Prospectus

March 2015

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This document comprises a prospectus (the "**Prospectus**") relating to Aldermore Group PLC (the "**Company**") prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"). The Prospectus has been filed with the FCA and has been made available to the public in accordance with section 3.2 of the Prospectus Rules. This Prospectus has been approved as a prospectus by the FCA under section 87A of the FSMA.

Application has been made to the FCA in its capacity as competent authority under the FSMA (the "**UK Listing Authority**") for all of the ordinary shares in the Company (the "**Ordinary Shares**"), issued and to be issued, in connection with the offer of certain shares to certain institutional and professional investors (the "**Offer**"), to be admitted to the premium listing segment of the Official List of the FCA (the "**Official List**") and to trading on the main market of London Stock Exchange plc (the "**London Stock Exchange**") for listed securities (together, "**Admission**"). Admission to trading on the London Stock Exchange's main market for listed securities constitutes admission to trading on a regulated market. In the Offer, 39,062,500 new Ordinary Shares are being issued by the Company and 78,872,283 Ordinary Shares are being made available by the Selling Shareholders. Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00 a.m. on 10 March 2015. It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares will commence, at 8.00 a.m. on 13 March 2015. **All dealings in the Ordinary Shares before the commencement of unconditional dealings will be on a "when issued" basis and of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned. No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or trading on any other stock exchange.**

The directors of the Company, whose names appear on page 45 of this Prospectus (the "**Directors**"), and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and this Prospectus contains no omission likely to affect the import of such information.

Prospective investors should read the entire Prospectus and, in particular, Part II: "*Risk Factors*" for a discussion of certain factors that should be considered in connection with an investment in the Ordinary Shares. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if certain of the risks described in this Prospectus occur, investors may find their investment materially adversely affected. Accordingly, an investment in the Ordinary Shares is only suitable for investors who are particularly knowledgeable in investment matters and who are able to bear the loss of the whole or part of their investment.

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ALDERMORE GROUP PLC

(incorporated under the Companies Act 2006 and registered in England and Wales with registered number 6764335)

Offer of 117,934,783 Ordinary Shares of £0.10 each at an Offer Price of 192 pence per Ordinary Share

and

admission to the premium listing segment of the Official List and to trading on the London Stock Exchange

Joint Global Co-ordinator and Joint Bookrunner

Credit Suisse Securities (Europe) Limited

Sponsor, Joint Global Co-ordinator and Joint Bookrunner

Deutsche Bank AG, London Branch

Joint Bookrunner

RBC Capital Markets

Co-Lead Managers

Nomura International plc

Numis Securities Limited

Financial Adviser

Lazard & Co., Limited

Issued and fully paid Ordinary Share capital immediately following Admission

Number	Ordinary Shares of £0.10 each	Nominal Value
339,062,500		£33,906,250

This Prospectus does not constitute an offer of, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares to any person in any jurisdiction to whom or in which jurisdiction such offer or solicitation is unlawful and, in particular, is not for distribution in Australia, Canada, Japan or South Africa. Neither the Company nor any of the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions. No action has been, or will be, taken in any jurisdiction other than the UK that would permit a public offering of the Ordinary Shares, or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or the Offer Shares in any jurisdiction where action for that purpose is required.

The offer, sale and/or issue of the Ordinary Shares has not been, and will not be, qualified for sale under any applicable securities laws of Australia, Canada, Japan or South Africa. Subject to certain exceptions, the Ordinary Shares may not be offered, sold or delivered within Australia, Canada, Japan or South Africa, or to, or for the benefit of, any national, resident or citizen of Australia, Canada, Japan or South Africa. The Offer Shares and the Ordinary Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Ordinary Shares are being offered and sold (i) in the United States only to persons reasonably believed to be QIBs as defined in Rule 144A pursuant to an exemption from the registration requirements of the Securities Act and (ii) outside the United States in offshore transactions in reliance on Regulation S. Prospective investors in the United States are hereby notified that the Company may be relying on the exemption from the provisions of section 5 of the Securities Act provided by Rule 144A thereunder.

Deutsche Bank AG, London Branch ("**Deutsche Bank**") has been appointed as Sponsor in connection with the Offer, Credit Suisse Securities (Europe) Limited ("**Credit Suisse**") and Deutsche Bank have been appointed as Joint Global Co-ordinators, Joint Bookrunners and Underwriters in connection with the Offer, RBC Europe Limited (trading as RBC Capital Markets "**RBC Capital Markets**") has been appointed as Joint Bookrunner and Underwriter in connection with the Offer, and Nomura International plc ("**Nomura**") and Numis Securities Limited ("**Numis**") have been appointed as Co-Lead Managers and Underwriters in connection with the Offer. Credit Suisse, which is authorised by the PRA and regulated by the FCA and the PRA, Deutsche Bank, which is authorised under German Banking Law (competent authority: BaFIN—Federal Financial Supervisory Authority) and further authorised by the PRA and subject to limited regulation by the FCA and the PRA, RBC Capital Markets, which is authorised by the PRA and regulated by the FCA and the PRA, Nomura, which is authorised by the PRA and regulated by the FCA and the PRA, and Numis, which is authorised and regulated by the FCA, are each acting exclusively for the Company and no one else in connection with the Offer. They will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer or the contents of this Prospectus or any transaction, arrangement or other matter referred to in this Prospectus.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company and the Selling Shareholders for which they would have received customary fees.

In connection with the Offer, Credit Suisse as Stabilising Manager, or any of its affiliates or agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares or effect other stabilisation transactions with a view to supporting, stabilising or maintaining the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such stabilisation transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its affiliates or agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

In connection with the Offer, the Stabilising Manager or any of its affiliates or agents may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares effected by it during the stabilising period, the Over-allotment Shareholders have granted to it the Over-allotment Option, pursuant to which the Stabilising Manager or any of its affiliates or agents may purchase or procure purchasers for additional Ordinary Shares up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer (the "**Over-allotment Shares**") at the Offer Price. The Over-allotment Option is exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank *pari passu* in all respects with the Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares, will be purchased on the same terms and conditions as the Ordinary Shares being issued or sold in the Offer and will form a single class for all purposes with the other Ordinary Shares.

Recipients of this Prospectus are authorised solely to use it for the purpose of considering the subscription for or acquisition of the Ordinary Shares and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Ordinary Shares. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

The Ordinary Shares are subject to selling and transfer restrictions in certain jurisdictions. Prospective subscribers or purchasers should read the restrictions contained in paragraph 11 of Part XIX: "*Details of the Offer—Selling and transfer restrictions*". Each subscriber for, or purchaser of, the Ordinary Shares will be deemed to have made the relevant representations made therein.

This Prospectus does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, any Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Underwriters by the FSMA or the regulatory regime established thereunder, none of the Underwriters accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this Prospectus, including its accuracy or completeness, or for any other statement made or purported to be made by it, or on behalf of it, the Company, the Directors, the Selling Shareholders or any other person, in connection with the Company, the Directors, the Ordinary Shares, the Selling Shareholders or the Offer and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Underwriters accordingly disclaims all and any responsibility or liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

None of the U.S. Securities and Exchange Commission, any other U.S. federal or state securities commission or any U.S. regulatory authority has approved or disapproved of the Ordinary Shares nor have such authorities reviewed or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Prior to making any decision as to whether to invest in the Ordinary Shares, prospective investors should read this Prospectus in its entirety. In making an investment decision, prospective investors must rely upon his or her own examination, analysis and enquiries of the Company and the contents of this Prospectus, including the merits and risks involved.

The distribution of this Prospectus and the offer, issue and sale of the Ordinary Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company or the Underwriters to permit a public offering of the Ordinary Shares or to permit the possession, issue or distribution of this Prospectus in any jurisdiction where action for that purpose may be required. Accordingly, neither this Prospectus nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

In particular, no actions have been taken to allow a public offering of the Ordinary Shares under the applicable securities laws of any jurisdiction, including Australia, Canada, Japan or South Africa. Subject to certain exceptions, the Ordinary Shares may not be offered or sold in any jurisdiction, or to or for the account or benefit of any national, resident or citizen of any jurisdiction, including Australia, Canada, Japan or South Africa.

The Ordinary Shares have not been, and will not be, registered under the Securities Act of 1933 or the securities laws of any state of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

The date of the Prospectus is 10 March 2015.

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PART I
SUMMARY INFORMATION

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A to E (A.1 to E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of “not applicable”.

Section A—Introduction and warnings

Annexes and Element		Disclosure requirement
A.1	**Introduction and warnings**	This summary should be read as an introduction to this Prospectus. Any decision to invest in the Ordinary Shares should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Ordinary Shares.
A.2	**Subsequent resale of securities or final placement of securities through financial intermediaries**	Not applicable. The Company is not engaging any financial intermediaries for any resale of securities or final placement of securities after publication of this Prospectus.

Section B—Company and any guarantor

Annex and Element		Disclosure requirement
B.1	**Legal and commercial name**	The legal and commercial name of the Company is Aldermore Group PLC.
B.2	**Domicile and legal form of the Company**	The Company is a public limited company, incorporated in England and Wales with its registered office situated in England and Wales. The Company operates under the Act.

Annex and Element		Disclosure requirement
B.3	**Operations and principal activities**	Aldermore is a British bank which focuses on secured and bespoke lending to the SME market and residential mortgages for retail customers. Aldermore is a "legacy-free" bank which employs a modern digital platform to support its distribution and customer service proposition and provide a scalable, efficient operating model. Aldermore has a strong and diversified online deposit franchise and the Directors believe that its target lending segments provide a significant and sustainable organic growth opportunity. Aldermore was founded in May 2009 following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by the private equity firm AnaCap Financial Partners LLP. At the time of the acquisitions, Aldermore had customer lending in the region of £76 million and approximately 50 employees. Since then Aldermore has developed into a multi-product asset-based lender and through its focus on organic loan origination has grown significantly, having £5.6 billion of assets, approximately 160,000 customers and approximately 875 employees and contractors as at 31 December 2014. Between 1 January 2012 and 31 December 2014, 98 per cent. of loan origination was generated organically. Aldermore focuses on specialist lending to SMEs and homeowners across four targeted lending segments which the Directors have identified as being underserved by incumbent banks and where they believe there are significant, sustainable and profitable growth opportunities. Aldermore's lending activity is supported by its deposit franchise and other sources of funding: • **Asset Finance**: Aldermore offers Asset Finance loans on single transactions of predominantly between £5,000 and £1 million primarily to fund SME capital investment in certain key assets including plant and machinery, commercial vehicles, cars, IT equipment and business equipment. As at 31 December 2014, Aldermore's Asset Finance business had net loans of £1,044.3 million; • **Invoice Finance:** Aldermore provides working capital for SMEs by lending against outstanding invoices issued by a borrower to its customers. Borrower limits are set on a borrower specific basis and they typically operate with an advance rate of up to 85 per cent. of the value of the approved invoices. As at 31 December 2014, Aldermore's Invoice Finance business had net loans of £180.6 million; • **SME Commercial Mortgages**: Aldermore offers SME Commercial Mortgages up to a maximum of £2 million on a single property, rising to £5 million over multiple properties, primarily to SMEs and professional property investors, secured on commercial property (including retail premises, offices, industrial units and warehouses) and professionally managed residential buy-to-let portfolios. As at 31 December 2014, Aldermore's SME Commercial Mortgages business had net loans of £1,011.3 million; • **Residential Mortgages**: Aldermore offers Residential Mortgages of up to a maximum of £1 million in the form of owner-occupied or buy-to let mortgages for landlords with less than 5 buy-to-let mortgages. As at 31 December 2014, Aldermore's Residential Mortgages had net loans of £2.6 billion; and

Annex and Element		Disclosure requirement
		• **Funding:** Aldermore is funded predominantly through online retail and SME deposits and, as at 31 December 2014, had a loan-to-deposit ratio of 108 per cent. Additional funding is provided by Aldermore's £333 million RMBS issued in April 2014 (its first securitisation transaction), participation in the Funding for Lending Scheme and £40 million Subordinated Notes. This increasingly diversified mix of funding has resulted in declining funding costs. For the year ended 31 December 2014, Aldermore's average cost of funds was 2.1 per cent. compared to 2.8 per cent. and 3.9 per cent. for the financial years ended 31 December 2013 and 2012 respectively. Aldermore has clearly defined control and risk functions in place and employs a modern IT infrastructure to support its operations and customer service proposition. This scalable digital platform has no "legacy" issues and can support Aldermore's planned organic growth. Aldermore does not have a traditional branch network and as such does not have any costs associated with running such a branch network. Lending originations are conducted primarily through intermediaries with increasing direct distribution online, by phone and in person through Aldermore's regional offices across Great Britain which also provide product expertise, customer services and operational support services. Deposit accounts and savings products are directly originated and in the financial year ended 31 December 2014 almost all SME deposits and approximately 76 per cent. of retail deposits were originated online. Aldermore has successfully grown in both scale and profitability. Profit before tax increased from £0.3 million for the year ended 31 December 2012 to a profit before tax of £50.3 million for the year ended 31 December 2014. Return on equity for the year ended 31 December 2014 was 15.1 per cent. (excluding 2014 post-tax offer costs) compared with 11.6 per cent. for the financial year ended 31 December 2013. As at 31 December 2014, Aldermore's fully loaded CRD IV CET 1 Ratio was 10.4 per cent., its Total Capital Ratio was 14.8 per cent. and its Leverage Ratio was 6.3 per cent.
B.4a	**Significant recent trends**	Aldermore focuses on specialist lending to SME and homeowners across four targeted lending segments which the Directors have identified as being underserved by incumbent banks. In particular, as a result of the combination of growing demand through resurgent business confidence and lack of supply from incumbent banks, there has been a significant credit shortage in the SME segment. The Breedon Report, which was commissioned by the UK Government Department for Business, Innovation & Skills to look specifically at the topic of financing UK SMEs, estimated the SME credit gap between supply and demand could rise to c.£26 - £59 billion by 2016. Against this background, the Directors believe there are significant, sustainable and profitable organic growth opportunities.

Annex and Element		Disclosure requirement
		During the global financial crisis that started in 2008, the UK banking market, in which Aldermore and its competitors operate, was adversely affected by, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets. Since the global financial crisis, interest rates have remained low and Aldermore has only operated in a low interest rate environment. In addition, in the aftermath of the global financial crisis, Aldermore and its competitors face increased regulatory focus including prudential regulations, conduct regulations and banking reform initiatives.
B.5	**Group description**	The Company is the holding company of the Aldermore Group and has one principal subsidiary, Aldermore Bank PLC, which is registered in England and Wales. Aldermore Bank PLC is a UK deposit-taking institution, which is authorised by the PRA and regulated by the FCA and the PRA. Immediately prior to Admission, funds managed by the private equity firm AnaCap held 89.8 per cent. of the issued Ordinary Share capital of the Company.
B.6	**Major shareholders**	Immediately following the Offer, AnaCap Financial Partners L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co-investment (No.1) LP and AnaCap Derby Co-investment (No.2) L.P. (the "**Principal Shareholders**") will hold 12.0 per cent., 15.8 per cent., 16.2 per cent. and 13.7 per cent., respectively, of the issued Ordinary Share capital of the Company (assuming no exercise of the over-allotment option granted by the Over-allotment Shareholders to the Stabilising Manager pursuant to the Underwriting Agreement (the "**Over-allotment Option**"). The Principal Shareholders and the Company have entered into a relationship agreement (the "**Relationship Agreement**"), the principal purpose of which is to ensure that the Company is capable of carrying out its business independently of the Principal Shareholders and their associates, that transactions and arrangements with the Principal Shareholders and their associates are at arm's length and on normal commercial terms (subject to the rules on related-party transactions in the Listing Rules) and to ensure the Principal Shareholders do not take any action that would have the effect of preventing the Company from complying with, or would circumvent the proper application of, the Listing Rules. In accordance with the terms of the Relationship Agreement, for such time as they retain, in aggregate, an interest of 20 per cent. or more of the issued Ordinary Share capital of the Company (or an interest which carries 20 per cent. or more of the aggregate voting rights in the Company from time to time) the Principal Shareholders shall, together, be entitled to appoint two Non-Executive Directors to the Board. For such time as the Principal Shareholders retain, in aggregate, an interest of less than 20 per cent. but 10 per cent. or more of the issued Ordinary Share capital of the Company (or an interest which carries less than 20 per cent. but 10 per cent. or more of the aggregate voting rights in the Company from time to time) the Principal Shareholders shall, together, be entitled to appoint one Non-Executive Director to the Board.

Annex and Element		Disclosure requirement
		The Relationship Agreement will terminate if the Ordinary Shares cease to be listed on the premium listing segment of the Official List and traded on the London Stock Exchange or the Principal Shareholders cease to retain, in aggregate, an interest of 10 per cent. or more of the issued Ordinary Share capital of the Company (or an interest which carries 10 per cent. or more of the aggregate voting rights in the Company from time to time). The Ordinary Shares owned by the Principal Shareholders after Admission will rank *pari passu* with the other Ordinary Shares in all respects.
B.7	**Selected historical key financial information**	The selected financial information in the tables below has been extracted without material adjustment from the historical financial information as at and for the year ended 31 December 2014, the year ended 31 December 2013 and the year ended 31 December 2012. Certain of the key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in accordance with, applicable banking regulation, but that regulation often provides the Group with certain discretion in making its calculations. Because of the discretion that the Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. See paragraph 3 of Part III: "*Presentation of Information—Non-IFRS Financial Measures*".

