AC Acquisitions Limited

Financial Statements for the period ended 31 December 2010

Registered number 06764335

Company Information

Directors

Sir D Arculus
S Barry
JD Callender
PB Cartwright
FS McFadyen
DP Monks
PC Myers
M Stephens

Secretary

S Haynes

Registered office

Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1AX

Auditors

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

Registered No

06764335

Contents

Directors' report

For the year ended 31 December 2010

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 2010

Results and dividends

The Group results for the period are set out in the consolidated profit and loss account on page 10 The directors do not recommend the payment of a dividend in respect of the period

Principal activities and review of business

AC Acquisitions Limited owns Aldermore Holdings Limited which is a non-trading holding company for Aldermore Bank plc

Aldermore Bank plc ('Aldermore') is authorised to accept deposits under the Financial Services & Markets Act 2000 and the provision of banking and related services The strategic objective of Aldermore is to be a provider of secured financial products to the SME and residential mortgage markets, funded by capital and retail deposits

During 2010 capital injections of £48 3m were made by AnaCap Financial Partners L P, AnaCap Financial Partners II L P and AnaCap Derby Co-Investment (No 1) L P AC Acquisitions Limited in turn invested in Aldermore by subscription of equity share capital in the intermediate holding company Aldermore Holdings Ltd which in turn invested in equity share capital of Aldermore

On 21 February 2011 AnaCap Financial Partners L P, AnaCap Financial Partners II L P and AnaCap Derby Co-Investment (No 1) L P invested a further £16 4m in AC Acquisitions Limited This in turn has been invested in Aldermore via a subscription of ordinary share capital

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

The operating loss before taxation for the period ended 31 December 2010 for the Group was £8 7m 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 2010 was 377

The Tier 1 and 2 capital of Aldermore at 31 December 2010 was £85 3m Aldermore had a capital adequacy ratio of 116 4%

Liquidity

Year-end cash balances and government bills for Aldermore were £219 3m giving a liquidity ratio (Cash divided by Deposit balances) of 34 5%

Directors' report (continued)

For the year ended 31 December 2010

Investment in the Business Systems and Support Structure

Fixed asset additions in the period of £2 9m were mainly focused on new IT systems and infrastructure This investment is ongoing and the business is forecast to spend over £4m during 2011 on enhancing the technology infrastructure further

Commercial Finance Division

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

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

Mortgages Division

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

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

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

Summary of loan values by type for Aldermore by Division

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

Other Assets

Aldermore has a small portfolio of asset backed securities These investments are in AAA rated bonds secured on UK originated assets All investments are in Sterling, no foreign currency bonds were bought As at 31 December 2010 the value of these investments was £35 8million The portfolio has a significant level of credit enhancement, providing substantial principal protection against losses

Directors' report (continued)

For the year ended 31 December 2010

Customer Deposits

The primary source of funding for Aldermore is from retail deposits Retail deposit products are offered to the general public via the internet, post, and telephone The recent growth in assets has been funded through the deposits base Deposit balances in Aldermore have increased from £229 6m at 31 December 2009 to £633 7m at 31 December 2010

Going Concern

As referred to in Note 1(b), the Directors have made a full assessment of the current state of the balance sheet of the Group and the longer term strategy of the business Capital and liquidity plans have been reviewed and subject to stressed assumptions Although loss making during the period to 31 December 2010, the Directors believe that the Group has sufficient resources to continue lending and deposit taking throughout 2011 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 become profit making in the latter part of 2011

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

Credit Risk

Credit risk is the risk of principal loss arising from defaults and losses in the event of default under mortgage, lease and loan contracts Credit risks are managed through the use of a detailed lending criteria, careful assessment and suitable product structures The 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

Directors' report (continued)

For the year ended 31 December 2010

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

Market Risk

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

Interest Rate Risk

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, 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, 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 34

Directors' report (continued)

