580)
Taxation on loss on ordinary activities	10	(82)
Loss on ordinary activities after taxation	22	(15,662)

The consolidated profit and loss account has been prepared on the basis that all operations are continuing All the results, including net interest income and loss on ordinary activities before taxation, relate to acquisitions in the period There are no recognised gains or losses other than those passing through the profit and loss account The accompanying notes are an integral part of this consolidated profit and loss account

The loss for the Company during the period to 31 December 2009 was £2,653,000

Balance Sheets
as at 31 December 2009

	Notes	Group 2009 £'000	Company 2009 £'000
Assets			
Loans and advances to banks			
Repayable on demand	11	52,032	146
With agreed maturity date	11	31,600	-
		83,632	146
Loans and advances to customers	12	160,574	-
Asset backed securities	13	37,361	-
Tangible fixed assets	14	1,950	-
Intangible assets	15	12,511	-
Investments in subsidiaries	16	-	71,963
Other assets	17	1,173	-
Prepayments and accrued income		2,516	-
Total assets		299,717	72,109
Liabilities			
Customers accounts - Repayable on demand	18	442	-
- With agreed maturity dates or notice periods	18	228,138	-
		228,580	-
Other liabilities	19	7,035	-
Accruals and deferred income		5,002	-
		240,617	-
Capital and reserves			
Called up share capital	20	7,664	7,664
Share premium account	21	67,098	67,098
Profit and loss account	21	(15,662)	(2,653)
Shareholders' funds	22	59,100	72,109
Total liabilities and shareholders' funds		299,717	72,109
Memorandum items			
Commitments	25	21,191	-

Balance Sheets (continued)

as at 31 December 2009

The financial statements on pages 12 to 42 were approved by the Board and authorised for issue on 1 September 2010 and were signed on its behalf by

DP Monks
Director

Company Registration No: 06764335

The accompanying notes are an integral part of the consolidated and parent company balance sheets

Consolidated Cash Flow Statement

For the period ended 31 December 2009

	Notes	**Group 2009 £'000**
Net cash inflow from operating activities	29	80,608
Taxation		(82)
Capital expenditure and financial investment	30	(37,570)
Acquisitions and disposals	31	1,608
Cash inflow from before use of liquid resource and financing		**44,564**
Financing	32	39,068
Increase in cash in the period		**83,632**

Notes to the financial statements

For the period ended 31 December 2009

1 Accounting policies

a) Accounting basis

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

b) Going concern

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

c) Finance leases and hire purchase agreements

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

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

d) Loan agreements

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

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

e) Invoice financing

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

i) Interest income

The group charges its clients interest each day on the balance of their outstanding loan This interest income is recognised in the profit and loss account as it is accrued and added to the clients' borrowings

Notes to the financial statements
For the period ended 31 December 2009

ii) Fee and related income

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

f) Provisions for loan losses

Provisions for finance agreement and loan losses are based on a period end appraisal of recoverability of all advances Specific provision is made against agreements which have been identified as bad or doubtful to reduce the carrying amount, including interest in arrears, to estimated realisable value Bad debts are written-off in part or in whole when the extent of loss has been confirmed and there is no realistic prospect of recovery

g) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries which are accounted for under the acquisition accounting method The Company has taken advantage of section 408 of the Companies Act 2006 and accordingly does not present its own profit and loss account

h) Tangible fixed assets and depreciation

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

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

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

i) Fees and commissions

Fees and commissions arising on loans are amortised over the period of the loan to a maximum of five years

j) Rentals receivable under operating leases

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

k) Foreign currencies

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

Notes to the financial statements
For the period ended 31 December 2009

l) Taxation

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

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

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

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

m) Pension costs

The cost of providing retirement pensions is charged to the profit and loss account at the amount of the defined contributions payable for each year Differences between contributions payable and those actually paid are shown as accruals or prepayments

n) Segmental information

In the opinion of the directors the Group operates in one banking related segment in the UK