Income Statement Data

	Year ended 31 December		
	2014	**2013**	**2012**
		(£'000)	
Interest income	227,833	156,441	99,277
Interest expense	(87,618)	(75,799)	(63,283)
Net fees and other income	24,802	27,703	21,921
Total operating income	**165,017**	**108,345**	**57,915**
Administrative expenses	(101,241)	(67,363)	(49,907)
Depreciation and amortisation	(3,901)	(3,822)	(2,319)
Impairment losses on loans and advances	(9,570)	(11,468)	(5,416)
Profit/(loss) before taxation	**50,305**	**25,692**	**273**
Taxation	(11,871)	14	941
Profit/(loss) after taxation	**38,434**	**25,706**	**1,214**

Annex and Element		Disclosure requirement
		Certain key performance indicators

	31 December		
	2014	**2013**	**2012**
	(percentages)		
Gross interest margin(1)	5.6	5.8	6.2
Gross revenue margin(2)	6.2	6.8	7.5
Cost of funding(3)	2.1	2.8	3.9
Net interest margin(4)	3.4	3.0	2.2
Net revenue margin(5)	4.0	4.0	3.6
Cost/income ratio (excl. 2014 offer costs)(6)(10)	60	66	90
Cost of risk(7)	0.23	0.42	0.34
Return on assets (pre-tax) (excl. 2014 offer costs)(8)(10)	1.2	0.8	0.0
Return on assets (post-tax) excl. 2014 offer costs(9)(10)	0.9	0.8	0.1

Notes:

(1) Gross interest margin is calculated as interest income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(2) Gross revenue margin is calculated as interest income plus net fees and other income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(3) Cost of funding is calculated as interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(4) Net interest margin is calculated as interest income less interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(5) Net revenue margin is calculated as operating income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

Operating income is calculated as net interest income plus net fees and other income. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(6) Cost/income ratio is calculated as administrative expenses, depreciation and amortisation (excluding pre-tax 2014 offer costs), as a percentage of operating income. Operating income is calculated as net interest income plus net fees and other income.

(7) Cost of risk is calculated as impairment losses as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(8) Return on assets (pre-tax) is calculated as profit before tax (excluding pre-tax 2014 offer costs) as a percentage of average assets. Average assets is calculated as total assets at the start of period plus total assets at the end of the period divided by two.

(9) Return on assets (post-tax) is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average assets. Average assets is calculated as total assets at the start of period plus total assets at the end of the period divided by two.

(10) Operating expenses for the year end 31 December 2014 include pre-tax 2014 offer costs of £6.0 million.

Annex and Element		Disclosure requirement

Financial Position Data

	31 December		
	2014	2013	2012
		(£'000)	
Gross loans	4,823,638	3,394,872	2,069,009
Provisions	(22,574)	(21,028)	(12,449)
Net loans	4,801,064	3,373,844	2,056,560
Other assets	764,179	829,148	487,065
Customers' accounts	(4,458,962)	(3,464,018)	(2,161,649)
Other liabilities	(727,431)	(473,617)	(203,086)
AT1 Securities	(73,657)	—	—
Shareholders' funds	**305,193**	**265,357**	**178,890**
Gross loan analysis			
Neither past due nor individually impaired	4,760,164	3,336,431	2,024,042
Past due but not individually impaired	42,633	33,676	26,802
Individually impaired	20,841	24,765	18,165
Gross loans	**4,823,638**	**3,394,872**	**2,069,009**

Certain key performance indicators

	31 December		
	2014	2013	2012
	(percentages unless otherwise indicated)		
Loan to deposits ratio(1)	108	97	95
ROE (post tax) (excl. 2014 offer costs)(2)	15.1	11.6	0.7
Tangible equity(3)(£'000)	282,622	242,700	156,463
Return on tangible equity (excl. 2014 offer costs)(4)	16.4	12.9	0.8
Basel II Risk weighted assets (£'000)	N/A	2,147,160	1,427,297
Basel II Core tier 1 ratio	N/A	11.3	10.7
Fully loaded CRD IV Risk weighted assets (£'000)	2,701,958	1,993,024	N/A
Fully loaded CRD IV CET1 ratio	10.4	12.1	N/A
Return on RWAs (post tax) (excl. 2014 offer costs)(5)	1.8	1.4	0.1
Leverage ratio	6.3	5.3	N/A
Net liquid assets / deposits (Liquidity ratio)	16	23	21

Notes:

(1) Loan to deposits ratio is calculated as net customer loans as a percentage of customer deposits. Net customer loans are gross loans net of allowance for impairment losses.

(2) ROE (post tax) is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average shareholders funds. Average shareholders funds are calculated as shareholders funds at the start of period plus shareholders funds at the end of period divided by two.

(3) Tangible equity is calculated as shareholders' funds less intangible assets. It excludes the AT1 Securities.

(4) Return on tangible equity is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average tangible equity. Average tangible equity is calculated as tangible equity at the start of period plus tangible equity at the end of period divided by two.

(5) Return on RWAs is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average RWAs. Average RWAs are calculated as RWAs at the start of period plus RWAs at the end of the period divided by two.

Annex and Element		Disclosure requirement

Certain significant changes to the Group's financial condition and operating results occurred during the financials years 2012, 2013 and 2014. These changes are set out below.

Aldermore's net loan portfolio has grown from £2.1 billion as at 31 December 2012 to £3.4 billion as at 31 December 2013 and £4.8 billion as at 31 December 2014 supported by high levels of organic loan origination. Between 1 January 2012 and 31 December 2014, 98 per cent. of loan origination was generated organically. Over the same period, the Group's profit before tax increased significantly from £0.3 million for the financial year ended 31 December 2012 to £50.3 million for the financial year ended 31 December 2014.

There has been no significant change in the financial condition or operating results of the Group since 31 December 2014, the end of the period covered by the selected historical key financial information.

B.8 **Selected key pro forma financial information**

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effects of the Offer on the net assets of the Group, had the Offer taken place on 31 December 2014. The pro forma net assets statement is based on the audited historical financial information of the Group for the year ended 31 December 2014 contained in Part XV: "*Historical Financial Information*" and has been prepared in a manner consistent with the accounting policies detailed therein, which the Group has adopted in its annual financial statements for the year ending 31 December 2014.

The unaudited consolidated pro forma statement of net assets has been prepared for illustrative purposes only, and by its nature addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position or results.

The unaudited consolidated pro forma statement of net assets is compiled on the basis set out in the notes below and in accordance with the requirements of items 1 to 6 of Annex II to the Prospectus Rules.

	As at 31 December 2014	Adjustment— Net proceeds from the Offer(1)	Unaudited proforma as at 31 December 2014(2)
		£'000	
Assets			
Cash and balances at central banks	79,567	—	79,567
Other assets	5,485,676	68,680	5,554,356
Total assets	**5,565,243**	**68,680**	**5,633,923**
Liabilities			
Customers' accounts	4,458,962	—	4,458,962
Other liabilities	727,431	—	727,431
Total liabilities	**5,186,393**	**—**	**5,186,393**
Total equity	378,850	68,680	447,530
Total liabilities and equity	**5,565,243**	**68,680**	**5,663,923**

(1) The costs in relation to the Offer to be borne by the Company are estimated at £6.3 million (inclusive of VAT).

(2) No account has been taken of any results or other activity since 31 December 2014.

(3) This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act.

Annex and Element		Disclosure requirement
B.9	**Profit forecast or estimate**	Not applicable. There is no profit forecast or estimate.
B.10	**A description of the nature of any qualifications in the audit report on the historical financial information**	Not applicable. There are no qualifications included in the reporting accountants' report on the historical financial information included in this Prospectus.
B.11	**Explanation if there is insufficient working capital**	Not applicable. In the opinion of the Company, taking into account the net proceeds receivable by the Company from the Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is, for at least the next 12 months following the date of publication of this Prospectus.

Section C—Ordinary Shares

Annexes and Element		Disclosure requirement
C.1	**Type and class of securities**	The Offer comprises an offering of 39,062,500 New Ordinary Shares, which are to be issued by the Company, and 78,872,283 Existing Ordinary Shares to be sold by the Selling Shareholders. Up to a further 17,690,217 Over-allotment Shares (representing up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer) are being made available by the Over-allotment Shareholders pursuant to the Over-allotment Option. The Ordinary Shares to be sold in the Offer represent approximately 34.8 per cent. of the issued share capital of the Company immediately following Admission of the Ordinary Shares to trading on the London Stock Exchange's main market for listed securities and their Admission to the premium listing segment of the Official List (assuming no exercise of the Over-allotment Option). The nominal value of the issued ordinary share capital of the Company immediately following Admission will be £33,906,250 divided into 339,062,500 Ordinary Shares of £0.10 each, which are issued as fully paid. When admitted to trading, the Ordinary Shares will be registered with ISIN number GB00BQQMCJ47, SEDOL number BQQMCJ4 and it is expected that the Ordinary Shares will trade under the symbol "ALD".
C.2	**Currency of the issue of securities**	The currency of the Ordinary Shares is pounds sterling.
C.3	**Issued share capital**	Immediately prior to Admission (following the Pre-IPO Reorganisation), there will be 300,000,000 Ordinary Shares in issue.
C.4	**Description of the rights attaching to the securities**	The Offer Shares being issued or sold pursuant to the Offer will, on Admission, rank *pari passu* in all respects with the Ordinary Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the share capital of the Company. Subject to the provisions of the Act, any equity securities issued by the Company for cash must first be offered to existing Shareholders in proportion to their existing interests in the issued share capital of the Company. These pre-emption rights may be waived by a special resolution of the Shareholders, whether generally or specifically, for a maximum period not exceeding five years.

Annexes and Element		Disclosure requirement
		Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company. The Ordinary Shares rank equally for voting purposes. On a show of hands each Shareholder has one vote, and on a poll each Shareholder has one vote per Ordinary Share held.
C.5	**Restrictions on the free transferability of the Ordinary Shares**	Not applicable. The Ordinary Shares are freely transferable and there are no restrictions on transfer.
C.6	**Admission**	Application has been made to the FCA for all of the Ordinary Shares, issued and to be issued, to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange.
C.7	**Dividends and dividend policy**	The Company does not intend to pay a dividend in the near term but will consider, subject to, *inter alia*, available distributable reserves and after taking into account the growth opportunities available to the Company at the time, paying an initial dividend from 2017. The Board intends to review, on an ongoing basis, Aldermore's dividend policy including any dividend payments in the context of progress on delivery of Aldermore's strategy, regulatory capital requirements and the broader operating environment.

Section D—Risks

Annexes Element		Disclosure requirement
D.1	**Key information on the key risks that are specific to the Company or its industry**	***Risks related to Aldermore's business*** • Aldermore's business is subject to inherent risks from general macro-economic conditions in the UK and the state of the global economic and financial markets both generally and as they specifically affect financial institutions. As Aldermore's customer revenue is derived almost entirely from customers based in the UK, Aldermore is particularly exposed to the condition of the UK economy, including conditions in the housing market, levels of unemployment, cost and availability of credit, and liquidity of the capital markets. • Fluctuations in interest rates could have a material adverse affect on Aldermore's business. Sustained low levels of interest rates can negatively impact Aldermore's costs of funds. Low interest rates reduce incentives for consumers to save and as a result, Aldermore may be required to increase interest rates payable on customer accounts to attract additional deposits. Low interest rates also reduce income from Aldermore's Base Rate and LIBOR-linked products. Rising interest rates could adversely impact Aldermore's net interest margin and revenue to the extent that Aldermore is unable to realise incremental increases in interest payments from its fixed rate loan products. Rising interest rates could also adversely impact customer affordability and the level of defaults, leading to an increase in impairment charges and reduced profitability. Sudden or frequent increases in interest rates may

Annexes	Element	Disclosure requirement
		give rise to re-pricing gaps in the short-term, which could negatively affect net interest income which could adversely affect its business. • Worsening economic conditions could result in increased losses in the markets in which Aldermore operates and adversely affect Aldermore's business. Worsening economic conditions could negatively impact on borrowers' businesses affecting their ability to repay Aldermore, reduce collateral values, reduce certainty of cash-flows and lead to an increase in customer defaults. • Aldermore has a limited operating history and faces risks associated with the implementation of its business strategy. Implementation of that strategy, in particular its growth strategy requires the Directors to make complex judgements about the macro-economy and UK banking sector, customer needs across a range of financial products and competitor activity. It also involves execution risks and requires effective management of Aldermore's systems and policies to control a large number of transactions and events. • Aldermore's risk management systems and processes, and guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly identify, assess or manage the risks which it faces could cause harm to Aldermore and its business prospects. • Aldermore has exposure to many different products, counterparties and obligors whose credit quality (in addition to their capital position and liquidity) can have a significant adverse impact on Aldermore's earnings and the value of assets on Aldermore's balance sheet. While Aldermore articulates its credit risk appetite as well as estimates provisions for credit risks, this process requires complex judgements. Aldermore may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could adversely affect Aldermore's business, financial position, results of operations and prospects. • Aldermore's business is subject to inherent risks concerning liquidity. If access to sources of liquidity is constrained for a prolonged period of time, Aldermore's cost of funding could increase as competition for retail and SME deposits could intensify and cost of accessing wholesale markets could increase. This could adversely affect Aldermore's business. In cases of extreme market disruptions, a prolonged and severe restriction on Aldermore's access to liquidity and a prolonged and severe decline in consumer confidence which results in high levels of deposit withdrawals from Aldermore, could affect its ability to meet its regulatory minimum liquidity requirements or to fulfil its commitments to lend. In such extreme circumstances, Aldermore may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on Aldermore's solvency. • Aldermore's business prospects could be adversely affected to the extent it fails to address, or appears to fail to address, various issues that could give rise to reputational risks. In addition, Aldermore currently depends on a single brand, and any reputational damage to that brand could adversely affect its ability to execute its strategy and grow. • Effective management of Aldermore's capital is critical to its ability to operate and pursue its strategy. Aldermore may need to increase its capital level in response to new regulatory requirements or changing

Annexes Element		Disclosure requirement
		market conditions or expectations. If Aldermore is unable to increase its capital in response, it may no longer comply with regulatory requirements or satisfy market expectations related to its capital strength and, as a result, its business, financial conditions, results of operations and prospects may be adversely impacted. Any change that limits Aldermore's ability to effectively manage its capital could have a material adverse effect on its business, financial condition, results of operations, liquidity and/or prospects. • Aldermore relies heavily on its operational processes and on its IT and related communications systems to conduct its business. Any failure of the IT systems or failure to integrate new platforms, or failure of third party processes, infrastructure and services on which Aldermore relies could lead to significant costs and disruptions that could adversely affect the overall operational and financial performance of the business, as well as harm Aldermore's reputation and/or attract increased regulatory scrutiny. • The UK financial services market in which Aldermore operates is competitive. It faces competition from established providers of financial services many of which have greater scale and financial resources, stronger brand recognition, broader product offerings and more extensive distribution networks than Aldermore. Aldermore also faces competition from new entrants to the market. Any failure to manage the competitive dynamics to which it is exposed could have a material adverse impact on Aldermore. • Given the high level of interdependence within the financial system, Aldermore is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness of other financial institutions. In addition, Aldermore routinely executes transactions with counterparties in the financial services industry resulting in large daily settlement amounts and significant intra-day credit exposure. A default by, or even concerns about creditworthiness of, one or more financial services institutions could therefore lead to further significant liquidity problems, or losses or defaults by other financial institutions. ***Regulatory risks*** • Aldermore faces risks associated with its operations' compliance with a wide range of laws and regulations. If it fails to comply, Aldermore may be subject to penalties and injunctive relief, civil or private litigation which may arise out of regulatory investigations and enforcement actions, criminal proceedings and regulatory restrictions on Aldermore's business, any or all of which could have a negative effect on Aldermore's business and reputation. • Aldermore faces risks associated with an uncertain and changing prudential regulatory and legal environment. If Aldermore fails to comply with any relevant regulations, there is risk of significant liabilities or reputational damage and damage to Aldermore's brand, which could negatively impact its relationships with its customers and have a material adverse effect on its business.

Annexes Element		Disclosure requirement
D.3	**Key information on the key risks that are specific to the Ordinary Shares**	• Immediately following Admission, the Principal Shareholders will own 57.7 per cent. of the Ordinary Shares (or 52.9 per cent. if the Over-allotment Option is exercised in full). As a result, the Principal Shareholders will, through the votes they will be able to exercise at general meetings of the Company, continue to be able to exercise a significant degree of influence over, and in some cases, determine the outcome of certain matters to be considered by the Shareholders. • Future sales of Ordinary Shares, or the availability of Ordinary Shares for future sales, may affect the market price of the Ordinary Shares.

Section E—Offer

Annexes and Element		Disclosure requirement
E.1	**Net proceeds and expenses of the Offer**	The Company expects to receive net proceeds of approximately £69 million (after deducting estimated underwriting commissions and other fees and expenses of the Offer (including VAT) payable by the Company, which are currently expected to be £6 million) from the issue of Ordinary Shares in the Offer. The net proceeds (after deducting underwriting commissions and applicable taxes) from the Offer of 78,872,283 Existing Ordinary Shares by the Selling Shareholders will be £144 million (excluding the Over-allotment Option). The Company will not receive any portion of the proceeds resulting from the sale of Existing Ordinary Shares by the Selling Shareholders in the Offer. No expenses will be charged by the Company or the Selling Shareholders to the purchasers of the Ordinary Shares.
E.2a	**Reasons for the Offer and use of proceeds**	The Directors believe that the Offer and Admission will position the Group for its next stage of development, which will provide liquidity for existing Shareholders, further enhance its profile and brand recognition, provide access to global capital markets and assist in recruiting, retaining and incentivising management and employees. The Company intends to apply the net proceeds that it receives from the Offer (£69 million) to support the medium-term growth of the business.
E.3	**Terms and conditions of the Offer**	All Ordinary Shares will be sold at the Offer Price, which will be determined by the Principal Shareholders in agreement with the Joint Global Co-ordinators and Aldermore. Under the Offer, the Ordinary Shares are being sold to certain institutional and professional investors in the UK and elsewhere outside the United States in offshore transactions, as defined in, and in reliance on, Regulation S under the Securities Act and to QIBs in the United States in reliance on Rule 144A under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Company intends to issue 39,062,500 New Ordinary Shares, and 78,872,283 Existing Ordinary Shares are expected to be sold by the Selling Shareholders. In addition, a further 17,690,217 Over-allotment Shares (representing 15 per cent. of the total number of Ordinary Shares comprised in the Offer) will be made available by the Over-allotment Shareholders, pursuant to the Over-allotment Option.