For the year ended 31 December 2010

Performance Analysis based on Key Performance Indicators

The following metrics for Aldermore represent the core key performance indicators for the Group

Total Capital Adequacy Ratio at 31 December 2010	*116 4%*
Client Asset growth (non cash) between 31 December 2009 and 31 December 2010	*195% (£314 4m)*
Retail deposit growth between 31 December 2009 and 31 December 2010	*176% (£405 1m)*
Liquidity ratio 31 December 2010	*34 5%*
Loss for year ended 31 December 2010	*£9 0m*

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 2010, the Group had trade creditors of £1,562,000 (31 December 2009 £2,019,000) The trade creditor days figure was 35 at 31 December 2010

Equal opportunities for disabled people

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

Directors

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

Sir D Arculus	*(Appointed 19 October 2010)*
S Barry	
JD Callender	
PB Cartwright	
FS McFadyen	
M Molyneux	*(Resigned 19 October 2010)*
DP Monks	
PC Myers	
M Stephens	

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

Directors' report (continued)

For the year ended 31 December 2010

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the 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

Political and Charitable donations

The Group made no political or charitable donations in the year ended 31 December 2010 (period ended 31 December 2009 Nil)

Directors' report (continued)

For the year ended 31 December 2010

Statement of Directors' responsibilities in respect of the Directors' report and financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 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 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 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 parent company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

This report was approved by the Board on 27 July 2011 and was signed on its behalf by

DP Monks
Director

Independent Auditors' report to the members of AC Acquisitions Limited

We have audited the financial statements of AC Acquisitions Limited for the year ended 31 December 2010 set out on pages 10 to 41 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 audit work, 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 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

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

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*

JL Ellacott (Senior Statutory Auditor)

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

1 The Embankment

Neville Street

Leeds

LS1 4DW

27 July 2011

Consolidated Profit and Loss Account

For the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Interest receivable	3	24,474	5,354
Interest payable	4	(12,497)	(3,707)
Net interest income		11,977	1,647
Fees and commissions receivable	5	12,264	1,386
Fees and commissions payable	6	(3,075)	(192)
Other operating income	7	7,080	893
Operating income		28,246	3,734
Administrative expenses	11	(34,295)	(14,228)
Depreciation and amortisation	12	(1,490)	(574)
Provision for bad and doubtful debts	16	(1,490)	(4,512)
Loss on ordinary activities before taxation	13	(9,029)	(15,580)
Taxation on loss on ordinary activities	14	-	(82)
Loss on ordinary activities after taxation	27	(9,029)	(15,662)

The consolidated profit and loss account has been prepared on the basis that all operations are continuing 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 profit for the Company during the period to 31 December 2010 was £nil (31 December 2009 – loss of £2,653,000)

Balance Sheets
as at 31 December 2010

	Notes	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Assets					
Loans and advances to banks					
Repayable on demand	15	150,005	483	52,032	146
With agreed maturity date	15	69,824	-	31,600	-
		219,829	483	83,632	146
Loans and advances to customers	16	474,952	-	160,574	-
Asset backed securities	17	35,803	-	37,361	-
Tangible fixed assets	18	3,781	-	1,950	-
Intangible assets	19	12,653	-	12,511	-
Investments in subsidiaries	20	-	118,957	-	71,963
Other assets	21	4,362	44	1,173	-
Prepayments and accrued income	22	5,771	-	2,516	-
Total assets		757,151	119,484	299,717	72,109
Liabilities					
Customers accounts - *Repayable on demand*	23	24,976	-	442	-
- *With agreed maturity dates*	23	608,743	-	228,138	-
		633,719	-	228,580	-
Other liabilities	24	7,881	-	7,035	-
Accruals and deferred income	25	18,105	-	5,002	-
		659,705	-	240,617	-
Capital and reserves					
Called up share capital	26	12,517	12,517	7,664	7,664
Share premium account	27	109,620	109,620	67,098	67,098
Profit and loss account	27	(24,691)	(2,653)	(15,662)	(2,653)
Shareholders' funds	28	97,446	119,484	59,100	72,109
Total liabilities and shareholders' funds		757,151	119,484	299,717	72,109