o) Equity shares and asset backed securities

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

Notes to the financial statements

For the period ended 31 December 2009

p) Impairment of assets

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

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

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

q) Goodwill

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

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

Notes to the financial statements
For the period ended 31 December 2009

r) Fair value adjustments on acquisition

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

s) Leasing – as lessee

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

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

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

t) Investments in subsidiaries

Investments in subsidiaries are initially recognised at cost in the Company's balance sheet The Group recognised income from the investment only to the extent that it received distributions from post-acquisition accumulated profits Distributions received in excess of such profits are regarded as a recovery of investment and recognised as a reduction in the cost of the investment 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 Group estimates the investment's recoverable amount The investment is written down to the recoverable amount if this is lower that its carrying value The impairment loss is recognised in the profit and loss account within other operating expenses

u) Asset backed securities

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

Notes to the financial statements
For the period ended 31 December 2009

v) Derivatives

A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates of the derivative and the designated asset or liability being hedged Non-trading derivatives are reviewed regularly for their effectiveness as hedges Non-trading derivatives are accounted for on an accruals basis, consistent with the asset or liability being hedged Income and expenses on non-trading derivatives are recognised as they crystallise as an adjustment to interest There are no derivatives held for trading

2 Interest Receivable

	Group 2009 £'000
Banking services and lending	4,526
Factoring	828
	5,354

3 Interest Payable

	Group 2009 £'000
Banking services and lending	3,383
Factoring	324
	3,707

Notes to the financial statements
For the period ended 31 December 2009

4 Fees and Commissions receivable

	Group 2009 £'000
Invoice finance and mortgage related fees and commissions	1,386
	1,386

5 Other operating income

	Group 2009 £'000
Other invoice finance related income	893
	893

6 Staff costs

	Group 2009 £'000
Wages and salaries	3,337
Social security costs	448
Other pension costs	100
	3,885

The average number of persons employed by the Group during the period, including directors, was 72 Excluding directors, the Company had no employees

Notes to the financial statements
For the period ended 31 December 2009

7 Directors' emoluments

	Group 2009 £'000
The remuneration of the directors of the Company was	
Emoluments (including benefits in kind)	889
Group contributions to directors' individual personal pension plans	12
Share incentives	123
	1,024

The Group made payments to 4 directors' individual personal pension plans during the period
During the period the following directors were given the option to acquire shares at a discount to market value These discounted shares vested immediately giving rise to a charge of £123,000 DP Monks received 1,415,897 shares at a discount

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director	Group 2009 £'000
Emoluments	259
Group contributions to individual personal pension plan	3
Share incentives	123
	385

8 Pension schemes

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 £103,243 were charged to the profit and loss account during the period in respect of these schemes There were outstanding contributions of £24,706 at the period end The Group also made payments amounting to £20,342 to certain employees' individual personal pension plans during the period No payments have been made or charge by the Company

Notes to the financial statements

For the period ended 31 December 2009

9 Loss on ordinary activities before taxation

This is arrived at after charging/(crediting)	Group 2009 £'000
Operating lease rentals	118
Depreciation	299
Interest payable on customer accounts	3,707
Fees payable to the Group's auditors for audit of the company's subsidiaries	151
Fees payable to the Group's auditors for tax services	38
Fees payable to the Group's auditors for other services	58
Exchange differences	(31)

In the period ending 31 December 2009, bank payroll tax of £51,000 was provided for in respect of bonus payments in excess of the £25,000 threshold The total value of these bonuses was £177,000 and related to three directors of the Group

10 Taxation

(i) Analysis of tax charge on ordinary activities	**Group 2009 £'000**
Current tax on loss for the period	-
Total current tax charge	-
Deferred tax	
Origination and reversal of timing differences	**82**
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	-
	82
Taxation charge on loss on ordinary activities	**82**

(ii) Factors affecting tax charge for the current period

The tax assessed for the period is different to that resulting from applying the standard rate of corporation tax in the UK of 28% The differences are explained below