Annexes and Element		Disclosure requirement
		Admission is expected to become effective, and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange, at 8.00 a.m. on 13 March 2015. It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8 a.m. on 10 March 2015. The earliest date for settlement of such dealings will be 13 March 2015. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a "when-issued" basis, will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The Offer is subject to the satisfaction of conditions which are customary for transactions of this type contained in the Underwriting Agreement, including Admission becoming effective by no later than 8.00 a.m. on 13 March 2015, determination of the Offer Price and the Underwriting Agreement not having been terminated prior to Admission. The Offer will be fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement. None of the Offer Shares may be offered for subscription, sale or purchase or be delivered, or be subscribed, sold or delivered, and this Prospectus and any other offering material in relation to the Offer Shares may not be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.
E.4	**Material interests to the Offer**	Other than as disclosed in B.6, there are no other interests, including any conflicting interest, that are material to the Offer.
E.5	**Selling Shareholder and Lock-ups**	The Offer Shares are being offered by the Company and the Selling Shareholders. Each of the Company, the Selling Shareholders and the Directors has agreed to certain lock-up arrangements. The Company has agreed that during the period commencing on the date of the Underwriting Agreement and ending on the date which is 180 days after Admission, it will not, without the prior written consent of the Sponsor, issue, offer, sell or contract to sell, or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing. Each: (a) Selling Shareholder has agreed that during the period commencing on Admission and ending on the date which is 180 days from the date of Admission, it will not; and (b) Director has agreed that he or she will not during the period commencing on the date of Admission and ending on the date which is: (i) 12 months from the date of Admission in relation to 66.7 per cent. of the Director's shareholding immediately prior to Admission; and

Annexes and Element		Disclosure requirement
		(ii) 24 months from the date of Admission in relation to the remainder of the Director's shareholding immediately prior to Admission, without the prior written consent of the Joint Global Co-ordinators, directly or indirectly, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly or announce an offering of, any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing. All lock-up arrangements are subject to certain customary exceptions.
E.6	**Dilution resulting from the Offer**	The New Ordinary Shares being issued in the Offer will represent approximately 11.5 per cent. of the expected issued Ordinary Share capital of the Company immediately following Admission.
E.7	**Estimated expenses charged to the investor by the Company or the Selling Shareholder**	Not applicable. No expenses will be charged to the investors by the Company or the Selling Shareholders in respect of the Offer.

PART II
RISK FACTORS

Any investment in the Ordinary Shares is subject to a number of risks. Prior to investing in the Ordinary Shares, prospective investors should consider carefully the factors and risks associated with any investment in the Ordinary Shares, Aldermore's business and the industry in which it operates, together with all other information contained in this Prospectus, including, in particular, the risk factors described below. Prospective investors should note that the risks relating to Aldermore, its industry and the Ordinary Shares summarised in Part I: "Summary Information" are the risks that the Board believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Ordinary Shares. However, as the risks which Aldermore faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in Part I: "Summary Information" but also, among other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Ordinary Shares and should be used only as guidance. Additional risks and uncertainties relating to Aldermore that are not currently known to Aldermore, or that it currently deems immaterial, may individually or cumulatively, also have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects, and, if any such risk should occur, the price of the Ordinary Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in the light of the information contained in this Prospectus and their personal circumstances.

The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential material adverse effect on Aldermore's business, financial condition, results of operations and prospects, or the market price of the Ordinary Shares.

RISKS RELATED TO ALDERMORE'S BUSINESS

Aldermore's business and financial performance has been and will continue to be primarily affected by general economic conditions in the UK. Adverse developments in the UK or the Eurozone or other global economic and financial markets could have a material adverse effect on its business, results of operations, financial condition and prospects.

Aldermore's business is subject to inherent risks from general macro-economic conditions in the UK and the state of the global economic and financial markets both generally and as they specifically affect financial institutions. Since the start of the global financial crisis in 2008, the UK economy has experienced a significant degree of turbulence and a period of recession, adversely affecting, among other things, the conditions in the housing market, levels of unemployment, the cost and availability of credit, and the liquidity of the capital markets.

While certain economic indicators in the UK have exhibited signs of improvement, there continues to be uncertainty regarding a sustained recovery, and the outlook for the UK economy in the near to medium term remains challenging, with many forecasts predicting only modest levels of gross domestic product growth. As Aldermore's operations are based entirely in the UK and, accordingly, its revenue is derived almost entirely from UK customers, Aldermore is particularly exposed to macro-economic conditions in the UK. If the UK economic condition weakens, or if financial markets exhibit uncertainty and/or volatility, Aldermore's impairment losses may increase and its ability to grow its business could be materially adversely impacted. Poor economic conditions in the UK could also create uncertainty in relation to the cash flows of Aldermore's borrowers and in relation to the value of their collateral. In addition, any weakening of economic conditions in the UK could have an adverse impact on consumer confidence, spending and demand for credit, which could materially adversely affect Aldermore's business, financial condition, results of operations and prospects.

In addition, prevailing economic conditions in the Eurozone, including the possibility of further macro-economic deterioration and/or any continuing or worsening of financial market instability, may pose a risk to Aldermore's business, despite Aldermore having only a limited direct financial exposure to the Eurozone. In recent years, the UK financial markets have been negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe. These impacts are felt in the UK economy generally and by UK financial institutions. While Aldermore currently has limited direct exposure to the Eurozone markets through its holding of supranational bonds, market volatility has an adverse impact on consumer confidence, spending and demand for credit, which could have an adverse impact on Aldermore's business, financial condition, results of operations and prospects.

Market turmoil and economic volatility, especially in the UK (but also in the Eurozone or wider global economy), could have a material adverse effect on the liquidity, business and financial condition of Aldermore's commercial and retail customers, affect consumer confidence, spending and demand for credit, which could, in turn, impair its loan portfolio. While the Directors have policies and procedures in place designed to allow Aldermore to mitigate any adverse consequences of such impairments, these policies and procedures have not been subjected to an actual downturn or period of severe stress and therefore may prove to be ineffective. Worsening economic and market conditions may lead to subdued levels of business investment in the UK, which could result in reduced demand for Aldermore's products. SME and retail consumers are particularly sensitive to adverse developments in the economy, and they may represent a relatively higher degree of risk than lending to other groups, such as large corporations. A deterioration of economic and market conditions could result in increased SME and retail loan losses, which could adversely affect Aldermore's business, financial condition, results of operations and prospects.

Aldermore's business is particularly sensitive to interest rates.

Fluctuations in interest rates are influenced by factors outside of Aldermore's control (such as the fiscal and monetary policies of governments and central banks and UK and international political and economic conditions) and can affect Aldermore's results and profitability in a number of ways.

Fluctuations in interest rates affect Aldermore's net interest margin and revenue. Sustained low interest rates can negatively impact Aldermore's cost of funds. Low interest rates reduce incentives for consumers to save and as a result, this could increase Aldermore's cost of deposits, as Aldermore may be required to increase the interest rate payable on customer accounts to attract additional deposits. Low interest rates also reduce interest income from the Base Rate-linked and LIBOR-linked portion of Aldermore's loan book.

Aldermore's net interest margin and revenue may conversely be adversely impacted by rising interest rates as Aldermore is unable to realise increased interest payments from borrowers with fixed rate loan products or effectively hedge its interest rate exposure.

Rising interest rates could affect customer affordability as they may put pressure on new and existing borrowers who have variable-rate mortgages and who may have become accustomed to the current, low interest rate environment. Borrowers with variable rate mortgages would be exposed to increased monthly payments as and when their mortgage interest rate adjusts upward. In an increasing interest rate environment, borrowers may seek to avoid these increased monthly payments by refinancing their mortgages. Aldermore tests the affordability of its mortgage products, including taking into account potential increases in interest rates, but if such borrowers are unable to find more affordable replacement loans, they could default on their payment obligations in respect of their mortgage, which could lead to an increase in arrears in Aldermore's mortgage portfolio as well as an increase in Aldermore's loan impairment charges. Similarly, an increase in interest rates, without sufficient improvement in customer earnings or employment levels, could lead to an increase in default rates among customers with variable-rate mortgages who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for Aldermore. A high interest rate environment also reduces demand for mortgages generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing incremental revenue.

Interest rate volatility could also negatively impact Aldermore, especially if such changes occur rapidly. In the event of sudden or frequent increases in interest rates (or, conversely, a sudden decrease in interest rates subsequent to a recent increase in interest rates), Aldermore may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short-term, which, in turn, can negatively affect net interest income. Although Aldermore seeks to minimise the interest rate mis-match risk by entering into swap agreements to ensure that its fixed and variable rate deposits are matched with fixed and variable rate loans, respectively, and does not always increase interest payable on customer deposits to the full extent of any increase in interest rates, there is no guarantee that Aldermore will be able to effectively manage its exposure to interest rate volatility, which could materially adversely affects its business, financial condition, results of operation and prospects.

As at 31 December 2014, 35 per cent. of Aldermore's Residential Mortgage book and 88 per cent. of the SME Commercial Mortgage book comprised variable interest rate products. There is, therefore, the risk that an increase in interest rates, or an expectation thereof, could lead to an increased demand for fixed rate products. High levels of movement between products in a concentrated time period could put considerable strain on Aldermore's business and operational capability or lead to heightened attrition levels if customers are able to find more competitively priced, fixed rate products elsewhere.

Worsening economic and market conditions could result in increased Asset Finance loan losses.

As at 31 December 2014, on a net basis, Aldermore's Asset Finance loan portfolio amounted to £1,044.3 million (21.8 per cent. of its total net loan portfolio) of which 0.25 per cent. of gross balances were three months or more in arrears. Against its Asset Finance loan portfolio, Aldermore recorded total impairment losses on loans and advances to customers of £2.7 million, £2.6 million and £1.2 million in the financial years ended 31 December 2014, 2013 and 2012 (equal to 0.30 per cent., 0.47 per cent. and 0.41 per cent. of the average Asset Finance net loans), respectively.

Worsening economic and market conditions could negatively affect borrowers' businesses and they could default on their payment obligations in respect of their Asset Finance loans, which could lead to an increase in arrears as well as an increase in Aldermore's loan impairment charges.

In addition, worsening economic and market conditions could lead to reductions in the value of collateral used as security against loans. Volatility in the secondary markets may affect the demand for, and value of, collateral assets. In the event of defaults by borrowers, Aldermore may not be able to recover the estimated value of the relevant collateral assets, which could adversely affect Aldermore's business, financial condition, results of operations and prospects.

Worsening economic and market conditions could result in increased Invoice Finance loan losses.

Aldermore provides working capital for SMEs by lending against outstanding invoices issued by such SMEs to their underlying customers. As at 31 December 2014, on a net basis, Aldermore's Invoice Finance portfolio amounted to £180.6 million (3.8 per cent. of its net loan portfolio) of which 3.1 per cent. of balances were in a collect-out situation. Against its Invoice Finance loan portfolio, Aldermore recorded total impairment losses on balances to customers of £3.4 million, £5.7 million, and £2.5 million in the financial years ended 31 December 2014, 2013, and 2012 (equal to 1.7 per cent., 2.9 per cent., and 1.5 per cent. of the average Invoice Finance net loans), respectively. The increased proportion of impairment losses in 2013 relating to the Invoice Finance business was primarily due to a small number of facilities which were subject to fraudulent activity by the borrower. Facility fraud is one of the key risks of providing invoice finance facilities, and this risk is common to all providers of invoice financing.

During challenging trading or market conditions, companies often increase their use of invoice financing as a means of obtaining working capital and cash flow support. Notwithstanding Aldermore's risk management and control procedures, in such conditions there is a greater risk of borrower defaults. Lenders providing invoice finance facilities such as Aldermore also face the risk of fraudulent activity from borrowers to secure invoice financing. The fraudulent activity may include falsified or fictitious invoices raised by the borrower independently of, or in collusion with, the borrower's customers, or diverting payments due to Aldermore from the underlying customer into the borrower's own bank account. If Aldermore was to incur significantly higher losses or impairments to its Invoice Finance loan book as a result of borrower default and/or fraud, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

Worsening economic and market conditions could result in increased SME Commercial Mortgage losses.

As at 31 December 2014, on a net basis, Aldermore's SME Commercial Mortgage portfolio amounted to £1,011.3 million (21.1 per cent. of its net loan portfolio) with an average indexed loan-to-value ratio of 52.2 per cent. and 0.6 per cent. of the SME Commercial Mortgage gross balances were three months or more in arrears. Against its SME Commercial Mortgage loan portfolio, Aldermore recorded total impairment losses on loans to customers of £2.2 million, £2.0 million, and £1.1 million in the financial years ended 31 December 2014, 2013, and 2012 (equal to 0.25 per cent., 0.30 per cent. and 0.25 per cent. of its average SME Commercial Mortgage net loans), respectively. The underlying credit quality of the loans in this portfolio could be negatively impacted by a range of factors resulting from difficult economic conditions in the UK and, to a lesser extent, the Eurozone, including, among others:

- depressed commercial real estate valuations, in part, as a result of a general focus by banks on reducing their exposures to commercial property assets through portfolio sales and individual asset disposals;

- lower availability of debt and equity finance to support lending and debt restructurings;
- uncertainty about the capital treatment of commercial real estate lending, with a trend towards higher regulatory capital requirements for commercial real estate lending;
- high profile tenant failures or corporate insolvencies;
- pressure on the rental market (as at 31 December 2014 50 per cent. of Aldermore's SME Commercial Mortgages were to buy-to-let mortgages); and
- a continuation in the market trend for shorter lease life and of tenants exercising break clauses.

Any of these factors could reduce the certainty of cash flows and exacerbate shifts in collateral values and difficulties in refinancing. A material increase of loan loss provisions recorded against Aldermore's SME Commercial Mortgage lending could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

Worsening economic and market conditions could result in increased Residential Mortgage losses.

As at 31 December 2014, on a net basis, Aldermore's Residential Mortgage portfolio amounted to £2,564.9 million (53.4 per cent. of its net loan portfolio) with an average indexed loan-to-value ratio of 66.8 per cent. and 0.23 per cent. of the Residential Mortgage gross balances were three months or more in arrears. Against its Residential Mortgage loan portfolio, Aldermore recorded total impairment losses on loans to customers of £1.3 million, £1.3 million, and £0.6 million in the financial years ended 31 December 2014, 2013 and 2012 (equal to 0.06 per cent., 0.10 per cent. and 0.09 per cent. of its average Residential Mortgage net loans), respectively. Despite deleveraging, the consumer sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or declining housing prices. Worsening economic conditions resulting in increased unemployment and pressure on household income could, particularly if combined with an increase in interest rates, lead to affected borrowers being unable to make loan payments in a timely fashion, which would result in higher levels of arrears in Aldermore's mortgage loan portfolio. This, in turn, would lead to an increase in Aldermore's impairment charges in respect of its Residential Mortgage portfolio.

The value of Aldermore's Residential Mortgage portfolio is influenced by housing prices in the UK. A significant decline in property prices in the UK (or in a particular region in the UK to which Aldermore has significant exposure, such as Greater London), including as a result of worsening economic conditions, could lead to a reduction in the recovery value of Aldermore's assets in the event of customer default, and could lead to higher impairment charges and lower profitability. Higher impairment provisions would reduce Aldermore's capital and could negatively impact its ability to engage in lending and other income-generating activities. As a result, a decline in house prices could have a material adverse effect on Aldermore's business and potentially on its ability to implement its strategy.

Moreover, a significant increase in property prices over a short period of time could result in a reduction in demand for new mortgages as borrowers may no longer be able to afford the higher prices. Sustained volatility in property prices could also discourage potential homebuyers from committing to a purchase, limiting Aldermore's ability to grow its Residential Mortgage portfolio.

In addition, Aldermore faces concentration risks relating to its buy-to-let mortgage portfolio, which accounted for 62 per cent. of Aldermore's Residential Mortgage portfolio as at 31 December 2014. Pressure on the rental market, including as a result of excess supply of rental property or a decline in demand for rental properties, could impact on a borrower's income and ability to meet loan obligations. Furthermore, Aldermore also faces concentration risks relating to its owner occupied mortgage portfolio, which accounted for 38 per cent. of Aldermore's Residential Mortgage portfolio as at 31 December 2014.

If any of the foregoing factors were to occur, it could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

Aldermore faces risks relating to the largely unseasoned nature of its loan book.

Aldermore faces risks relating to the largely unseasoned nature of its loan portfolios which makes estimates of credit losses more difficult. As the loan book matures, there is a risk that Aldermore could face greater customer arrears which could have a negative impact on its balance sheet, materially adversely affecting its business, financial condition, results of operations and prospects.

Aldermore faces risks associated with the implementation of its business strategy.

Aldermore has a limited operating history in the UK financial services market and faces risks associated with the implementation of its strategy. The key pillars of Aldermore's strategy are: (i) continuing organic growth in its loan origination whilst maintaining rigorous credit standards; (ii) further enhancing its customer value proposition; (iii) strengthening distribution channels including its direct-to-customer channel, which during the year ended 31 December 2014 amounted to approximately 16 per cent. of Aldermore's total distributions, and existing relationships with intermediaries; (iv) developing its product franchise and continuing product innovation; and (v) leveraging Aldermore's digital capability.

Implementing Aldermore's business strategy, in particular its growth strategy, requires the Directors to make complex judgements, including anticipating customer needs across a wide range of financial products, as well as anticipating and assessing competitor activity and the likely direction of a number of macro-economic assumptions regarding the UK economy and the banking sector. Aldermore's ability to successfully implement its strategy is also subject to execution risks, its management of the associated cost base and limitations in its management or operational capacity. These risks may be exacerbated by a number of external factors, including, amongst others, a downturn in the UK, European or global economy, increased competition in the banking sector and/or significant or unexpected changes in regulation of the financial services sector in the UK.