Memorandum items

	Notes	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Commitments	31	148,088	-	21,191	-

Balance Sheets (continued)

as at 31 December 2010

These financial statements were approved by the Board and authorised for issue on 27 July 2011 and were signed on its behalf by

DP Monks
Director

Company Registration No 06764335

The accompanying notes on pages 14 to 41 are an integral part of the consolidated and parent company balance sheets

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Notes	**Group 2010 £'000**	**Group 2009 £'000**
Net cash inflow from operating activities	*35*	*87,599*	*80,608*
Taxation		*-*	*(82)*
Capital expenditure and financial investment	*36*	*257*	*(37,570)*
Acquisitions and disposals		*-*	*1,608*
Cash inflow from before use of liquid resource and financing		**87,856**	**44,564**
Financing	*37*	*48,341*	*39,068*
Increase in cash in the period		**136,197**	**83,632**

Notes to the financial statements

For the year ended 31 December 2010

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 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

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

ii) Fee and related income

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

Notes to the financial statements

For the year ended 31 December 2010

iii) Other payables

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

f) Provisions for loan losses

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

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

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

g) Consolidation

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

j) Rentals receivable under operating leases

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

Notes to the financial statements

For the year ended 31 December 2010

k) Foreign currencies

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

l) Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date Timing differences are differences between 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, Aldermore has two main lines of business in a variety of geographical locations within the UK The performance of the Mortgages and Commercial Finance divisions is shown in note 2

o) Equity shares and asset backed securities

Shares and securities intended for use on a continuing basis in 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 year ended 31 December 2010

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 Goodwill is reviewed annually for impairment and if events or changes in circumstances indicate that the carrying value may not be recoverable

Any adjustments to goodwill that are identified in the first financial year following an acquisition are treated as a hindsight adjustment

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 year ended 31 December 2010

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 year ended 31 December 2010

v) Derivatives

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

w) Capital raising costs

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

2 Segmental information

	Commercial Finance £'000	Mortgages £'000	Other £'000	Total £'000
Net interest income	9,392	3,684	(1,099)	11,977
Net fees and other income	15,729	603	(63)	16,269
Operating income	25,121	4,287	(1,162)	28,246
Costs	(19,617)	(8,813)	(8,845)	(37,275)
Segmental profit/(loss) before taxation	5,504	(4,526)	(10,007)	(9,029)
Loans and advances to customers	169,197	305,755	-	474,952

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

Notes to the financial statements
For the year ended 31 December 2010

3 Interest Receivable

	Group Year ending 31 December 2010 £'000	Group Nine months ended 31 December 2009 £'000
Loans to customers	*23,531*	*4,886*
Deposit interest	*943*	*468*
	24,474	*5,354*

4 Interest Payable

	Group Year ending 31 December 2010 £'000	Group Nine months ended 31 December 2009 £'000
Retail deposits	*12,490*	*3,707*
Other	*7*	-
	12,497	*3,707*

5 Fees and Commissions receivable

	Group Year ending 31 December 2010 £'000	Group Nine months ended 31 December 2009 £'000
Invoice finance fees	*10,761*	*1,170*
Mortgage arrangement fees	*551*	*137*
Other	*952*	*79*
	12,264	*1,386*

Notes to the financial statements

For the year ended 31 December 2010

6 Fees and Commissions payable

	Group Year ending 31 December 2010 £'000	Group Nine months ended 31 December 2009 £'000
Broker commissions	*1,519*	*192*
Other	*1,556*	*-*
	3,075	*192*

7 Other operating income

	Group Year ending 31 December 2010 £'000	Group Nine months ended 31 December 2009 £'000
Other invoice finance income	*7,080*	*893*
	7,080	*893*