Notes to the financial statements
For the period ended 31 December 2009

10 Taxation (continued)

	Group 2009 £'000
Loss on ordinary activities before tax	(15,580)
Tax at 28% thereon	(4,362)
Effects of	
Movements on provisions	387
Expenses not deductible for tax purposes	922
Capital allowances less than depreciation	95
Losses carried forward	7,288
Deferred tax assets transferred in	(4,479)
Depreciation written back	149
Current tax (credit)/charge for period	-

(iii) Deferred tax asset
Movement on deferred taxation balance in the period

	Group 2009 £'000
Transfer in	82
Charge to profit and loss account	(82)
Closing balance	-

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future of the underlying timing differences can be deducted To date, no deferred tax asset has been recognised as there is insufficient certainty over the ability to use the amounts in the future Losses relating to the acquired Base Commercial Mortgages Holdings business and the Absolute Invoice Finance Holdings business of £11 1m in total have not been reflected by a deferred tax asset as there is insufficient certainty over the ability to use the amounts in the future

(iv) Analysis of deferred tax balance	Group 2009 £'000
Capital allowances less than depreciation	-
Short term timing differences	-
Closing balance	-

Notes to the financial statements

For the period ended 31 December 2009

10 Taxation (continued)

(v) Analysis of unrecognised deferred tax balance	**Group 2009 £'000**
Capital allowances less than depreciation	210
Short term timing differences	388
Losses carried forward	7,314
Closing balance	7,912

11 Loans and advances to banks

	Group 2009 £'000	**Company 2009 £'000**
Repayable on demand	52,032	146
Repayable in not more than three months	31,600	-
	83,632	146

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

12 Loans and advances to customers

	Group 2009 £'000
Repayable in not more than three months	109,810
Repayable in more than three months but not more than one year	15,799
Repayable in more than one year but not more than five years	16,193
Repayable in more than five years	30,469
Specific and general doubtful debt provisions	(11,697)
	160,574
Amounts include	
Repayable on demand or at short notice	104,348
Non-performing loans and advances to customers	
- loans and advances before provisions	25,376
- loans and advances after provisions	14,614

Specific and general doubtful debt provisions

Period ending 31 December 2009	**Specific £'000**	**General £'000**	**Total £'000**
At start of period	-	-	-
Purchases as part of acquisition	10,823	255	11,078
Written off	(3,893)	-	(3,893)
Charge to profit and loss account	3,832	680	4,512
31 December 2009	10,762	935	11,697

Notes to the financial statements
For the period ended 31 December 2009

12 Loans and advances to customers (continued)

Loans and advances to customers comprise:	**Group 2009 £'000**
Invoice financing	79,712
Investment in finance leases	8,542
Investment in hire purchase agreements	10,108
	98,362
Loans	62,212
	160,574

Loans include commercial mortgage balances that were acquired from Base Commercial Mortgages Holdings Limited on 20 May 2009 The value of loans acquired was £35 13m As at 31 December 2009 a fair value adjustment reducing these assets by £6 16m had been recognised in these financial statements

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

	Assets purchased Group 2009 £'000	**Rentals receivable Group 2009 £'000**
Finance leases	9,935	1,322
Hire purchase agreements	6,280	1,645
	16,215	2,967

There is no residual value in relation to these leases

Notes to the financial statements

For the period ended 31 December 2009

13 Asset backed securities

	Group 2009 £'000
Investment securities at cost	
Cost	
At start of period	-
Additions	46,953
Capital repayments	(4,274)
31 December 2009	42,679
Impairment Provision	
At start of period	-
Provisions	5,792
Accretion of impairment	(474)
31 December 2009	5,318
Book Value	
31 December 2009	37,361

14 Tangible fixed assets (Group)

	Computers £'000	Fixtures fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
At start of period	-	-	-	-
Purchased during acquisition	1,004	826	230	2,060
Additions	677	6	-	683
31 December 2009	1,681	832	230	2,743
Depreciation				
At start of period	-	-	-	-
Purchased during acquisition	154	323	17	494
Charge for the period	212	84	3	299
31 December 2009	366	407	20	793
Net book value				
31 December 2009	1,315	425	210	1,950

Future capital expenditure

At 31 December 2009 there was £2,100,000 capital expenditure authorised but not contracted for or contracted but not provided for