In the context of Aldermore's strategy to increase its share of the Asset Finance, Invoice Finance, SME Commercial Mortgages and Residential Mortgages markets, external factors, such as competition and market structure are particularly relevant. Although the financial services markets in which Aldermore operates can shrink and have the capacity to expand, the maturity of such markets is such that growth by any bank may require taking market share from competitors. Furthermore, banks have to capitalise on any changes in the market structure, including in relation to any growth opportunity presented by the exit of an existing competitor. Failure to deal with external factors such as changes to the market structure could affect Aldermore's ability to implement its business strategy.

In recent years, there has been an increased focus by regulators on the appropriateness and sustainability of the business models and growth strategies of regulated firms, with regulators having the power to restrict such firms' ability to develop product areas or make material acquisitions. The regulators no longer focus exclusively on the financial strength of a regulated firm but also consider any non-financial resources, including governance and infrastructure, available to the firm in assessing sustainability of the business model and whether it continues to meet certain regulatory conditions. If the regulators believe that a firm does not have a sustainable business model or does not meet any of the regulatory conditions, it can remove or restrict such firm's operating licences. Furthermore, regulators and other bodies in the UK and worldwide have proposed and, in many cases, have adopted a range of legislative and regulatory proposals and changes which have imposed and could impose operational restrictions on Aldermore in the future, requiring Aldermore to raise further capital, increase Aldermore's expenses and/or otherwise adversely affect its business, financial condition, results of operations or prospects.

Moreover, firms pursuing high rates of customer acquisition and balance sheet and income growth have historically in some cases been susceptible to reduced asset quality, higher levels of impairments and increased conduct risks such as mis-selling. If Aldermore fails to manage these risks adequately, it could result in legal or regulatory action against Aldermore, reputational damage to its brand, have an adverse impact on the successful implementation of its strategy and ability to meet its cost/income, return on equity, capital or dividend targets, and/or have an adverse impact on its financial condition. Furthermore, a failure to successfully manage its business model or the implementation of its strategy for the foregoing, or any other, reasons could increase Aldermore's credit losses and impair Aldermore's ability to optimise its cost/income ratio at a key point in its development, which could, in turn, have a material adverse impact on Aldermore's business, financial condition, results of operations and prospects.

Aldermore's risk management systems and processes, and guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly assess or manage the risks which it faces could cause harm to Aldermore and its business prospects.

Aldermore faces a wide range of risks in its business activities, including, in particular:

- Strategic risk, which is the risk that can affect Aldermore's ability to achieve its corporate and strategic objectives;

- Credit risk, which is the risk of financial loss arising from a borrower or counterparty failing to meet its financial obligations to Aldermore in accordance with agreed terms;
- Capital risk, which is the risk that Aldermore has insufficient capital to cover regulatory requirements and/or growth plans;
- Liquidity risk, which is the risk that Aldermore is not able to meet its financial obligations as they fall due, or can do so only at excessive cost;
- Interest rate risk, which is the risk of loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates;
- Market risk, which is the financial impact from movements in market prices on the value of assets and liabilities;
- Operational risk, which is the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events; and
- Conduct risk, which is the risk of detriment caused to Aldermore's customers due to the inappropriate execution of its business activities and processes.

Management of such risks requires, among other things, robust systems and processes, and guidelines and policies which must be forward-looking, clearly articulated, documented and communicated throughout the business for the accurate identification and control of a large number of transactions and events. In particular, as part of effective management of Aldermore's capital, the PRA requires that policies in place to maintain Aldermore's various capital requirements, such as the capital planning buffer, are clear and embedded widely throughout the business. Such systems and processes, and guidelines and policies must also be continually reviewed and updated and effectively communicated to all personnel to ensure that resources, governance and infrastructure are appropriate for the increasing size and complexity of the business.

Risk management requires Senior Management to make complex judgements, including decisions (based on assumptions about economic factors) about the level and types of risk that Aldermore is willing to accept in order to achieve its business objectives, the maximum level of risk Aldermore can assume before breaching constraints determined by regulatory capital and liquidity needs and its regulatory and legal obligations, including, among others, from a conduct and prudential perspective. Given these complexities, and the dynamic environment in which Aldermore operates, there is a risk that the decisions made by Senior Management may not be appropriate or yield the results expected or that Senior Management may be unable to recognise emerging risks for Aldermore quick enough to take appropriate action in a timely manner.

Risk management also involves the use of risk models which are mathematical representations of business systems designed to help describe, predict, experiment with or optimise decisions and scenarios used throughout the business. There is a risk that an adverse outcome occurs as a direct result of weaknesses or failures in the design or use of any such a model.

Furthermore, Aldermore has a limited operating history and, consequently does not have a long track record on which it can assess the performance of its systems and processes or the analysis of those systems' output. While Aldermore has guidelines, policies and contingency plans to manage such risks, they may not prove to be adequate in practice.

If Aldermore is unable to implement its business strategy or effectively manage the risks it faces, its reputation, its business, financial condition, results of operations and prospects could be materially adversely affected.

Aldermore is subject to risks concerning customer and counterparty credit quality.

Aldermore has exposure to many different products, counterparties and obligors whose credit quality (in addition to their capital position and liquidity) can have a significant adverse impact on Aldermore's earnings and the value of assets on Aldermore's balance sheet. As part of the ordinary course of its operations, Aldermore articulates its credit risk appetite as well as estimates provisions for credit risks based on the potential credit losses inherent in these exposures. This process, which is critical to Aldermore's results and financial condition, requires complex judgements, including, among others, forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans. Aldermore may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could adversely affect Aldermore's business, financial position, results of operations and prospects.

Further, there is a risk that, despite Aldermore's belief that it conducts an accurate assessment of customer credit quality, customers might be unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic disruptions or other external factors. Although Senior Management are comfortable with Aldermore's current default rates, the failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in Aldermore's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments would have a material adverse impact on Aldermore's business, financial condition, results of operations and prospects.

Aldermore's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding, such as retail and SME deposits, or its access to wholesale funding markets becomes limited and/or more expensive.

Financial institutions such as Aldermore are subject to liquidity risk as an inherent part of their business. While Aldermore raises funds principally through accepting retail and SME deposits, its funding needs may increase and/or its funding structure may not continue to be efficient, giving rise, in both cases, to a requirement to raise wholesale funding.

The availability of retail and SME deposit funding may be impacted by increased competition from other deposit-takers or factors that constrain the volume of liquidity in the market, including, but not limited to, the end of the drawdown window of the Funding for Lending Scheme in January 2016. In addition, Aldermore's ability to access retail and SME funding sources on satisfactory economic terms is subject to a variety of factors, a number of which are outside its control, including, among others, liquidity constraints, general market conditions, increased competition, regulatory requirements and a loss of confidence in the UK banking system.

While Aldermore does not currently rely heavily on wholesale funding, it may need to access wholesale markets when there is a residual funding requirement over and above funds held from, among other sources, retail and SME deposits.

If access to retail and SME deposit funding is constrained for a prolonged period of time and the wholesale funding markets were to be fully or partially closed, Aldermore's cost of funding could increase and it may prove difficult to obtain funding on commercially attractive terms. This could have a negative impact on Aldermore's ability to grow and its margins and profit, materially adversely affecting its business, financial condition, results of operations and prospects.

Aldermore participates in the Funding for Lending Scheme. As at 31 December 2014, Aldermore had drawn £485 million of UK Treasury Bills under the scheme and repurchase transactions derived from this generated £304 million of on balance sheet funding, which accounted for 6 per cent. of its funding base. Collateral drawn under the Funding for Lending Scheme is due for repayment in tranches between November 2016 and February 2019 and will need to be replaced with alternative sources of funding such as growth in deposits or securitisation transactions. If growth in deposits and/or securitisation transactions is not achieved, Aldermore would need to make the Funding for Lending Scheme repayment from then-existing resources, which could have an impact on Aldermore's strategy, materially adversely affecting its business, financial condition, results of operations and prospects.

Investors should note that extreme market disruptions, such as the severe dislocation experienced in credit markets following the onset of the global financial crisis in 2008, a prolonged and severe restriction on Aldermore's access to liquidity (including to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence which results in high levels of withdrawals from Aldermore's retail and SME deposit base, could affect Aldermore's ability to meet its regulatory minimum liquidity requirements, or to fulfil its financial and lending commitments. Though the Directors believe that Aldermore has adequate liquidity headroom, in such extreme circumstances, Aldermore may not be in a position to continue its operations without additional funding support. Any inability to access such support could have a material impact on Aldermore's solvency.

Concentration of risks could increase Aldermore's potential for significant losses.

Aldermore's business is almost entirely conducted with customers in the UK, in particular in England and, to a lesser extent, Wales and Scotland (less than 10 per cent.). In the event of a disruption to the UK credit markets or general economic conditions in the UK or macro-economic conditions generally (including increased interest rates and/or unemployment in regions where Aldermore has significant presence), this concentration of credit risk could cause Aldermore to experience significant losses.

In addition, Aldermore faces concentration risks relating to its interest-only residential mortgage portfolio, which accounted for 65 per cent. of Aldermore's Residential Mortgage portfolio and 56 per cent. of the SME Commercial Mortgage portfolio as at 31 December 2014. As these mortgages near maturity, Aldermore could face greater repayment and asset quality risks.

Aldermore regularly monitors its credit portfolios to assess potential concentration risk but efforts to diversify and manage Aldermore's credit portfolio against concentration risks may not be successful, which could have a material adverse impact on its business, financial condition, results of operations and prospects.

Damage to Aldermore's reputation could cause harm to its prospects.

Aldermore's business prospects could be adversely affected to the extent it fails to address, or appears to fail to address, various issues that could give rise to reputational risk. Reputational issues could result from a number of factors, including, but not limited to:

- failing to appropriately address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements and capital adequacy requirements);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;
- technology failures that impact customer services and accounts;
- failing to properly identify conduct, legal, reputational, credit, liquidity and market risks inherent in the products it offers;
- generally poor company performance;
- risk of association in respect of issues being faced by competitors or the banking industry generally, which may or may not be directly applicable to Aldermore; and
- negative reporting and wide dissemination of issues relating to Aldermore by the media, including social media.

In addition, Aldermore currently depends on a single brand and any reputational damage to that brand could adversely affect its ability to execute its strategy and grow.

A failure to adequately address these or any other relevant issues could make customers, depositors and investors unwilling to do business with Aldermore, which could adversely affect its business, financial condition, results of operations and prospects and could damage its relationships with its regulators.

Aldermore is subject to capital adequacy requirements.

Aldermore is subject to capital adequacy requirements implemented by the PRA. If Aldermore fails to meet its minimum regulatory capital requirements, this may result in administrative actions or sanctions against it which could adversely impact its business and, in particular, its reputation. Aldermore may also experience increased requirements for capital as a result of new regulations as more fully described below under the risk factor entitled "*Aldermore's business is subject to substantial and changing prudential regulation*".

Effective management of Aldermore's capital is critical to its ability to operate its business and to pursue its strategy. The Directors set Aldermore's internal target amount of capital by taking account of its own assessment of the risk profile of the business, market expectations and regulatory requirements. If regulatory requirements as to capital levels increase, driven by, for example, new regulatory requirements or expectations, Aldermore may be required to increase its capital ratios. Aldermore may also need to increase its capital level in response to changing market conditions or expectations. If Aldermore is unable to increase its capital in response, it may no longer comply with regulatory requirements or satisfy market expectations related to its capital strength and, as a result, its business, financial condition, and results of operations and prospects may be adversely impacted. Any change that limits Aldermore's ability to effectively manage its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets, or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have a material adverse effect on its business, financial condition, results of operations, liquidity and/or prospects.

Aldermore is exposed to risks related to the operation and conduct of its third-party, intermediary sales teams.

During the year ended 31 December 2014, Aldermore derived approximately 84 per cent. of its lending business via intermediaries based in the UK. As a result, Aldermore is exposed to the risks inherent in relying on third parties. For example, although Aldermore undertakes reviews of its broker panel, it has limited oversight of the intermediaries' interactions with prospective customers and, consequently, Aldermore faces certain risks related to the conduct of the intermediaries with which it does business. If the intermediaries are found to have acted inappropriately or violated applicable conduct regulations or standards in the sale of Aldermore's loan products, Aldermore's brand and/or reputation could be harmed as a result. In addition, Aldermore may fail to develop products that are attractive to intermediaries or otherwise not succeed in developing relationships with intermediaries as a result of the pricing of its loan products, among other reasons. Furthermore, Aldermore could lose the services of intermediaries with whom it currently does business, for example, as a result of market conditions causing their closure or intermediaries switching to Aldermore's competitors due to higher commissions or other incentives offered by such competitors. Any of these factors could have a negative impact on Aldermore's ability to meet its strategic objectives and, consequently, its business, financial condition, results of operations and prospects.

Aldermore's operations support complex transactions and are highly dependent on the proper functioning of IT and communications systems.

Aldermore relies heavily on its operational processes and on its IT and related communication systems to conduct its business. These systems are a fundamental enabler for originating and servicing business, including product pricing and product sales, assessing acceptable levels of risk exposure, setting required levels of provisions and capital, providing and maintaining customer service and meeting regulatory requirements, for example through accurate record keeping. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by increases in usage, human error, unauthorised access and cyber risk events, natural hazards or disasters, or similarly disruptive events. Any failure of the IT systems or failure to integrate new platforms including the transfer of data/customer information, or failure of third-party processes, infrastructure and services on which Aldermore relies could lead to significant costs and disruptions that could adversely affect the overall operational or financial performance of the business, as well as harm Aldermore's reputation and/or attract increased regulatory scrutiny.

Aldermore relies on IT systems integral to its operational processes which have been licensed or developed for Aldermore under licence and development agreements with suppliers. Any failure by the suppliers to renew licence or maintenance agreements, or any termination of those agreements by the suppliers, could lead to significant disruptions in the operational performance of the business during the period until alternative suppliers are sought and new systems licensed or developed. Aldermore is similarly at risk if these suppliers are unable to modify or develop the systems in response to requirements associated with operational or regulatory changes in Aldermore's business or commercial requirements, such as the introduction of new products.

Furthermore, any breach in security of Aldermore's systems, for example, from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information and/or create significant financial and/or legal exposure and the possibility of damage to Aldermore's reputation and/or brand.

In addition, Aldermore relies significantly on third parties for certain elements of its business, such as Newcastle Building Society for retail deposits back office operations. Although there are contractual provisions seeking to protect Aldermore, a failure of one or more of these third-party suppliers may result in service disruptions through the cessation of the availability of systems or infrastructure. In addition, such reliance on third parties limits Aldermore's ability to adjust its IT and communication systems. While

Aldermore does have in place policies and governance frameworks, as well as disaster recovery and business continuity contingency plans, the occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects. Moreover, as Aldermore seeks to implement its strategy and expand its business, it will need to invest capital in its IT systems in order to ensure that the processes and systems continue to operate as expected. Any inability to fund the necessary capital expenditure for such development could prevent Aldermore from successfully implementing its strategy and/or lead to system failures, which, in turn, could have a material adverse effect on Aldermore's reputation, its business, financial condition, results of operations and prospects.

Aldermore could fail to attract or retain Senior Management or other key employees.

Aldermore's success depends on the continued service and performance of its key employees, particularly its Senior Management, an organised plan of succession for Senior Management to ensure Aldermore's long-term stability and its ability to attract, retain and develop high-calibre talent. Aldermore may not succeed in attracting and retaining key personnel if they do not identify or engage with Aldermore's brand and values. In addition, as a relatively new market entrant, Aldermore may not have sufficient scale to offer employees opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. Aldermore may also lose key employees due to natural attrition, including health, family and other reasons. In addition, external factors, such as macro-economic conditions, the developing and increasingly rigorous regulatory environment and/or negative media attention on the financial services industry, could adversely impact employee retention, sentiment and engagement. Each of these factors could have an adverse effect on Aldermore's ability to recruit and/or retain key employees, which could, in turn, materially adversely affect Aldermore's business, financial condition, results of operations and prospects.

Furthermore, the successful expansion of Aldermore's operations would be a significant achievement for Aldermore's Senior Management team, making them more attractive to Aldermore's competitors or other institutions who may seek to recruit them from Aldermore. Should this happen, Aldermore may be unable to find and hire a qualified replacement for a departing member of the Senior Management team with an appropriate degree of experience and expertise.

Aldermore faces risks due to the competitive environment in which it operates.

The market for financial services in the UK is competitive, and the Directors expect such competition to intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which Aldermore operates are also mature, such that growth by any bank typically requires taking market share from competitors.

Aldermore faces competition from established providers of financial services, including banks and building societies, many of which have greater scale and financial resources, stronger brand recognition, broader product offerings and more extensive distribution networks than Aldermore. Aldermore also faces potential competition from new entrants to the market. These banks and other institutions may engage in enhanced marketing activities which may result in customers switching their savings accounts or refinancing their loans and mortgages with other providers and may limit Aldermore's ability to attract new customers. This places elevated focus on interest rates charged and service as the key differentiators, each of which carries a cost to the provider. If Aldermore is unable to match the rates, service or efficiency of any of its competitors in these respects, it risks being unable to match its strategic growth aspirations.

Any failure to manage the competitive dynamics to which it is exposed could have a material adverse impact on Aldermore's business, financial condition, results of operations and prospects.

Aldermore may be subject to privacy or data protection failures and fraudulent activity.

Aldermore is subject to regulation regarding the use of personal customer data. Aldermore processes personal customer data (including name, address and bank details) as part of its business, some of which may be sensitive personal data, and therefore must comply with strict data protection and privacy laws and regulations. Such laws restrict Aldermore's ability to collect and use personal information relating to customers and potential customers including the use of that information for marketing purposes. Aldermore is also at risk from cyber-theft. Aldermore seeks to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third party service providers, and also implements security measures to help prevent cyber-theft. Notwithstanding such efforts, Aldermore is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations. If Aldermore or any of the third party service providers on which it relies fails to store or transmit customer information in a secure manner, or if any loss of personal customer data were otherwise to occur, Aldermore could be subject to investigative or enforcement action by relevant regulatory authorities and could face liability under data protection and privacy laws and regulations. Aldermore could also be targeted by other forms of fraudulent activity. Any of these events could also result in the loss of the goodwill of its customers and deter new customers which could have a material adverse effect on Aldermore's business, financial condition, results of operation and prospects.