8 Staff costs

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

The average number of persons employed by the Group during the period, including directors, was 318 (period ended 31 December 2009 72) Excluding directors, the Company had no employees

Notes to the financial statements
For the year ended 31 December 2010

9 Directors' emoluments

	Group Year ending 31 December 2010	Group Nine months ended 31 December 2009
	£'000	£'000
The remuneration of the directors of the Group was		
Emoluments (including benefits in kind)	*1,312*	*889*
Group contributions to directors' individual personal pension plans	*10*	*12*
Share incentives	*-*	*123*
	1,322	*1,024*

The Group made payments to 1 director's individual personal pension plan during the period (year ended 31 December 2009 4)

During 2009 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 Year ending 31 December 2010	Group Nine months ended 31 December 2009
	£'000	£'000
Emoluments	*312*	*259*
Group contributions to Director's individual personal pension plan	*10*	*3*
Share incentives	*-*	*123*
	322	*385*

10 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 £403,167 (nine months ended 31 December 2009 £103,243) were charged to the profit and loss account during the period in respect of these schemes There were outstanding contributions of £76,609 at the yearend (31 December 2009 £24,706) The Group also made payments amounting to £19,061 (period ended 31 December 2009 £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 year ended 31 December 2010

11 Administrative expenses	Group Year ending 31 December 2010	Group Nine months ended 31 December 2009
	£'000	£'000
Staff costs	*18,974*	*4,009*
Office costs	*2,132*	*494*
Information technology	*2,126*	*933*
Legal and professional and other services	*5,230*	*3,694*
Other	*5,833*	*5,098*
	34,295	*14,228*

12 Depreciation and amortisation	Group Year ending 31 December 2010	Group Nine months ended 31 December 2009
	£'000	£'000
Depreciation (note 18)	*810*	*305*
Amortisation of goodwill (note 19)	*680*	*269*
	1,490	*574*

13 Loss on ordinary activities before taxation	Group Year ending 31 December 2010	Group Nine months ended 31 December 2009
This is arrived at after charging/(crediting)	£'000	£'000
Operating lease rentals	*429*	*118*
Interest payable on customer accounts		*3,707*
Fees payable to the company's auditors for audit services	*159*	*151*
Fees payable to the company's auditors for tax services	*42*	*38*
Fees payable to the company's auditors for other services	*84*	*58*
Exchange differences	*(40)*	*(31)*

Notes to the financial statements
For the year ended 31 December 2010

14 Taxation

	Group Year ending 31 December 2010	Group Nine months ended 31 December 2009
(i) Analysis of tax charge on ordinary activities	**£'000**	**£'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% (December 2009 28%) The differences are explained below

Notes to the financial statements
For the year ended 31 December 2010

14 Taxation (continued)

	Group Year ending 31 December 2010 £'000	Group Nine months ended 31 December 2009 £'000
Loss on ordinary activities before tax	*(9,029)*	*(15,580)*
Tax at 28% thereon	*(2,528)*	*(4,362)*
Effects of		
Movements on provisions	*227*	*387*
Expenses not deductible for tax purposes	*248*	*922*
Capital allowances less than depreciation	*56*	*95*
Losses carried forward	*1,997*	*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 Year ending 31 December 2010£'000	Group Nine months ended 31 December 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

(v) Analysis of unrecognised deferred tax balance	Group Year ending 31 December 2010 £'000	Group Nine months ended 31 December 2009 £'000
Capital allowances less than depreciation	*266*	*210*
Short term timing differences	*615*	*388*
Losses carried forward	*9,311*	*7,314*
Closing balance	*10,192*	*7,912*

Notes to the financial statements

For the year ended 31 December 2010

15 Loans and advances to banks

	Group 31 December 2010 £'000	Company 31 December 2010 £'000	Group 31 December 2009 £'000	Company 31 December 2009 £'000
Repayable on demand	*150,005*	*483*	*52,032*	*146*
Repayable in not more than three months	*69,824*	-	*31,600*	-
	219,829	*483*	*83,632*	*146*