Notes to the financial statements

For the period ended 31 December 2009

15 Intangible assets

	Group Goodwill 31 December 2009 £'000
Cost	
At start of period	-
Acquisition of subsidiary undertakings	12,780
At 31 December 2009	12,780
Amortisation	
At start of period	-
Charged for the period	269
At 31 December 2009	269
Net book value at 31 December 2009	12,511

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

Notes to the financial statements
For the period ended 31 December 2009

16 Investments in subsidiaries (Company)

	2009 £'000
Cost	
At start of period	-
Acquisition of Aldermore Holdings Limited	23,796
Capital injections	48,167
At 31 December 2009	71,963
Impairment	
At start of period and at 31 December 2009	-
Net book value at 31 December 2009	71,963

The Company owns 100% of the issued share capital of Aldermore Holdings Limited, a company incorporated in England and Wales Aldermore Holdings Limited owns 100% of the issued share capital of Aldermore Bank Plc, which is a registered bank The following subsidiaries are part of the wider Group

The shares of Base Commercial Mortgages Holdings Limited were sold by AC Acquisitions Limited to Aldermore Holdings Limited and then Aldermore Bank PLC via a share exchange and disposal

Subsidiary undertakings	Country of incorporation	Principal Activity
Aldermore Holdings Limited	England	Banking and related services
Aldermore Bank PLC	England	Holding company
Aldermore Nominees Limited	England	Dormant subsidiary
Absolute Invoice Finance Holdings Limited	England	Invoice Financing (dormant)
Absolute Invoice Finance Limited	England	Invoice Financing (dormant)
Absolute Invoice Finance (Oxford) Limited	England	Invoice Financing (dormant)
Base Commercial Mortgages Holdings Limited	England	Mortgage lending company (dormant)
Base Commercial Mortgages Limited	England	Mortgage lending company (dormant)
Base Commercial Mortgages Funding Limited	England	Mortgage lending company (dormant)
Lynchwood Commercial Funding No 1 Limited	England	Mortgage funding company (dormant)
Lynchwood Commercial Funding No 2 Limited	England	Mortgage funding company (dormant)

Notes to the financial statements
For the period ended 31 December 2009

17 Other assets

	Group 2009 £'000
Corporation Tax	343
Other	830
	1,173

18 Customer deposits

	Group 2009 £'000
Repayable on demand	442
Repayable in not more than three months but not on demand	42,907
Repayable in more than three months but not more than one year	38,068
Repayable in more than one year but not more than five years	147,163
	228,138
	228,580

19 Other liabilities

	Group 2009 £'000
Trade creditors	2,019
Other taxation and social security costs	1,060
Other creditors	3,956
	7,035

Other creditors comprise the following

	Group 2009 £'000
Fee creditors	139
Obligations under finance leases	233
Unallocated cash	3,584
	3,956

Notes to the financial statements
For the period ended 31 December 2009

20 Share capital (Group & Company)

	Authorised 2009 Number	Allotted, called up and fully paid 2009 £
A1 Ordinary shares of £0 10 each	40,000,000	3,569,400
A2 Ordinary shares of £0 10 each	210,000,000	899,531
B Ordinary shares of £0 10 each	3,000,000	201,973
C Ordinary shares of £0 0001 each	132,000,000	8,270
D Ordinary shares of £0 10 each	55,000,000	2,985,270
	440,000,000	7,664,444

On incorporation one ordinary £1 share was issued for cash at par On 20 May 2009 this was redesignated as 10 A2 Ordinary Shares On 20 May 2009 the following shares were issued for a share for share exchange of £35,694,000

35,694,000 A1 Ordinary shares with a nominal value of £3,569,400

38,858,458 A2 Ordinary shares with a nominal value of £3,885,847

2,019,728 B Ordinary shares with a nominal value of £201,973

66,000,000 C Ordinary shares with a nominal value of £6,600

On 7 July 2009 7,260,000 C Ordinary Shares with a nominal value of £726 were issued for cash at par On 26 August 2009 9,438,000 C Ordinary Shares with a nominal value of £944 were issued for cash at par On 13 August 2009 29,863,156 A2 Ordinary Shares were redesignated as 29,863,156 D Ordinary Shares