Aldermore could be negatively affected by a deterioration in the soundness (or a perceived deterioration in the soundness) of other financial institutions and counterparties.

Given the high level of interdependence between financial institutions, Aldermore is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions.

Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, or a governmental "bail-out" of, or "bail in" of, one institution could lead to significant liquidity problems, including increases in the cost of liquidity, losses or defaults by other institutions, as was the case after the bankruptcy of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or concerns about, a counterparty may lead to market-wide liquidity problems and losses or defaults by Aldermore or by other institutions. This risk is often referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom Aldermore interacts on a daily basis. Whilst 88 per cent. of Aldermore's funding as at 31 December 2014 was from customer deposits, systemic risk could have a material adverse effect on Aldermore's ability to raise new wholesale funding, which could impact its business, financial condition, results of operations, liquidity and/or prospects.

Aldermore also routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks and investment banks, resulting in large daily settlement amounts and significant credit exposure. Aldermore consequently faces concentration risk with respect to specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems or losses or defaults by other financial institutions.

Aldermore is exposed to changes in tax legislation and its interpretation and to increased rates of taxation.

Aldermore's activities are conducted in the UK. It is, therefore, subject to a range of UK taxes at various rates. Future actions by the UK Government to increase tax rates or to impose additional taxes could negatively impact Aldermore's profitability. Revisions to tax legislation or to its interpretation could also affect Aldermore's financial condition in the future. In addition, Aldermore is subject to periodic tax audits which could result in additional tax assessments relating to past periods of up to six years being made. Any such assessments could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

Aldermore's insurance coverage may not be adequate to cover all possible losses that it could suffer and its insurance costs may increase.

Aldermore seeks to maintain comprehensive insurance coverage at commercially reasonable rates. Although Aldermore carries business interruption, building and contents, director and officer and employer's insurance to cover certain risks, its insurance policies do not cover all types of losses and liabilities and are subject to limits and excesses. There can be no assurance that Aldermore's insurance will be sufficient to cover the full extent of all losses or liabilities for which it is insured and Aldermore cannot guarantee that it will be able to renew its current insurance policies on favourable terms, or at all.

REGULATORY RISKS

Aldermore must comply with a wide range of laws and regulations.

As a financial services firm, Aldermore is subject to extensive and comprehensive regulation. Aldermore must comply with numerous laws and regulations which significantly affect the way it does business. Consequently, Aldermore is exposed to many forms of risk in connection with compliance with such laws and regulations, including:

- breaching general organisational requirements, such as the requirement to have robust governance arrangements (which include a clear organisational structure with well defined, transparent and consistent lines of responsibility), effective processes to identify, manage, monitor and report the risks Aldermore is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems;
- certain aspects of Aldermore's business may be determined by the relevant authorities, the Financial Ombudsman Service (the "**FOS**") or the courts not to have been conducted in accordance with applicable laws or regulations or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of Aldermore, including as a result of having sales practices, complaints procedures and/or reward structures in place that are determined to have been inappropriate;
- breaching laws and requirements relating to the detection and prevention of money laundering, terrorist financing, bribery and corruption and other financial crime; and
- non-compliance with legislation relating to unfair or required contractual terms or disclosures.

Failure to comply with the wide range of laws and regulations could have a number of adverse consequences for Aldermore, including the risk of:

- substantial monetary damages or fines, other penalties and injunctive relief, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks;
- regulatory investigations, reviews, proceedings and enforcement actions;
- being required to amend sales processes, product and service terms and disclosures, withdraw products or provide redress or compensation to affected customers;
- Aldermore either not being able to enforce contractual terms as intended or having contractual terms enforced against Aldermore in an adverse way;
- civil or private litigation (brought by individuals or groups of individuals/claimants) in the UK and other jurisdictions (which may arise out of regulatory investigations and enforcement actions);
- criminal enforcement proceedings; and
- regulatory restrictions on Aldermore's business,

any or all of which could result in Aldermore incurring significant costs, may require provisions to be recorded in Aldermore's financial statements, could adversely impact future revenues from affected products and services and could have a negative effect on Aldermore's reputation and the confidence of customers in Aldermore, as well as taking a significant amount of the Directors' and management's time and resources away from the implementation of Aldermore's strategy. Regulatory restrictions could also require additional capital and/or liquidity to be held. Any of these risks, should they materialise, could have an adverse impact on Aldermore's business, financial condition, results of operations and prospects.

In addition to the above, failure to comply with the wide range of laws and regulations could result in the FCA and PRA cancelling or restricting Aldermore's regulatory authorisations altogether, thereby preventing it from carrying on its business.

Aldermore's business is subject to substantial and changing prudential regulation.

Aldermore faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. Aldermore's borrowing costs and capital requirements could be affected by prudential regulatory developments, which include: (i) the legislative package implementing the proposals of the Basel Committee (known as Basel III) in the European Union and amending and supplementing the existing Capital Requirements Directive and other regulatory developments impacting capital position ("**CRD IV**"); and (ii) the European Commission's directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, published in the Official Journal of the European Union on 12 June 2014 and commonly known as the Bank Recovery and Resolution Directive (the "**BRRD**"). The BRRD is discussed further in the risk factor entitled "*Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives*" below.

CRD IV

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks with effect from 1 January 2014, including: (i) increased minimum levels of capital and additional minimum capital buffers; (ii) enhanced quality standards for qualifying capital; (iii) increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and (iv) the future introduction of a minimum leverage ratio. Although CRD IV provides for some of these measures to be phased in over a transitional period to 2018, the majority of measures are applicable in the UK from 1 January 2014.

CRD IV requirements adopted in the UK may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the European Banking Authority, changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III), or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to Aldermore's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

A perceived or actual shortage of capital held by Aldermore could result in actions by regulatory authorities, including public censure and the imposition of sanctions. This may also affect Aldermore's capacity to continue its business operations, generate a sufficient return on capital, pay variable remuneration to staff, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. If, in response to any such shortage, Aldermore raises additional capital through the issuance of share capital or capital instruments, existing shareholders or holders of debt of a capital nature may experience a dilution of their holdings.

Financial Policy Committee's review of the leverage ratio

On 31 October 2014, the Financial Policy Committee ("**FPC**") of the Bank of England published its final review of the role of a leverage ratio in the UK's capital framework for banks. The FPC recommended introducing a leverage ratio framework ahead of an internationally agreed standard for UK global systemically important banks ("**G-SIBs**") and other major UK banks and building societies. For all other PRA-regulated banks, the FPC indicated that it was content for leverage ratio requirements and buffers to come into force in line with the international timetable in 2018, subject to a review of progress internationally in 2017. In its report, the FPC made various recommendations including (i) a minimum leverage ratio requirement set at 3 per cent. (which would apply to all PRA-regulated firms), (ii) a supplementary leverage ratio buffer that will apply to G-SIBs and other major domestic UK banks and building societies and (iii) a countercyclical leverage ratio buffer (which would apply to all PRA-regulated firms). HM Treasury consulted from 7 November to 28 November 2014 on the FPC's proposals and draft secondary legislation to grant the FPC powers of direction over the leverage ratio framework. HM Treasury confirmed the outcome of its consultation on 2 February 2015 and the draft secondary legislation was laid before Parliament. For any power of direction given to the FPC, there is a statutory requirement for the FPC to prepare and maintain a general statement of policy. On 4 February 2015, the FPC issued a draft policy statement, which provides more information about how the FPC envisages each type of leverage ratio requirement working and is intended to assist Parliament's scrutiny of the draft legislation. Given that the FPC's recommendations have not yet been implemented, it is not possible to predict with any certainty the additional financial obligations or restrictions that may be imposed on Aldermore or the effect any additional leverage ratio requirements may have on Aldermore's business, financial condition, result of operations or prospects. However, depending on the specific nature of the requirements, their application to Aldermore and the proposed form of supervisory action for any breach of the requirements, such changes could have a significant impact on Aldermore's operations and capital structure.

Aldermore's business is subject to changing laws and regulation and regulatory focus and approach.

In addition to the substantial and changing prudential regulation described in the risk factor entitled "*Aldermore's business is subject to substantial and changing prudential regulation*" above, Aldermore faces risks associated with an uncertain and changing legal and regulatory environment. At both a national and European level existing laws and regulations may be amended or new laws and regulations introduced which could affect Aldermore by, for example:

- resulting in the need for increased operational and compliance resources to ensure compliance with the new or amended laws and regulations;
- restricting the customer base to which Aldermore's products or services can be offered; and
- restricting the products or services Aldermore can provide,

any or all of which could ultimately have an adverse impact on Aldermore's business, financial condition, results of operations and prospects.

In addition, changes to the regulatory authorities' approaches and expectations may result in increased scrutiny of Aldermore's compliance with existing laws and regulation. This may result in Aldermore needing to change its internal operations, at increased cost. For example, the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians may continue and the FCA may continue to focus on retail conduct risk issues through its supervision activity which could result in higher expectations, or a different interpretation, of what is required to demonstrate compliance with conduct of business standards in certain markets.

Examples of recent or proposed legislative and regulatory changes and regulatory areas of focus include:

- In July 2013, the UK Government accepted the overall conclusions and the principal recommendations of a report issued by the Parliamentary Commission on Banking Standards on 19 June 2013, entitled "*Changing Banking for Good*". The subsequent Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") creates a new regime for senior managers of certain authorised firms, including deposit-takers, as well as giving the FCA and the PRA the power to create a new set of banking conduct rules applying to a wider population of bank staff. It also provides for a new criminal offence for senior managers of reckless mismanagement causing certain financial institutions to fail. In addition, a certified persons regime is to be introduced for individuals not included in the senior managers regime but who are performing a role that involves, or might involve, a risk of significant harm to a firm or its customers. Such provisions could have a significant impact on Aldermore's operations, structure and costs. The new regimes are anticipated to come into operation on 7 March 2016, with authorised firms having until 8 February 2016 to notify the regulators of the names of their senior staff who will be senior managers under the new regime.
- In April 2014, the FCA implemented new rules under its Mortgage Market Review (the "**MMR**"), which require, among other things, an assessment of customer affordability in connection with mortgage lending. The MMR also permits interest-only loans solely where there is a clearly understood and credible strategy for repaying the principal of the loan, evidence of which the lender must obtain before making the loan and must check at least once during the term of the loan.
- The Chancellor of the Exchequer, in his 12 June 2014 Mansion House speech, stated that the UK Government intends to give the Bank of England new powers over mortgages including over the size of mortgage loans as a share of family incomes or the value of the house. Following HM Treasury's consultation on implementing such powers in respect of owner-occupied mortgages, on 2 February 2015 the UK Government confirmed that the FPC will have new powers of direction over loan to value limits and debt to income limits for owner-occupied mortgages. The draft secondary legislation through which such powers will be implemented (The Bank of England Act 1998 (Macro-prudential Measures) Order 2015) has been laid before Parliament. A separate consultation in respect of buy-to-let mortgages is expected to take place in 2015. In addition, at the board meeting of the FPC of the Bank of England held on 17 June 2014, the FPC addressed a recommendation to the FCA and PRA that they take action to ensure that mortgage lenders do not extend more than 15 per cent. of their total number of new residential mortgages at loan to income ratios at or greater than 4.5. This recommendation applies in relation to all lenders which extend residential mortgage lending in excess of £100 million per annum. Following the recommendation, the PRA issued rules and the FCA issued guidance implementing the FPC's recommendation from 1 October 2014. The rules and guidance are relevant to a firm that, on an annual basis, enters into regulated mortgage contracts under which the credit provided is, or exceeds,

£100 million, provided that the firm also enters into 300 or more regulated mortgage contracts in the same period.

- Aldermore is also subject to the consumer credit regime under the Financial Services and Markets Act 2000 (the "**FSMA**"), which regulates a wide range of credit agreements. If requirements under the regime as to licensing of lenders or brokers or entering into and documenting a credit agreement are not or have not been met, the relevant agreement may not be enforceable against the borrower. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its related secondary legislation (the "**CCA**") was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. CCA statutory regulations and OFT guidance have, therefore, been replaced by FCA general standards, rules, guidance and retained consumer protections in the CCA. The FCA has greater powers of enforcement than the OFT had previously and is anticipated to take a more intrusive approach to the regulation of consumer credit. Along with other consumer credit providers, Aldermore's compliance with the requirements applicable to the provision of consumer credit may be subject to greater scrutiny by the FCA as the new regulator and require additional costs to be dedicated to this aspect of Aldermore's operations. Aldermore will also be subject to the possibility of the FCA imposing penalties and other sanctions if the FCA identifies non-compliance.

- The FCA has an operational objective to promote effective competition in the interests of consumers and the PRA has a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised firms. Recent initiatives include the introduction of a mobilisation phase for new firms wanting to enter the banking sector, intended to make entrance into the market easier and less costly, and a thematic review into cash savings. In July 2014, the FCA launched a review of competition in the wholesale sector to identify any areas that might merit further investigation through an in-depth market study, and, following this, in February 2015 the FCA stated that it had selected the topic of investment banking and corporate banking services for its first wholesale market study. In addition, the FCA is to assume concurrent powers with the Competition and Markets Authority (the "**CMA**") to enforce competition rules in the UK insofar as they relate to the provision of financial services. The powers will come into full force on 1 April 2015. Further, as a result of market studies conducted by the CMA in relation to SME banking and personal current accounts (the SME banking market study is a joint project with the FCA), on 6 November 2014 the CMA announced its decision to launch a joined up in-depth market investigation into the markets for personal current accounts and SME banking. The CMA's provisional findings are expected to be published in September 2015. Aldermore may therefore face increasing competition which may affect Aldermore's ability to generate revenues and achieve the aims of its strategy.

- The Basel Committee have released a consultative document for comments by March 2015. The paper proposes a change to the risk weighting of claims secured by either residential or commercial real-estate aimed at increasing the risk sensitivity of such risk weightings. With respect to commercial real-estate, there is currently national discretion for a regulator to permit a risk weighting of 50 per cent. provided certain conditions are fulfilled. The Basel Committee is considering no recognition of real estate collateral at all and to treat the exposure as unsecured, by assigning the counterparty risk weight between 60 per cent. and 300 per cent., with the 50 per cent. risk weighting national discretion maintained. In the alternative it is considering assigning a risk weighting to the exposure in accordance with a table of risk weights between 75 per cent. and 120 per cent. based on the LTV ratio. With respect to residential real-estate, the Basel Committee proposes to introduce a table of risk-weights ranging from 25 per cent. to 100 per cent. based on the LTV ratio (calculated as the total amount of the loan divided by the value of the property which will be kept constant at the value measured at the start of the loan). The risk weights will be applied to the full exposure amount, without tranching the exposure across different LTV buckets. In the case where the borrower is an individual, the risk weighting will also depend upon the debt service coverage ratio. This new approach to residential mortgage risk-weighting may cause a significant increase in capital requirements for these types of exposures, which may have a significant impact on Aldermore's costs and/or capital requirements.

- From time to time, the International Accounting Standards Board (the "**IASB**") and/or the European Union change the international financial reporting standards ("**IFRS**") that govern the preparation of Aldermore's financial statements. These changes can be difficult to predict and could materially impact how Aldermore records and reports its financial condition and results of operations. In some cases, Aldermore could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. For example, IFRS 9 Financial Instruments ("**IFRS 9**") is the new standard to replace IAS 39. IFRS 9 will change the classification and measurement of some financial assets and the recognition and the financial impact of impairment and hedge accounting. Depending on its interpretation by the relevant regulators, IFRS 9 could lead to a substantial negative impact on the capital position of affected institutions, including Aldermore. The IASB may make other changes to financial accounting and reporting standards that govern the preparation of Aldermore's financial statements, which Aldermore may be required to adopt or which Aldermore may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Directors. Any such change in Aldermore's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

Failure to manage these risks adequately could ultimately have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects. Additionally, failing to comply with the changing regulatory landscape could lead to significant liabilities or reputational damage and damage to Aldermore's brand, which could negatively impact its relationships with customers.

Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives.

In recent years, the relevant regulatory authorities in the UK and Europe have proposed dramatic reforms to many aspects of the banking sector, including, among others, institutional structure, resolution procedures and deposit guarantees. While the final form and impact of these regulatory developments remains uncertain, the Directors expect that the evolution of these and future initiatives will have an impact on Aldermore's business.

The Banking Reform Act received Royal Assent on 18 December 2013. Drafts of relevant secondary legislation were published in June 2014 and the UK Government intends for all relevant secondary legislation to be completed by May 2015 and banks will be expected to have implemented the necessary reforms by 2019 at the latest. The Banking Reform Act introduces a number of measures, including: (i) a new bail-in option under the Banking Act 2009 (the "**Banking Act**") for resolving failing banks (in addition to the existing stabilisation options) whereby the Bank of England is given the power, in a resolution scenario, to cancel, reduce or defer the equity liabilities of a bank (including divesting shareholders of a bank of their shares), convert an instrument issued by a bank from one form or class to another (for example, a debt instrument into equity) and/or transfer some or all of the securities of a bank to an appointed bail-in administrator; (ii) powers for the PRA and HM Treasury to implement further detailed rules to give effect to the recommendations of the ICB on ring-fencing requirements for the banking sector; (iii) powers for the PRA and the FCA to require non-regulated qualifying parent undertakings of regulated entities to take actions to facilitate resolution; and (iv) preferential ranking of insured depositors on a winding-up to rank ahead of all other unsecured creditors.