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

16 Loans and advances to customers

	Group 31 December 2010 £'000	Group 31 December 2009 £'000
Repayable in not more than three months	*137,423*	*109,810*
Repayable in more than three months but not more than one year	*40,350*	*15,799*
Repayable in more than one year but not more than five years	*70,180*	*16,193*
Repayable in more than five years	*241,563*	*30,469*
Specific and general doubtful debt provisions	*(14,564)*	*(11,697)*
	474,952	*160,574*
Amounts include		
Repayable on demand or at short notice	*136,302*	*104,348*
Non-performing loans and advances to customers		
- loans and advances before provisions	*22,489*	*25,376*
- loans and advances after provisions	*10,015*	*14,614*

Specific and general doubtful debt provisions

Year ended31 December 2010	Specific £'000	General £'000	Total £'000
At start of year	*10,761*	*935*	*11,696*
Purchases as part of acquisition	*3,410*	-	*3,410*
Written off	*(2,032)*	-	*(2,032)*
Charge to profit and loss account	*335*	*1,155*	*1,490*
31 December 2010	*12,474*	*2,090*	*14,564*

Notes to the financial statements
For the year ended 31 December 2010

16 Loans and advances to customers (continued)

	Group 31 December 2010	Group 31 December 2009
Loans and advances to customers comprise	**£'000**	**£'000**
Invoice financing	*104,264*	*79,712*
Investment in finance leases	*64,933*	*8,542*
Investment in hire purchase agreements	*-*	*10,108*
	169,197	*98,362*
Loans	*305,755*	*62,212*
	474,952	*160,574*

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

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

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

There is no residual value in relation to these leases

Notes to the financial statements
For the year ended 31 December 2010

17 Asset backed securities

	Group 31 December 2010 £'000	Group 31 December 2009 £'000
Investment securities at cost		
Cost		
1 January	*42,679*	*-*
Additions	*13,512*	*46,953*
Capital repayments	*(15,271)*	*(4,274)*
31 December 2010	*40,920*	*42,679*
Impairment Provision		
1 January	*5,318*	*-*
Provisions	*1,139*	*5,792*
Accretion of impairment	*(1,340)*	*(474)*
31 December 2010	*5,117*	*5,318*
Book Value		
31 December 2010	*35,803*	*37,361*

18 Tangible fixed assets (Group)

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

Notes to the financial statements

For the year ended 31 December 2010

Future capital expenditure

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

19 Intangible assets

	Group Goodwill 31 December 2010 £'000
Cost	
At start of period	*12,780*
Hindsight adjustment	*822*
At 31 December 2010	*13,602*
Amortisation	
At start of period	*269*
Charged for the period	*680*
At 31 December 2010	*949*
Net book value at 31 December 2010	*12,653*
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

The hindsight adjustments relate to the fair value of net assets acquired on 17 November 2009 of Absolute Invoice Finance (Holdings) Limited and payment received by AC Acquisitions Ltd pursuant to the acquisition of Ruffler Bank Ltd from funds held in Escrow These are as follows

Absolute Invoice Finance	**Provisional fair value to the Group** **31 December 2009** **£000**	**Hindsight period adjustments** **31 December 2010** **£000**	**Fair value to the Group** **31 December 2010** **£000**
Fixed assets	*115*	*-*	*115*
Debtors	*82,970*	*(1,052)*	*81,918*
Cash	*10,560*	*-*	*10,560*
Creditors falling due within one year	*(71,420)*	*(133)*	*(71,553)*
Net assets	*22,225*	*(1,185)*	*21,040*
Consideration	*25,442*	*-*	*25,442*
Goodwill	*3,217*	*1,185*	*4,402*
Ruffler Bank	*-*	*(363)*	*-*
TOTAL	*3,217*	*822*	*4,039*