21 Reconciliation of movements in reserves

Group	Share premium account £'000	Profit and loss account £'000
Opening balance	-	-
Loss for the period	-	(15,662)
Shares issued in the period	67,098	-
31 December 2009	67,098	(15,662)

Company	Share premium account £'000	Profit and loss account £'000
At start of period	-	-
Loss for the period	-	(2,653)
Shares issued in the period	67,098	-
31 December 2009	67,098	(2,653)

Notes to the financial statements

For the period ended 31 December 2009

22 Reconciliation of movements in shareholders' funds

Group	**2009**
	£'000
Loss for the period	(15,662)
Shares issued in the period	7,664
Share premium	67,098
Net additions to shareholders' funds	59,100
Opening shareholders' funds	-
Closing shareholders' funds	59,100

Company	**2009**
	£'000
Loss for the period	(2,653)
Shares issued in period	7,664
Share premium	67,098
Net additions to shareholders' funds	72,109
Opening shareholders' funds	-
Closing shareholders' funds	72,109

23 Financial commitments

At 31 December 2009 the Company was committed to making the following payments under non-cancellable operating leases in the period to 31 December 2010

	Group
	2009
	£'000
Land and buildings	
Operating leases which expire.	
In less than one year	25
Between two and five years	369
In over five years	209
	603

Notes to the financial statements

For the period ended 31 December 2009

24 Acquisitions

A number of acquisitions have taken place within the Group during the period to 31 December 2009

On 20 May 2009, AC Acquisitions Limited acquired all of the assets and liabilities of Aldermore Holdings Limited The consideration was £23 8 million The directors have assessed the book value of assets and liabilities and consider them to be the same as fair value

On 20 May 2009, AC Acquisitions Limited acquired all of the assets and liabilities of Base Commercial Mortgages Holdings Limited The acquisition was completed in several stages Aldermore Holdings Limited acquired the shares of the company from AC Acquisitions Limited in a share for share exchange Aldermore Bank PLC then acquired the shares of the company in a share-for-share exchange from Aldermore Holdings Limited Finally the assets and liabilities were hived-up into Aldermore Bank PLC The Directors have assessed the fair value of assets and liabilities at the date of acquisition Taking into consideration the quality of loans and market conditions, they valued the commercial mortgage book at 76 5pence in the pound and reduced the fair value of the commercial mortgage book to £26 9m compared to the book value of £35 1m The servicing platform which was fully impaired by Base Commercial Mortgages Holdings Limited at the end of 2008 was restated to the net book value as though had it not been impaired previously

On 17 November 2009, Aldermore Bank PLC acquired all of the assets and liabilities of Absolute Invoice Finance Holdings Limited The acquisition was done in two stages firstly, Aldermore Bank PLC acquired the shares of the company for cash and, secondly the assets and liabilities were hived-up into Aldermore Bank PLC The Directors have provisionally assessed the fair value of assets and liabilities at the date of acquisition and consider them to be the same as book value
The trade and assets of Absolute Invoice Finance Holdings Limited and Base Commercial Mortgages Holdings Limited were transferred to Aldermore Bank PLC upon acquisition via a dividend in specie transfer

Notes to the financial statements

For the period ended 31 December 2009

24 Acquisitions (continued)

	Aldermore Holdings Limited book value	Absolute Invoice Finance Holdings Limited book value	Base Commercial Mortgages Holdings Limited book value at acquisition	Base Commercial Mortgages Holdings Limited fair value adjustments	Base Commercial Mortgages Holdings Limited book value
	£'000	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	66	274	258	640	898
Current assets					
Debtors	46,600	78,998	36,858	(6,160)	30,698
Cash at bank in hand	37,851	10,560	2,435	-	2,435
Total assets	84,517	89,832	39,551	-	34,031
Creditors	(65,724)	(67,607)	(2,897)	-	(2,897)
Net assets acquired	18,793	22,225	36,654	(5,520)	31,134
Consideration					
Shares					35,694
Cash	23,796	25,442			
Net assets acquired	18,793	22,225			31,134
Goodwill arising on acquisition	5,003	3,217			4,560