Further, the BRRD provides for resolution authorities to have the power to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances. It also includes certain powers provided to resolution authorities which overlap in part with those available under the Banking Act including write-down powers to ensure relevant capital instruments absorb losses upon, among other events, the occurrence of the non-viability of the relevant institution or its parent company as well as a bail-in tool comprising a more general power for resolution authorities to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity.

On 23 October 2014, the Bank of England published a report on its approach to resolution. In its report, the Bank of England set out its approach to the resolution of banks, building societies and certain investment firms from 1 January 2015, when most of the provisions of the BRRD were transposed into national law. The Bank of England's powers include the ability to bail in or mandatorily transfer the ordinary shares of an entity in resolution and/or to write-down ordinary shares and other capital instruments or convert relevant capital instruments into ordinary shares prior to resolution. The report details the key phases to any resolution and the various stabilisation tools to be used at each stage in order to give greater clarity over how the Bank of England would likely approach a resolution. If Aldermore were to become subject to such bail-in or resolution powers, existing shareholders may experience a severe dilution, involuntary transfer or the writing-off of their shareholdings and may be unlikely to receive any compensation for such act or event despite the BRRD containing safeguards for shareholders and certain creditors in specific circumstances which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

Given that the BRRD has only recently been implemented in the UK, it is impossible to predict the financial obligations that may be imposed by the UK government or by the EU in relation to the BRRD or the effect that the changes will have on Aldermore's business, financial condition, result of operations or prospects. However, depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on Aldermore's operations, structure, costs and/or capital requirements.

Aldermore is responsible for contributing to the UK Financial Services Compensation Scheme (the "**FSCS**") in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Further provisions in respect of these contributions may be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material effect on Aldermore's business, financial condition, results of operations and prospects.

In Europe, the EU Deposit Guarantee Scheme Directive ("**EU DGSD**") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the European Commission in July 2010 to recast and replace the current EU DGSD. The changes to the recast EU DGSD include restricting the definition of "deposit", excluding deposits made by certain financial institutions and certain public authorities, reducing time limits for payments of verified claims by depositors and provisions on how deposit guarantee schemes should be funded. In addition the recast EU DGSD seeks to harmonise eligibility for protection (including an extension of scope to protect deposits of most companies, whatever their size) and allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The recast EU DGSD was published in the Official Journal of the EU on 12 June 2014 and Member States have until 3 July 2015 to transpose the majority of the EU DGSD into national law. The recast EU DGSD may result in greater administrative and financial burdens on participating firms. Direct cost increases may result from increased contributions to the schemes and greater indirect costs may arise from necessary changes to procedures and IT systems. The PRA's consultation on implementing the recast EU DGSD closed on 6 January 2015 (a second consultation closed on 27 February 2015).

Aldermore's business is subject to substantial and increasing industry-wide regulatory and governmental oversight.

In addition to the promulgation of new legislation and regulation, the UK Government, the PRA, the FCA and other regulators in the UK, the European Union and overseas have, in recent years, become substantially more pro-active in their application and monitoring of certain regulations, and they may intervene further in relation to areas of industry risk already identified or in new areas, which could adversely affect Aldermore.

Areas where regulatory changes could have an adverse effect on Aldermore's business include, but are not limited to:

- general changes in UK Government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence customer decisions in particular markets in which Aldermore operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- external bodies applying or interpreting standards or laws in a manner that is different to how Aldermore applies or interprets them;
- one or more of Aldermore's regulators intervening to mandate the pricing of certain of Aldermore's products as a consumer protection measure;
- one or more of Aldermore's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- changes in competitive and pricing environments;
- further requirements relating to financial reporting, corporate governance and conduct of business and employee compensation;
- changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;

- influencing business strategy, particularly the rate of growth of the business; and
- imposing conditions on the sales and servicing of products, which has the effect of making such products unprofitable or unattractive to sell.

The financial services industry continues to be a focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations of authorised firms and their senior management and enhanced regulatory requirements. As a result, regulatory risk will continue to require the attention of Senior Management who are increasingly accountable to the regulators and will consume significant levels of business resources. Furthermore, as enhanced supervisory standards are developed and implemented, this more intensive approach and the enhanced regulatory requirements, along with uncertainty and the extent of international regulatory coordination, may ultimately adversely affect Aldermore's business, capital and risk management strategies and/or may result in Aldermore deciding to modify its legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential.

Aldermore regularly assesses the legal and regulatory developments which could have an effect on it and will participate in relevant consultation and calibration processes undertaken by various regulatory and other bodies. Implementation of regulatory developments could result in additional costs or limit or restrict the way in which Aldermore conducts business. Aldermore continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to Aldermore and its stakeholders.

RISKS RELATING TO THE OFFER AND THE ORDINARY SHARES

After the Offer, certain Shareholders will continue to be able to exercise significant influence over Aldermore, its management and its operations.

Following the Offer, the maximum percentage of Ordinary Shares that the Principal Shareholders will own (assuming no exercise of the Over-allotment Option) will be 57.7 per cent. Although the Principal Shareholders have entered into the Relationship Agreement with Aldermore to govern their relationship with Aldermore after Admission, the Principal Shareholders will, through the votes they will be able to exercise at general meetings of Aldermore, be able to exercise a significant degree of influence over the Company's operations and over its shareholders' meetings, such as in relation to the declaration of dividends, the appointment and removal of Directors, the approval of significant transactions entered into by Aldermore and changes in Aldermore's capital structure.

There can be no assurance that the interests of the Principal Shareholders will align with the interests of Aldermore or those who invest in the Ordinary Shares. The Principal Shareholders may make acquisitions of, or investments in, other businesses in the same sector as Aldermore. These businesses may be, or may become, competitors of Aldermore. In addition, funds or other entities managed or advised by the Principal Shareholders may be in direct competition with Aldermore on potential acquisitions of, or investments in, certain businesses. Although corporate law and board governance arrangements contain provisions seeking to restrict Directors appointed by the Principal Shareholders from voting on matters where there are conflicts of interest and from using information obtained during their appointments, these and other measures may not be sufficient to safeguard the interests of other Shareholders.

Following Admission, the Principal Shareholders will be a "controlling shareholder" of Aldermore within the meaning of the Listing Rules. As required by the Listing Rules, Aldermore and the Principal Shareholders have entered into the Relationship Agreement which is intended to ensure that the Company operates independently of the Principal Shareholders after Admission. The Relationship Agreement does not prevent the Principal Shareholders from accepting, blocking or making a takeover offer for Aldermore, or from cancelling Aldermore's listing after it has made a takeover offer and that offer has become wholly unconditional. The Relationship Agreement specifies neither the price at which any takeover offer for Aldermore must be made, nor or any conditions (including as to the level of acceptances by Shareholders) to which such an offer must be subject.

The Listing Rules set out conditions that must be met before Aldermore may request the cancellation of its premium listing. In particular, in most circumstances, the voting approval of a majority of the Shareholders other than the Principal Shareholders must be obtained. However, this voting requirement may not apply to the cancellation of Aldermore's premium listing in the case of a takeover offer for Aldermore. If a third party were to make a takeover offer for Aldermore, the offeror would need to acquire or to have agreed to acquire 75 per cent. of the Ordinary Shares before Aldermore may request the cancellation of its premium listing. Because the Principal Shareholders will, following Admission, have a 57.7 per cent. interest in the Ordinary Shares, any decision by the Principal Shareholders to accept a takeover offer for Aldermore from a third party may ultimately lead to the cancellation of Aldermore's premium listing, whether or not other Shareholders choose to accept that offer. Further, based on the Principal Shareholders' expected interest in approximately 57.7 per cent. of Aldermore's issued share capital following Admission, if the Principal Shareholders were to make a takeover offer for Aldermore, it would be able to procure that Aldermore request the cancellation of its premium listing after it had acquired or agreed to acquire 80 per cent. of the Ordinary Shares of Aldermore (including the Ordinary Shares currently held by the Principal Shareholders), which may be the case whether or not the offer is accepted by a majority of Shareholders other than the Principal Shareholders.

There has been no prior trading market for the Ordinary Shares.

Prior to the Offer, there has been no public trading market for the Ordinary Shares. The Offer Price has been determined by the Company and the Principal Shareholders in agreement with the Joint Global Co-ordinators and may not be indicative of the market price for the Ordinary Shares following Admission. Although Aldermore intends to apply to the FCA for Admission of the Ordinary Shares to listing on the Official List and intends to apply to the London Stock Exchange for Admission of the Ordinary Shares to trading on its main market for listed securities, Aldermore can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, can be sustained following the closing of the Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be materially adversely affected.

The value of the Ordinary Shares may fluctuate significantly.

Following the Offer, the value of the Ordinary Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this Part II: "*Risk Factors*", as well as period-to-period variations in operating results or change in cost/ income, return on equity, capital or dividend targets, change in revenue or profit estimates by Aldermore, industry participants or financial analysts. The value of the Ordinary Shares could also be affected by developments unrelated to Aldermore's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to Aldermore, speculation about Aldermore in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not Aldermore derives significant revenue therefrom.

It is expected that following completion of the Offer, the Principal Shareholders will own approximately 57.7 per cent. of Aldermore's issued Ordinary Share capital (approximately 52.9 per cent., assuming the Over-allotment Option is exercised in full).

The market price of the Ordinary Shares could also be negatively affected by sales of substantial amounts of Ordinary Shares in the public markets, including following the expiry of the lock-up restrictions applicable to the Selling Shareholders and the Directors or the perception that these sales could occur.

Sales of a substantial number of Ordinary Shares by Aldermore, the Directors or the Selling Shareholders in the public market after these restrictions expire, or the knowledge that they will, or perception that these sales may occur, could depress the market price of the Ordinary Shares and could impair Aldermore's ability to raise capital through the sale of additional equity securities.

Shareholders may not receive dividends.

Aldermore's results of operations and financial condition are dependent on its trading performance. There can be no assurance that Aldermore will pay dividends in the future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and will depend on, among other things, applicable law, regulation, restrictions, Aldermore's financial position, regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the Board deem significant from time to time. Aldermore's ability to pay dividends will also depend on the level of distributions, if any, received from its operating subsidiaries.

The issue of additional shares in Aldermore in connection with any conversion of the AT1 Securities, future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.

Aldermore may seek to raise finance to fund future acquisitions and other growth opportunities. Aldermore may, for these and other purposes, such as the exchange of the Warrants or any conversion of the AT1 Securities, or in connection with share incentive and share option plans, issue additional equity or convertible equity securities. On 9 December 2014, Aldermore issued CRD IV compliant additional tier 1 securities with a principal amount of £75 million. These AT1 Securities issued by Aldermore are subordinated obligations of Aldermore but rank senior to Ordinary Shares in any winding-up of Aldermore. If the common equity tier 1 ratio of the UK prudential consolidation group of which Aldermore is part falls below 7.00 per cent., any accrued and unpaid interest on the AT1 Securities will be cancelled and the AT1 Securities will be converted into Ordinary Shares. On a conversion, the AT1 Securities will convert into a maximum of 52,966,102 Ordinary Shares (assuming that the AT1 Securities are converted at the Post IPO Conversion Price and subject to customary adjustments in the event of any extraordinary distributions, any issues of Ordinary Shares by way of capitalisation of profits or reserves or below 95 per cent. of current market price in certain circumstances or any subdivision, reclassification, redesignation or conversion of Ordinary Shares, in each case occurring between the issue date of the AT1 Securities and any conversion). For further details see paragraph 15.4 of Part XX: "*Additional Information—Material contracts—AT1 Securities*". As a result, existing Shareholders would suffer dilution in their percentage ownership.

Pre-emptive rights may not be available to U.S. holders of the Ordinary Shares.

U.S. holders of the Ordinary Shares may not be able to receive (or trade) or exercise pre-emptive rights for new shares unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. Aldermore does not plan to become a registrant under the U.S. securities laws. If U.S. holders of the Ordinary Shares are not able to receive (or trade) or exercise pre-emptive rights granted in respect of their Ordinary Shares in any pre-emptive offering by Aldermore, then they may not receive the economic benefit of such rights. In addition, their proportional ownership interests in Aldermore will be diluted.

Investors may not be able to recover in civil proceedings for U.S. securities law violations.

The Directors and officers of Aldermore named herein are non-residents of the United States. A substantial proportion of the assets of these individuals are located outside the United States. Aldermore's assets are all located outside of the United States. As a result, it may be impossible or difficult for investors to effect service of process upon such persons or Aldermore, or to enforce against them in U.S. courts a judgement obtained in such courts. In addition, there is doubt as to the enforceability in the UK of original actions or actions for enforcement based on the federal or state securities laws of the United States or judgements of U.S. courts, including judgements based on the civil liability provisions of the U.S. federal or state securities laws. As a result, it may not be possible for an investor to serve process on such persons in the United States or to enforce judgements obtained in U.S. courts against them based on the civil liability provisions of the securities laws of the United States or the securities laws of any state within the United States.

Investors with a reference currency other than pounds sterling will become subject to foreign exchange rate risk when investing in the Ordinary Shares.

The Ordinary Shares are, and any dividends to be announced in respect of the Ordinary Shares will be, denominated in pounds sterling. An investment in the Ordinary Shares by an investor whose principal currency is not pounds sterling exposes the investor to currency exchange rate risk that may impact the value of the investment in the Ordinary Shares or any dividends.

PART III
PRESENTATION OF INFORMATION

1 General

Investors should only rely on the information in this Prospectus (and any supplementary prospectus produced to supplement the information contained in this Prospectus) when making a decision as to whether to purchase Offer Shares. No person has been authorised to give any information or to make any representations in connection with the Offer other than the information and representations contained in this Prospectus and, if any other information or representations is or are given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors, the Selling Shareholders or the Underwriters. No representation or warranty, express or implied, is made by any of the Underwriters or any selling agent as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any of the Underwriters or any selling agent as to the past, present or future.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of the FSMA and section 3.4.1 of the Prospectus Rules, neither the delivery of this Prospectus nor any subscription or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group taken as a whole since the date of this Prospectus or that the information contained in this Prospectus is correct as of any time subsequent to the earlier of the date of this Prospectus and any specified date with respect to such information.

The Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Offer or the Group. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective investors of the Offer occurs prior to Admission or if this Prospectus contains any material mistake or inaccuracy. This Prospectus and any supplement thereto will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules. If a supplement to this Prospectus is published prior to Admission, investors shall have the right to withdraw their subscriptions made prior to the publication of any such supplement. Such withdrawal must be done within the time limits set out in the supplement (if any) (which shall not be shorter than two clear business days after publication of such supplement).

The contents of this Prospectus are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to any subscription, purchase or proposed subscription or purchase of Ordinary Shares. Each prospective investor should consult with such advisers as needed to make its investment decision and to determine whether it is legally permitted to hold Ordinary Shares under applicable legal, investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of any investment in Ordinary Shares for an indefinite period of time.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Directors, the Selling Shareholders, the Underwriters or the Financial Adviser or any of their respective representatives that any recipient of this Prospectus should subscribe for or purchase any Offer Shares.

Prior to making any decision as to whether to subscribe for or purchase any Offer Shares, prospective investors should read this Prospectus in its entirety and, in particular, Part II: "*Risk Factors*" and should not just rely on key information or information summarised within it. In making an investment decision, prospective investors must rely upon their own examination, analysis and enquiry of the Company and the contents of this Prospectus, including the risks involved. Any decision to purchase any Offer Shares should be based solely on this Prospectus.

Investors who subscribe for or purchase any Offer Shares in the Offer will be deemed to have acknowledged that: (i) they have not relied on any of the Underwriters or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied on the information contained in this Prospectus; and (iii) no person has been authorised to give any information or to make any representation concerning the Group or the Ordinary Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Directors, the Selling Shareholders or any of the Underwriters.

In connection with the Offer, each of the Underwriters and any of their respective affiliates acting as an investor for its or his or her own account may retain, purchase, sell, offer to sell or otherwise deal for its or his or her own account(s) in the Ordinary Shares, any other securities of the Company or other related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the Ordinary Shares being offered, acquired, placed or otherwise dealt with should be read as including any offer to, or dealing by, the Underwriters and any of their respective affiliates acting as an investor for its or his or her own account(s). In addition certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Ordinary Shares. Such persons do not intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

None of the Company, the Directors, the Selling Shareholders or the Underwriters is making any representation to any offeree or purchaser of the Ordinary Shares regarding the legality of an investment by such offeree or purchaser.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by the FSMA or the regulatory regime established thereunder, none of the Underwriters accepts any responsibility or liability whatsoever for the contents of this Prospectus, including its accuracy, completeness or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Group, the Directors, the Ordinary Shares, the Selling Shareholders or the Offer. The Underwriters accordingly disclaim all and any responsibility and liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which they might otherwise have in respect of this Prospectus or any such statement.

No representation or warranty, express or implied, is made by the Underwriters as to the accuracy or completeness of information contained in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to, the Company and the Selling Shareholders for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Company, the Selling Shareholders and any of their affiliates in the future.

No person has been authorised to give any information or make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been so authorised. Neither the delivery of this Prospectus nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Prospectus or that the information in this Prospectus is correct as of any time subsequent to the date of this Prospectus.

2 Presentation of financial information and non-financial operating data

Historical financial information

The historical financial information in this Prospectus has been prepared in accordance with the requirements of the Prospectus Directive Regulation, the Listing Rules and IFRS issued by the International Accounting Standards Board ("**IASB**") and as adopted for use in the EU. The basis of preparation is further explained in Part XV: "*Historical Financial Information*". The historical financial information presented in this Prospectus consists of audited consolidated financial information of the Group for the years ended 31 December 2014, 2013 and 2012.

Non-IFRS Financial Measures

The Group presents certain key performance measures that are not defined under IFRS but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks generally. These measures include net interest margin, cost/income ratio, return on equity, Core Tier 1 ratio, Common Equity Tier 1 ratio and total capital ratio. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides the Group with certain discretion in making its calculations.

Because of the discretion that the Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. These measures should not be used as a substitute for evaluating the performance of the Group based on its audited balance sheet and results of operations.