Notes to the financial statements
For the year ended 31 December 2010

20 Investments in subsidiaries (Company)

	31 December 2010 £'000
Cost	
At start of period	*71,963*
Capital injections	*48,297*
Capital raising costs	*(966)*
Payment received from Escrow (hindsight adjustment)	*(337)*
At 31 December 2010	*118,957*
Impairment	
At start of period and at 31 December 2010	-
Net book value at 31 December 2010	*118,957*

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*	*Holding company*
Aldermore Bank plc	*England*	*Banking and related services*
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
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21 Other assets

	Group 31 December 2010 £'000	Group 31 December 2009 £'000
Corporation Tax	*343*	*343*
Other	*4,019*	*830*
	4,362	*1,173*

The £44,000 (2009 nil) of other assets in the Company relates to other debtors

22 Prepayments and accrued income

	Group 31 December 2010 £'000	Group 31 December 2009 £'000
Accrued income	*2,270*	*1,027*
Prepaid broker fees	*2,404*	*519*
Other prepayments	*1,097*	*970*
	5,771	*2,516*

23 Customer deposits

	Group 31 December 2010 £'000	Group 31 December 2009 £'000
Repayable on demand	*24,976*	*442*
Repayable in not more than three months but not on demand	*42,991*	*42,907*
Repayable in more than three months but not more than one year	*243,507*	*38,068*
Repayable in more than one year but not more than five years	*322,245*	*147,163*
With agreed maturity dates	*608,743*	*228,138*
	633,719	*228,580*

Notes to the financial statements

For the year ended 31 December 2010

24 Other liabilities

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

25 Accruals and deferred income

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

26 Share capital (Group & Company)

	Authorised 31 December 2010 Number	Allotted, called up and fully paid 31 December 2010 £
'A' 1 Ordinary shares of £0 10 each	40,000,000	3,569,400
'A'2 Ordinary shares of £0 10 each	180,136,844	4,330,493
'B' Ordinary shares of £0 10 each	3,000,000	219,225
'C' Ordinary shares of £0 0001 each	132,000,000	12,866
'D' Ordinary shares of £0 10 each	84,863,156	4,385,068
	440,000,000	12,517,052

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For the year ended 31 December 2010

During 2010 the following shares were issued for cash for £48,340,729

34,309,619 'A'2 Ordinary shares with a nominal value of £3,430,962
172,523 'B' Ordinary shares with a nominal value of £17,252
45,962,400 'C' Ordinary shares with a nominal value of £4,596
13,987,523 'D' Ordinary shares with a nominal value of £1,398,752

27 Reconciliation of movements in reserves

Group	**Share premium account £'000**	**Profit and loss account £'000**
Opening balance	67,098	(15,662)
Loss for the period	-	(9,029)
Shares issued in the period	43,488	-
Capital raising costs	(966)	-
31 December 2010	109,620	(24,691)

Company	**Share premium account £'000**	**Profit and loss account £'000**
At 1 January 2010	67,098	(2,653)
Shares issued in the period	43,488	-
Capital raising costs	(966)	-
31 December 2010	109,620	(2,653)

28 Reconciliation of movements in shareholders' funds

Group	**31 December 2010 £'000**	**31 December 2009 £'000**
Loss for the period	(9,029)	(15,662)
Shares issued in the period	4,853	7,664
Share premium	43,488	67,098
Capital raising costs	(966)	-
Net additions to shareholders' funds	38,346	59,100
Opening shareholders' funds	59,100	-
Closing shareholders' funds	97,446	59,100

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28 Reconciliation of movements in shareholders' funds (continued)

Company	**31 December 2010 £'000**	**31 December 2009 £'000**
Profit/(Loss) for the year	-	(2,653)
Shares issued in the year	4,853	7,664
Share premium	43,488	67,098
Capital raising costs	(966)	
Net additions to shareholders' funds	47,375	72,109
Opening shareholders' funds	72,109	-
Closing shareholders' funds	119,484	72,109