	Aldermore Holdings 1 April 2009 to 20 May 2009 £'000	Absolute Invoice Finance Holdings Limited 1 January 2009 to 17 November 2009 £'000	Base Commercial Mortgages Holdings Limited 1 January 2009 to 20 May 2009 £'000
Net interest income	1,001	1	654
Operating Profit/(loss)	262	1	675
Realised profit	-	-	9,011
Other Costs	(170)	(1,368)	(1,523)
Profit (loss) on ordinary activities before taxation	92	(1,367)	8,163

Notes to the financial statements

For the period ended 31 December 2009

25 Memorandum items (Group)

At 31 December 2009, AC Acquisitions Limited had undrawn commitments of £21,191,000 These relate to irrevocable lines of credit granted to customers

26 Assets and liabilities denominated in foreign currency

As at 31 December 2009, there were assets of £989,809 and liabilities of £1,752,000 denominated in Euros There were assets of £101,765 denominated in US Dollars There were no other foreign currency assets or liabilities at the balance sheet date

27 Related parties

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

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

Aldermore Bank PLC agreed to make a term loan facility of £953,729 repayable by monthly instalments of capital and interest available to Apex Credit Management Limited ('Apex') on standard commercial terms to assist with the costs of moving to new larger premises to administer its growing business The loan is secured on a debenture over all the assets of Apex but postponed to give Apex bankers (HSBC) priority for the facilities they make available The loan was completed on 28th August 2009

Aldermore Bank PLC provides a £5m Block Discounting facility to Syscap Limited The facility commenced on the 14 September 2009 is secured by underlying blocks of short term loans primarily to solicitor's practices which are funded at a discount to the face value of the loans The facility is priced at 5% over 6 month Libor and committed over a 1 year period with appropriate conditions relating to performance, non-performing deal substitution rights and default provisions At 31 December 2009 the balance outstanding under the facility was £2 288m

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

Notes to the financial statements
For the period ended 31 December 2009

28 Financial instruments

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk The directors review and agree policies for managing each of these risks and these are summarised below

Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of Contract Credit risk is the principal risk encountered by the Group Credit risk principally arises from lending activities, but can also arise from other on and off balance sheet activities such as the issue of guarantees

The Group manages its credit risk by limiting its exposure to certain sectors of business, by carrying out appropriate checks on its customers and taking appropriate security to protect itself in the event of a default All exposures are allocated a risk grading which are revised quarterly by the Board in conjunction with a review of specific provisions Should any event occur between these reviews which indicates that a provision is clearly needed than a provision will be made without waiting for the quarterly review process

Liquidity risk

Liquidity risk is the risk that an entity encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations There is a requirement to keep a balance between the funding maturity profile and the funding requirements derived from the run off of the loans receivable Although the Group is significantly funded from shareholders funds, the gap between the deposit maturity profile and the loanbook maturity profile is kept to within agreed limits The Group has no wholesale funding but has a standby facility which is provided on a committed basis The Group has always met its own and FSA requirements with significant headroom

The Group monitors closely the profile of our depositors and has the flexibility to quickly amend the interest rates on offer to rebalance the profile of deposits in the prevailing market conditions

Notes to the financial statements
For the period ended 31 December 2009

28 Financial Instruments (continued)

Fair Value Disclosure

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

Asset	*Book Value 31 December 2009 £'000*	*Fair Value 31 December 2009 £'000*
On balance sheet instruments		
Asset Backed Securities	37,361	38,509
Equity Shares	-	-
Off balance sheet instruments		
Interest rate swaps	-	1,032
Total	37,361	39,541

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

	Unrecognised gains £000
Unrecognised at the start of the period	-
Gains arising during the period	1,695
Gains recognised during the period	(663)
Unrecognised gains at the end of period	1,032
Expected to be realised in the year ending 31 December 2010	1,032
Expected to be realised after 31 December 2010	-
	1,032