Pro forma financial information

In this Prospectus, any reference to "pro forma" financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in Part XVI: "*Unaudited Pro Forma Financial Information*". The unaudited pro forma statement of consolidated net assets includes certain adjustments in respect of the Offer that might have affected the financial information presented had they occurred on 31 December 2014. However, the unaudited pro forma statement of consolidated net assets statement is not necessarily indicative of what the financial position of the Group would have been had the Offer occurred on 31 December 2014.

The unaudited pro forma financial information is for illustrative purposes only. Because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position. Future results of operations may differ materially from those presented in the pro forma information due to various factors.

Non-financial information operating data

The non-financial operating data included in this Prospectus has been extracted without material adjustment from the management records of the Company and is unaudited.

Currency presentation

Unless otherwise indicated, all references in this Prospectus to "sterling", "pounds sterling", "GBP", "£" or "pence" are to the lawful currency of the UK. The Company prepares its financial statements in pounds sterling. All references to the "Euro", "euro" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. All references to "dollars", "$" or "U.S.$" are to the lawful currency of the United States.

The Offer Price will be stated in pounds sterling.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in pound sterling.

Roundings

Percentages and certain amounts in this Prospectus, including financial, statistical and operating information, have been rounded. As a result, the figures shown as totals may not be the precise sum of the figures that precede them.

Market, economic and industry data

Certain information in this Prospectus, in particular the information in Part VIII: "*Market Overview*", has been sourced from third parties. The Company confirms that all third-party information contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Prospectus, the source of such information has been identified.

Warrants and AT1 Securities

The figures included in this Prospectus for the number and percentages of Ordinary Shares assume the Warrants will not be exercised and that the AT1 Securities will not be converted into Ordinary Shares. For further information on the Warrants, see paragraph 15.6 of Part XX: "*Additional Information—Material contracts—Subordinated Notes and Warrants*" and for further information on the AT1 Securities, see paragraph 11 of Part IX: "*Information on the Group*" and paragraph 15.4 of Part XX: "*Additional Information—Material contracts—AT1 Securities*" respectively.

3 Information regarding forward-looking statements

Certain information contained in this Prospectus, including any information as to the Group's strategy, market position, plans or future financial or operating performance, constitutes "forward-looking statements". All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "schedule" and similar expressions identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, those described in Part II: "*Risk Factors*".

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Prospectus speak only as at the date of this Prospectus, reflect the Board's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to Aldermore's operations, results of operations, strategy, liquidity, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to Part II: "*Risk Factors*", Part IX: "*Information on the Group*" and Part XII: "*Operating and Financial Review*".

Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules, or applicable law, the Company explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Company's expectations or to reflect events or circumstances after the date of this Prospectus.

4 Over-allotment and stabilisation

In connection with the Offer, Credit Suisse as Stabilising Manager, or any of its affiliates or agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares or effect other stabilisation transactions with a view to supporting, stabilising or maintaining the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such stabilisation transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its affiliates or agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

5 Definitions

Certain terms used in this Prospectus, including all capitalised terms and certain technical and other terms, are defined and explained in Part XXI: "*Definitions and Industry Terms*".

Reference to any statue or statutory provision includes a reference to that statute or statutory provision as from time to time amended, extended or re-enacted.

6 No incorporation of website information

The contents of the Company's website, any website mentioned in this Prospectus or any website directly or indirectly linked to these websites have not been verified and do not form part of this Prospectus, and investors should not rely on such information.

PART IV
DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Glyn Jones (*Chairman*) Phillip Monks (*Chief Executive Officer*) James Mack (*Chief Financial Officer*) Peter Cartwright (*Non-Executive Director*) Neil Cochrane (*Non-Executive Director*) Danuta Gray (*Senior Independent Non-Executive Director*) John Hitchins (*Independent Non-Executive Director*) Peter Shaw (*Independent Non-Executive Director*) Christopher Stamper (*Independent Non-Executive Director*) Cathy Turner (*Independent Non-Executive Director*)
Company Secretary	Rachel Spencer
Registered office of the Company	Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire RG1 1AX United Kingdom

ADVISERS

Joint Global Co-ordinator, Joint Bookrunner and Underwriter	Credit Suisse Securities (Europe) Limited One Cabot Square London E14 4QJ United Kingdom
Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Underwriter	Deutsche Bank AG, London Branch Winchester House 1 Great Winchester Street London EC2N 2DB United Kingdom
Joint Bookrunner	RBC Europe Limited (trading as RBC Capital Markets) Riverbank House 2 Swan Lane London EC4R 3BF United Kingdom
Co-Lead Manager and Underwriter	Nomura International plc 1 Angel Lane London EC4R 3AB United Kingdom
Co-Lead Manager and Underwriter	Numis Securities Limited 10 Paternoster Square London EC4M 7LT United Kingdom
Financial Adviser	Lazard & Co., Limited 50 Stratton Street London W1J 8LL United Kingdom
Legal advisers to the Company as to English and U.S. law	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom

Legal advisers to the Underwriters as to English and U.S. law	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG United Kingdom
Auditor and reporting accountants	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL United Kingdom
Registrars	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA United Kingdom

PART V
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and Date
Announcement of Offer Price and allocation	7.00am on 10 March 2015
Commencement of conditional dealings on the London Stock Exchange	8.00am on 10 March 2015
Prospectus published	10 March 2015
Admission and commencement of unconditional dealings on the London Stock Exchange	8.00am on 13 March 2015
CREST accounts credited	8.00am on 13 March 2015
Despatch of definitive share certificates (where applicable)	from 13 March 2015

References to times are to London times, unless otherwise stated. Each of the times and dates in the above timetable is subject to change without further notice.

It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned. Temporary documents of title will not be issued.

PART VI
OFFER STATISTICS

Offer statistics

Offer Price (per Ordinary Share)	192 pence
Number of Existing Ordinary Shares in issue immediately prior to Admission	300,000,000
Number of Ordinary Shares in the Offer[(1)]	117,934,783
—to be issued by the Company	39,062,500
—to be sold by the Selling Shareholders	78,872,283
Percentage of the Existing Ordinary Share capital being offered in the Offer[(1)]	26.3 per cent.
Number of Ordinary Shares subject to the Over-allotment Option[(2)]	17,690,217
Number of Ordinary Shares in issue immediately following the Offer[(1)]	339,062,500
Expected market capitalisation of the Company at the Offer Price[(1)]	£651 million
Estimated net proceeds of the Offer receivable by the Company[(3)]	£69 million
Estimated net proceeds of the Offer receivable by the Selling Shareholders[(1)(4)]	£144 million

Notes:

(1) Assuming no exercise of the Over-allotment Option.

(2) The maximum number of Ordinary Shares subject to the Over-allotment Option will be 15 per cent. of the total number of Offer Shares.

(3) The estimated net proceeds receivable by the Company are stated after deduction of the estimated underwriting commissions and other fees and expenses of the Offer (including VAT) payable by the Company, which are currently expected to be approximately £6 million. The Company will not receive any portion of the proceeds resulting from the sale of Existing Ordinary Shares by the Selling Shareholders in the Offer.

(4) After deducting underwriting commissions and applicable taxes payable by the Selling Shareholders of up to £7 million (assuming that the discretionary fee is payable in full).

PART VII
USE OF PROCEEDS AND DIVIDEND POLICY

1 Use of Proceeds

The Company expects to receive net proceeds of approximately £69 million (after deducting estimated underwriting commissions and other fees and expenses of the Offer (including VAT) payable by the Company, which are currently expected to be £6 million) from the issue of Ordinary Shares in the Offer. The Company will not receive any portion of the proceeds resulting from the sale of Existing Ordinary Shares by the Selling Shareholders in the Offer. The Company intends to apply the net proceeds that it receives from the Offer to support the medium-term growth of its business.

The Selling Shareholders own Existing Ordinary Shares and have been given the opportunity to participate in the Offer. Their participation is a result of the decision by the Company to admit its Ordinary Shares to trading on the London Stock Exchange. The Selling Shareholders will together receive approximately £151 million (before costs and assuming there is no exercise of the Over-allotment Option). How each Selling Shareholder spends the amount he receives is a matter of personal choice for that Selling Shareholder.

2 Dividend Policy

The Company does not intend to pay a dividend in the near term but will consider subject to, *inter alia*, available distributable reserves and after taking into account the growth opportunities available to the Company at the time, paying an initial dividend from 2017.

The Board intends to review, on an ongoing basis, Aldermore's dividend policy including any dividend payments in the context of progress on delivery of Aldermore's strategy, regulatory capital requirements and the broader operating environment.

PART VIII
MARKET OVERVIEW

The following information relating to the banking industry in the United Kingdom has been provided for background purposes only. The information has been extracted from a variety of sources released by public and private organisations. The information has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Investors should read this Part VIII: ''Market Overview'' *in conjunction with the more detailed information contained in this Prospectus including Part II:* ''Risk Factors''*, Part XII:* ''Operating and Financial Review'' *and Part XVII:* ''Supervision and Regulation''*.*

1 Economic Overview

Economic indicators in the UK have recently exhibited signs of improvement following a sustained period of economic weakness that commenced in 2008 with the start of the global financial crisis. UK GDP grew by 2.6 per cent. in 2014, which was the strongest annual growth rate since 2010. The labour market has also experienced recent improvement. In December 2014, the UK unemployment rate was 5.7 per cent., which represents an improvement of 1.5 per cent. from a year earlier. Consumer price inflation in December 2014 was below the 2 per cent. target set by the Bank of England and Base Rates have been maintained at 0.5 per cent. The improved economic environment has also prompted a revival in the housing market, with a 15 per cent. increase in the number of residential property transaction completions over the 12-month period to December 2014[1], accompanied by a 7.8 per cent. increase in the Halifax House Price Index over the same period.

Metric	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E
GDP (yoy per cent.)[(a)(d)]	(5.2)	1.7	1.1	0.3	1.7	2.6	2.4	2.2	2.4	2.3
Unemployment (per cent.)[(a)(d)]	7.7	7.9	8.1	7.9	7.2	5.7	5.4	5.2	5.3	5.3
Consumer Price Index (per cent.)[(a)(d)]	2.9	3.7	4.2	2.7	2.0	0.5	1.2	1.7	2.0	2.0
Bank of England Base Rate (per cent.)[(b)(d)]	0.5	0.5	0.5	0.5	0.5	0.5	0.8	1.3	1.7	1.9
Business investment (yoy per cent.)[(a)(d)]	(15.2)	1.7	(1.3)	3.9	(1.0)	6.8	8.4	6.3	6.3	6.3
Halifax House Price Index (yoy per cent. change)[(c)]	(10.5)	2.9	(2.6)	(0.6)	4.8	7.8	n/a	n/a	n/a	n/a
House prices—(yoy per cent.)[(a)(d)]	(7.6)	7.3	(0.9)	1.6	3.5	9.8	7.4	5.9	5.8	5.1

(a) Office for National Statistics (February 2015)

(b) Bank of England as of June 2014

(c) Halifax

(d) Forecast data from Office of Budget Responsibility, December 2014

2 Overview of UK banking market

The total UK banking market, defined as gross lending origination to UK businesses and individuals, comprised £541 billion of gross lending assets in 2013. This represented an increase of 13 per cent. on 2012 as the appetite for credit improved with strengthening UK macroeconomic conditions.

The market can be split by type of lending asset, with the largest contributors being residential mortgages, corporate loans, SME lending and personal unsecured loans.

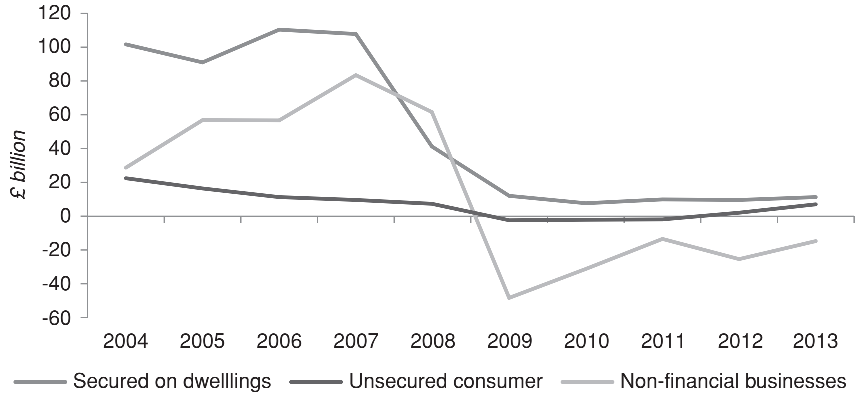
UK bank lending is funded by customer deposits and wholesale markets (unsecured or collateralised with banks' assets). Retail markets provide the majority of UK banks' funding. The retail funding market can be segmented by customer and duration. Retail customers predominantly require current accounts, easy-access and short-to-medium-term savings products, while large institutions require corporate current accounts and more sophisticated liquidity lines. SMEs sit between the two, using current account facilities as well as easy access and short to medium-term savings.

The UK banking market is dominated by the largest six players: HSBC, Barclays, RBS, Lloyds, Nationwide and Santander. There are also a large number of mid-sized banks and building societies such as NAB UK and TSB, as well as other more specialist lenders, such as Close Brothers and Paragon. Aldermore is a relatively new entrant in the specialist lenders category.

[1] HMRC UK Property Transaction Statistics (24 February 2015). Number of residential property transaction completions for 2014 based on provisional figures.

Net lending (the positive inflow or negative outflow of credit to UK businesses and individuals) was positive in 2013, for the first time since 2008, when net lending was negative in the wake of the global financial crisis as businesses and households paid down debt and banks restricted the supply of credit. Despite being positive, the aggregate net lending flow in 2013 was still small compared to the positive flows experienced before 2009.

Chart 1: Net Lending to the UK Real Economy[(a)]



Source: Bank of England—Trends in Lending report (April 2014)

(a) The Real Economy is defined as businesses and individuals. Lending for the secured and unsecured series is to individuals. Non seasonally adjusted. All series exclude the effects of write-offs, loan transfers and other adjustments

Following the global financial crisis in 2008/09, the UK banking market has experienced considerable change.

A high number of mergers and acquisitions in the sector has resulted in sector consolidation (Lloyds' acquisition of HBOS being the largest as well as a number of smaller building society takeovers such as Santander's acquisition of Alliance & Leicester and Nationwide's acquisitions of Cheshire, Derbyshire and Dunfermline Building Societies). This has resulted in the UK banking sector becoming one of the most concentrated and least competitive in Europe according to a Treasury Select Committee report published in 2011[2]. The report concluded that the top five UK banks controlled 75 per cent. of total gross new lending in total mortgages, 85 per cent. of the personal current account market and 62 per cent. of the savings account market.

As a result of losses incurred and increased capital and liquidity requirements, the large incumbent banks have been forced to deleverage and rebuild capital through targeted balance sheet reductions. UK banks in total have deleveraged by £1.7 trillion in the five years to 2013[3] resulting in a significant reduction in the availability of finance to the UK economy.

Although there are exceptions (e.g. Handelsbanken), more generally, foreign banks have exited or reduced their presence in the UK market. For example, ING exited their mortgages and savings business and stopped writing new business in Asset Finance towards the end of 2012 and the UK business banking subsidiaries of Irish banks have restricted lending.

Furthermore, UK banks have been forced to carry out major cost-cutting exercises, including centralising credit selection functions; in some cases, ring-fencing retail operations; and spending significant amounts to improve the performance and security of their IT platforms.

UK banks have also been significantly impacted by legacy issues arising from, for example, the mis-selling of PPI and swaps and from legacy and underinvested infrastructure. Since 2011, the total bill for litigation, fines and customer redress has been £28.5 billion, equivalent to two-thirds of the cumulative profits of the top five banks over this period[4]. Customer dissatisfaction in the UK banking sector has also risen. One effect of this, as discussed in a recent Oliver Wyman report, is an increased propensity of customers to review and switch banking provider[5].

2 Treasury Committee report, 2011: Competition and choice in retail banking

3 KPMG Reinvention of UK Banking report 2013

4 'KPMG—UK banks: performance benchmarking report—full year results 2013'

5 Oliver Wyman 'The value of good customer experience'—2014

Against this backdrop of customer malaise, lack of lending to the real economy, historic mis-selling, combined with the need for UK Government support for UK banks during the global financial crisis, the UK banking market is facing enhanced regulation and higher capital and liquidity requirements.

As a result of State Aid provided to RBS and Lloyds Banking Group, and to enhance competition in the UK market, the European Commission required both banks to divest Williams & Glyn and TSB respectively. Furthermore, the banking sector regulators (FCA and PRA) are reviewing and proposing changes to address the lack of competition in the UK banking market and the ease with which borrowers can access finance. The UK Government has an explicit policy agenda to promote competition in domestic banking, particularly SME and residential mortgage lending, by supporting challengers to the incumbent high street banks with schemes such as Funding for Lending.

As a result of these factors, there have been a number of new entrants to the UK banking market. They have adopted a variety of models targeting different credit segments (i.e. retail, SME, corporate) and adopted different distribution models (i.e. branches, intermediary, direct). These include retail-focused branch-based banks such as Metro Bank and Virgin Money and required disposals under State Aid such as Williams & Glyn (currently part of RBS) and TSB (majority owned by Lloyds Banking Group). In addition, these are specialist lenders such as Close Brothers, Shawbrook, Bibby and Paragon, challenging the share of the UK banking market controlled by the incumbents in targeted lending segments.

3 UK SME finance market

Within the UK banking market, the value of lending to businesses in 2013 was £163 billion of which lending to SMEs was £43 billion[6].

An SME is usually defined as a business with less than £25 million turnover[7]. SMEs account for around 60 per cent. of private sector employment and half the annual turnover of all private sector businesses[8].

In the third quarter of 2014, 40 per cent. of SMEs were using external finance[9]. The main debt finance products demanded by SMEs included invoice finance, asset finance, unsecured bank loans, debenture lending, commercial mortgages, overdrafts and credit cards.