29 Financial commitments

At 31 December 2010 the Group was committed to making the following payments under non-cancellable operating leases in the period to 31 December 2011

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

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

30 Acquisitions

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

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31 Memorandum items (Group)

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

32 Assets and liabilities denominated in foreign currency

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

33 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, hold deposit and loan accounts with 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 £954k 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 2010 the balance outstanding under the facility was £2,124m

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

34 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

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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

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

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34 Financial instruments (continued)

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

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

The sterling nominal value of interest rate swaps at 31 December 2010 totalled £646 million (31 December 2009 £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

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

Notes to the financial statements
For the year ended 31 December 2010

31 December 2010	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Loans & advances to banks	*219,829*	-	-	-	-	-	*219,829*
Asset backed securities	*35,803*	-	-	-	-	-	*35,803*
Loans & advances to customers	*309,555*	*71,591*	*19,346*	*73,840*	*620*	-	*474,952*
Other assets	-	-	-	-	-	*26,567*	*26,567*
Total assets	*565,187*	*71,591*	*19,346*	*73,840*	*620*	*26,567*	*757,151*
Customer accounts	*66,967*	*30,888*	*212,619*	*322,246*	*999*	-	*633,719*
Other liabilities						*25,986*	*25,986*
Shareholder's funds	-	-	-	-	-	*97,446*	*97,446*
Total liabilities	*66,967*	*30,888*	*212,619*	*322,246*	*999*	*123,432*	*757,151*
Off balance sheet items	*(494,780)*	*17,000*	*218,000*	*259,780*	-	-	-
Interest rate sensitivity gap	*3,440*	*57,703*	*24,727*	*11,374*	*(379)*	*(96,865)*	-
Cumulative gap	*3,440*	*61,143*	*85,870*	*97,244*	*96,865*	-	-

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

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 year ended 31 December 2010

35 Reconciliation of loss before tax to net operating cash flows

	31 December 2010 £'000	31 December 2009 £'000
Loss before tax	*(9,029)*	*(15,580)*
Increase in prepayments and accrued income	*(3,255)*	*(790)*
Increase in accruals and deferred income	*13,103*	*1,239*
Accretion of asset backed securities	*(1,340)*	*(474)*
Provision for bad and doubtful debts	*1,491*	*4,512*
Loans and advances written off net of recoveries	*-*	*(3,893)*
Depreciation and amortisation	*1,490*	*574*
Net cash inflow from trading activities	*2,460*	*(14,412)*
Net (increase) in loans and advances to customers	*(315,869)*	*(6,669)*
Net increase in deposits by banks and customers	*405,139*	*163,800*
Net (increase) in other assets	*(3,189)*	*(1,156)*
Hindsight goodwill adjustment	*(822)*	*-*
Capital raising costs	*(966)*	*-*
Net increase/(decrease) in other liabilities	*846*	*(60,955)*
Net cash inflow from operating activities	*87,599*	*80,608*

36 Capital expenditure and financial investment

	31 December 2010 £'000	31 December 2009 £'000
Payments for asset backed securities	*(12,373)*	*(41,161)*
Redemption of asset backed securities	*15,271*	*4,274*
Payments to acquire tangible fixed assets	*(2,854)*	*(683)*
Disposals of tangible fixed assets	*213*	*-*
	257	*(37,570)*

Notes to the financial statements

For the year ended 31 December 2010

37 Financing

	31 December 2010 £'000	31 December 2009 £'000
Cash received for issue of ordinary shares	*48,341*	*39,068*
Investment in subsidiary satisfied in shares	-	*35,694*
	48,341	*74,762*

38 Controlling party information

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

39 Post balance sheet events

On the 28 February 2011 AnaCap Derby Co-Investment (No 1) L P and Anacap Financial Partners II L P invested a further £16 3m in AC Acquisitions Limited This has been invested in Aldermore Bank plc via a subscription of ordinary share capital