The sterling nominal value of interest rate swaps at 31 December 2009 totalled £124 million

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

Notes to the financial statements

For the period ended 31 December 2009

28 Financial Instruments (continued)

Interest rate risk

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

The Group finances its loan book from its capital base and customer deposits At present a minority of the Group's lending to customers is at fixed rates or subject to a minimum fixed rate (set with reference to the market at the time the loan is made) whilst in excess of 87% of customer's deposits are at fixed rates In common with other banks, the Group earns part of its return by controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the assets and liabilities mature The table below summarises the re-pricing mismatches

31 December 2009	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Loans & advances to banks	83,632	-	-	-	-	-	83,632
Asset backed securities	37,361	-	-	-	-	-	37,361
Loans & advances to customers	136,594	8,816	4,425	10,695	44	-	160,574
Other assets	-	-	-	-	-	18,150	18,150
Total assets	257,587	8,816	4,425	10,695	44	18,150	299,717
Deposits by banks	-	-	-	-	-	-	-
Customer accounts	42,347	3,641	35,428	147,164	-	-	228,580
Other liabilities	-	-	-	-	-	12,037	12,037
Shareholder's funds	-	-	-	-	-	59,100	59,100
Total liabilities	42,347	3,641	35,428	147,164	-	71,137	299,717
Interest rate sensitivity gap	215,240	5,175	(31,003)	(136,469)	44	(52,987)	-
Cumulative gap	215,240	220,415	189,412	52,943	52,987	-	-

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

Notes to the financial statements
For the period ended 31 December 2009

29 Reconciliation of operating loss to net operating cash flows

	2009
	£'000
Operating loss	(15,580)
Increase in prepayments and accrued income	(790)
Increase in accruals and deferred income	1,239
Accretion of asset backed securities	(474)
Provision for bad and doubtful debts	4,512
Loans and advances written off net of recoveries	(3,893)
Depreciation and amortisation	574
Net cash inflow from trading activities	(14,412)
Net (increase) in loans and advances to banks and customers	(6,669)
Net increase in deposits by banks and customers	163,800
Net (increase) in other assets	(1,156)
Net (decrease) in other liabilities	(60,955)
Net cash inflow from operating activities	80,608

30 Capital expenditure and financial investment

	2009
	£'000
Payments for asset backed securities	(41,161)
Redemption of asset backed securities	4,274
Payments to acquire tangible fixed assets	(683)
	(37,570)

Notes to the financial statements
For the period ended 31 December 2009

31 Acquisitions and disposals

	2009 £'000
Net assets acquired	
Tangible fixed assets	1,239
Debtors	156,296
Cash	50,846
Creditors	(136,229)
Goodwill	12,780
	84,932
Satisfied by·	
Shares allotted	35,694
Cash consideration	49,238
	84,932

Total cash consideration	(49,238)
Less cash received	50,846
Cash inflow	1,608

32 Financing

	2009 £'000
Cash received for issue of ordinary shares	39,068
Investment in subsidiary satisfied in shares	35,694
	74,762

33 Controlling party information

The ultimate controlling party is Anacap Financial Partners II LP, by virtue of its majority shareholding

Notes to the financial statements
For the period ended 31 December 2009

34 Post balance sheet events

On the 23 February 2010 Anacap Financial Partners LP and Anacap Financial Partners II LP invested a further £20 0m in the company This has been invested in Aldermore Bank PLC via a subscription of ordinary share capital

On the 26 August 2010 Anacap Financial Partners LP, Anacap Financial Partners II LP and AnaCap Derby Co-Investment (No 1) L P invested a further £22 4m in the company This has been invested in Aldermore Bank PLC via a subscription of ordinary share capital

On the 2 March 2010 Aldermore Bank PLC acquired the assets and employees of Heritable Asset Finance for £23 0m The book value of assets acquired was £27 6m

On the 30 June 2010 Aldermore Bank PLC acquired a residential mortgage portfolio from Merrill Lynch International Bank Limited for £24 9m The book value of assets acquired was £31 4m