The market for SME finance is dominated by the large incumbent high street banks, supplemented by specialist lenders. The specialist lenders often tend to focus on a single or small selection of products, with Aldermore and Close Brothers being broader providers across the SME market.

Distribution of banking products to SMEs is predominantly via intermediaries, banking relationships (serviced via bankers and regional centres) and direct (usually via the internet and telephone as opposed to branches).

Demand for SME finance is driven by business confidence and hence investment. Levels of business investment are expected to increase over the next three years, with growth expected to be 8.4 per cent. in 2015 and 6.3 per cent. in 2016 and 2017[10]. The path of business investment since the end of the recession has shown that cumulative growth between the end of 2009 and the final quarter of 2013 was c.27 per cent., with the level in the final quarter of 2013 around 3 per cent. above its pre-crisis level, implying strong recovery[11].

SMEs have generally experienced greater difficulty than larger corporates in accessing finance. Recent data showed only 56 per cent. of loan applications made Q2 2013 to Q3 2014 resulted in a facility[12]. This is due to a number of factors, including smaller financing needs resulting in lack of scale to access capital markets and the greater cost of risk for some SMEs. In addition, SME products are often tailored to

6 Bank of England Trends in Lending April 2014

7 Breedon Report cut-off size

8 Business Population Estimates for the UK and Regions 2012, Department for Business, Innovation and Skills. In this context, SMEs are defined as those private sector businesses with 0-249 employees. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/80247/bpe-2012-stats-release-4.pdf.

9 Source: www.sme-finance-monitor.co.uk Q4 2013 report

10 Forecast data from Office of Budget Responsibility, December 2014

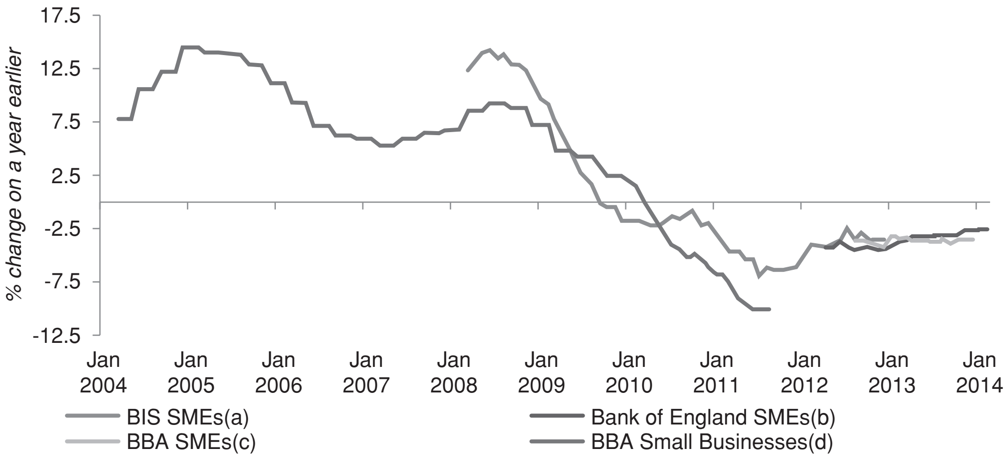
11 Office for Budget Responsibility—Economic and fiscal outlook (December 2014)

12 Source: www.sme-finance-monitor.co.uk Q4 2013 report

customers' individual requirements and incorporate a higher degree of customer interaction and service which larger banks are increasingly not able to, or unwilling to, provide for cost-efficiency reasons.

As a consequence of SMEs' reduced ability to access credit, the growth rate in the stock of lending to SMEs has been negative for the past four years, according to data from the British Bankers' Association and Bank of England[13].

Chart 2: Lending to SMEs



Source: BBA, BIS, Bank of England and calculations

(a) Monthly BIS survey and calculations. Lending by four UK lenders to enterprises with annual bank account debit turnover less than £25 million. Data cover lending in both sterling and foreign currency, expressed in sterling. The survey terminated in December 2012.

(b) Lending by UK monetary financial institutions to UK SMEs with annual debit account turnover on the main business account less than £25 million. Data covers lending in both sterling and foreign currency, expressed in sterling and are to February 2014.

(c) Lending by a BBA panel of lenders to SMEs in Great Britain. SMEs are defined as businesses with turnover up to £25 million. Data covers lending in both sterling and foreign currency, expressed in sterling and are to December 2013.

(d) Lending by seven UK lenders to commercial businesses with an annual bank account debit turnover of up to £1 million. The growth rate prior to September 2009 is presented on a quarterly frequency and is monthly thereafter, expressed in sterling. The survey terminated in June 2011.

As a result of the combination of growing demand through business confidence and lack of supply from incumbent banks, there has been a significant credit shortage in the SME segment. The Breedon Report, which was commissioned by the UK Government Department for Business, Innovation & Skills to specifically look at the topic of financing UK SMEs, estimated the SME credit gap between supply and demand could rise to c.£26 - £59 billion by 2016[14].

Since the global financial crisis, the UK Government (supported by the Bank of England) has initiated multiple projects to help stimulate lending to SMEs and consumers through the Funding for Lending Scheme ("**FLS**"), "Project Merlin" (as part of which in 2011 HSBC, Barclays, RBS, Lloyds Banking Group and Santander committed to increasing lending to, amongst others, SMEs), quantitative easing, the National Loan Guarantee Scheme and the Business Finance Partnership.

A brief description of the main categories of SME lending is set out below.

3.1 Asset Finance

According to the Financing & Leasing Association, total origination of Asset Finance by its members to businesses and the public sector was £23 billion in 2013. The market grew at a rate of 5 per cent. between February 2013 and February 2014 but remains significantly smaller than 2007/08 when the market size was £31 billion. [15]

[13] Bank of England—Trends in Lending April 2014

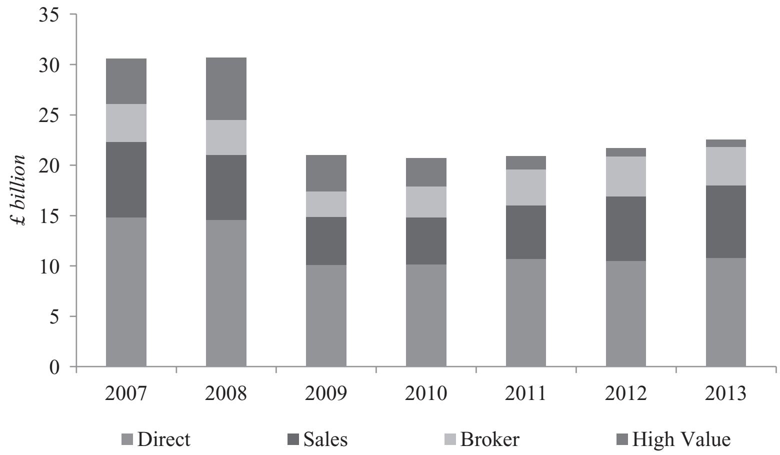
[14] Breedon report

[15] Financing & Leasing Association (FLA) data

As at 31 December 2014, Aldermore's Asset Finance business had net loans of £1,044 million, and an estimated 3.0 per cent. of the total UK Asset Finance market[16].

Asset finance offers SMEs a secured finance alternative to a traditional bank loan and it is the third most common source of finance for businesses, after bank overdrafts and loans. Around 20 per cent. of SMEs that have any external borrowing use asset finance[17].

Chart 3: Asset Finance Origination by Channel



Sources: Finance & Leasing Association ("**FLA**")

Asset Finance agreements are secured against assets (e.g. vehicles, office equipment, manufacturing equipment, IT equipment and telephony systems). The majority (c.53 per cent.) of new commercial Asset Finance is secured against cars (new and used) and commercial vehicles, with the next largest category being plant and machinery (c.21 per cent.)[18]. Other larger categories include specialist business equipment (e.g. medical) and IT equipment and telephony systems, referred to as "soft assets" because of their limited sell-on value.

Assets such as cars and plant and machinery are favoured by providers of Asset Finance because there is a well established liquid secondary market. New vehicles and plant and machinery have grown rapidly, up 17 per cent. and 21 per cent. respectively in the 12 months to December 2014, while IT equipment has seen limited growth of less than 10 per cent.[19]

Asset Finance is predominantly short-term in nature, with an average contractual and behavioural duration of 3 to 4 years.

Asset Finance can be obtained directly from specialist providers, indirectly through equipment suppliers (c.5,000 operating in the UK) or through finance brokers (c.400 operating in the UK). The majority of Asset Finance (47 per cent.) is distributed directly but this has been declining as a channel since 2008. Broker distribution accounts for £3.8 billion in the market (17 per cent.) and decreased in size versus 2012 with the withdrawal of ING; broker distribution was growing as a share of the market up until 2012[20]. Finance from equipment suppliers accounts for 32 per cent. and has been growing as a distribution channel.

The main providers of Asset Finance in the UK are RBS (Lombard), Close Brothers, Hitachi, Lloyds Bank, BNP Paribas, Investec and Aldermore. The main finance providers serving the asset finance market via main equipment vendors are de Lage Landen, Siemens and GE Capital. A key development of the

16 (a) Market size: Market size used for calculating Aldermore's market share based on total market origination for 2014. Data from: Finance & Leasing Association (Asset Finance).

(b) Market share: Aldermore's market share is based on 2014 origination for Asset Finance.

17 Finance & Leasing Association website

18 FLA Industry Statistics, December 2014

19 FLA Industry Statistics, December 2014

20 FLA Industry Statistics, December 2014

Asset Finance segment was the exit of a major player, ING, in 2012 which is estimated to have created a gap of unserved credit demand of c.£1 billion for the rest of the sector.

The growth of the Asset Finance market is primarily driven by business confidence. As SMEs' output expectations rise and they invest in new assets or replace existing assets to accompany growth in output, their need for Asset Finance increases.

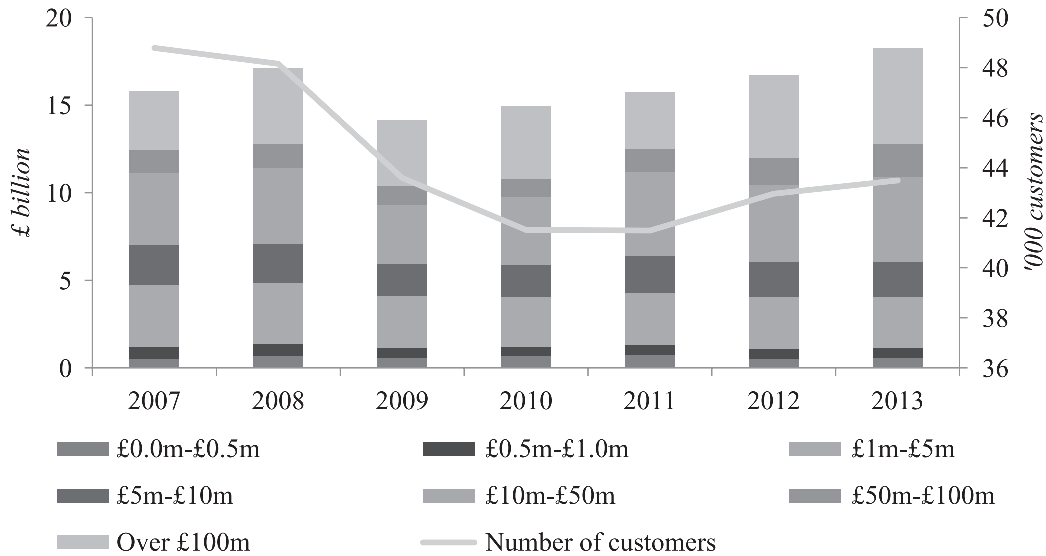
3.2 Invoice finance

The aggregate amount of invoice financing in the UK was £18 billion in 2013, according to the Asset Backed Finance Association ("**ABFA**")[21]. There are 43,000 customers in the market currently and this number peaked at 48,000 in 2007/08.

As at 31 December 2014, on a net basis, Aldermore's Invoice Finance portfolio amounted to £180 million, resulting in a market share of 1.0 per cent.[22]

Invoice financing products enable SMEs to meet their working capital requirements through invoice discounting (82 per cent. of market) and factoring (18 per cent. of market).

Chart 4: Customer Annual Turnover Bands and Number of Customers



Source: Asset Backed Finance Associate ("**ABFA**")

Invoice discounting involves directly lending against unpaid invoices, typically at an agreed percentage of their total value. The financier then charges a fee commonly between 0.75 per cent. and 2.5 per cent. of turnover/total invoices. The average duration of invoice finance is currently 57 days[23].

Factoring involves an invoice financier directly managing a company's invoices and collecting money owed from customers. Upon purchasing the debt from a company, the financier provides a percentage of the cost upfront (usually around 85 per cent., with the remainder upon collection) and charges the company a discount charge (interest) and/or a fee. Factoring as a product has been declining in favour of products where the lender has no direct contact with the customer.

21 Asset Based Finance Association—Quarterly Statistics, December 2013

22 (a) Market size: Market size used for calculating Aldermore's market share for Invoice Finance represents a stock figure as at 30 September 2014. Data from: Asset Based Finance Association (Invoice Finance).

(b) Market share: Market share for Invoice Finance based on September period-end balance.

23 Asset Based Finance Association, December 2013 report

The majority of business customers in the UK which use invoice finance are either relatively small with revenues of less than £0.5 million or have annual revenues of between £1-5 million. By value, however, 67 per cent of advances are to businesses with revenues of greater than £10 million of revenue. The most common sectors to utilise invoice finance are distribution (41 per cent. of customers), services (25 per cent.) and manufacturing (18 per cent.) with the remainder including transport, retail and construction[24].

Products are most commonly distributed via referrals from bank relationship managers, sold direct or via intermediaries such as specialist brokers and accountancy practices.

The market participants include larger clearing banks (e.g. Barclays, RBS, Lloyds Bank, HSBC) as well as some specialist providers in the likes of Bibby, Close Brothers and Aldermore, which are focused on regional and SME customers.

Historically, client numbers and income have moved broadly in line with GDP. There will be lenders that will outpace this growth by winning new market share.

4 UK mortgage market

The total size of the residential and commercial mortgage origination market in the UK was around £211 billion in 2013. The market can be segmented according to customer served: retail and commercial.

Mortgage lending is secured lending against property assets. The types of mortgage loan product available in the UK include repayment and interest-only. Within those categories, mortgage products vary depending on the level of debt versus the value of the property (e.g. gearing / LTV), debt affordability (disposable income over interest cost), whether fixed or floating rate, and if secured on an owner-occupied or buy-to-let property.

The overall market has seen adverse conditions over the last five years as a result of economic slowdown and the stagnation in the domestic mortgage market. However, growth is beginning to recover and mortgage lending has turned to net positive inflows.

4.1 Commercial Mortgage segment

The total value of outstanding debt secured only by commercial property, according to survey data[25], is £221.2 billion, down from £237.5 billion as at year end 2013, reflecting deleveraging trends discussed above. Gross lending was £22.4 billion during H1 2014 up on the £18 billion recorded in H1 2013 as confidence in the market and the UK economy improved[26].

Aldermore's SME Commercial Mortgages business had net loans of £1,011 million at 31 December 2014, resulting in an estimated market share of 1.0 per cent[27].

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24 Asset Based Finance Association, December 2013 report

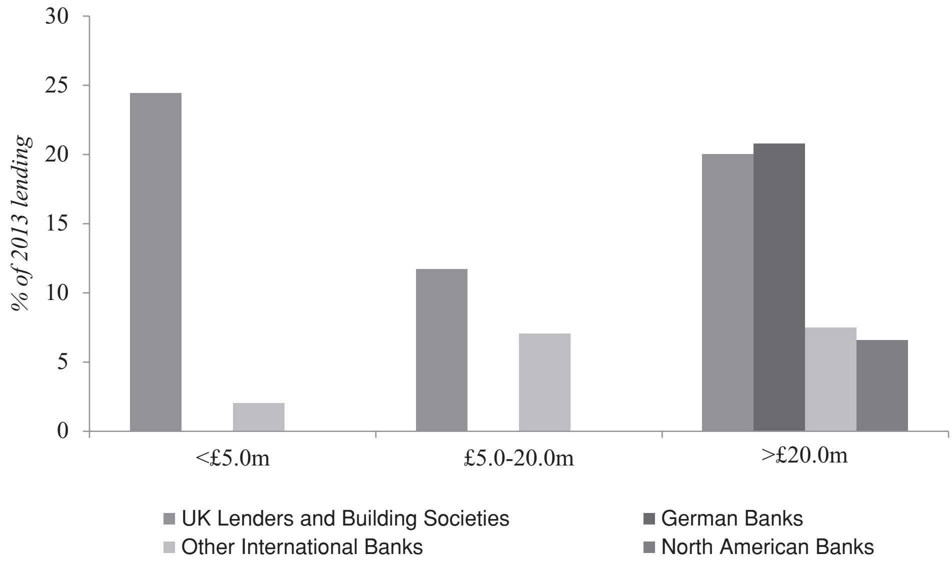
25 De Montfort University Mid Year 2014 Commercial Property Lending Report

26 De Montfort University Mid Year 2014 Commercial Property Lending Report

27 (a) Market size for SME Commercial Mortgages based on H1 2014 DMU study. H1 2014 market origination annualised to give market size.

(b) Market share: Aldermore's market share is based on 2014 origination for SME Commercial Mortgages.

Chart 5: Small Ticket Lending in the UK



Source: De Montfort University, Savills

Commercial mortgages are secured against commercial properties such as retail premises, offices, industrial units and commercial and residential investment property. Customers for commercial mortgages include large corporates, SMEs and private property investors. Products offered by banks in the commercial mortgages market include mortgages for large commercial development projects (e.g. hotels), mezzanine lending products, professional buy-to-let mortgages and owner-occupied commercial properties (e.g. retail premises).

The high street banks are the largest players in the commercial property market. In the SME and professional property investor markets, Aldermore primarily competes with Lloyds Bank, Shawbrook and Santander. A number of players exited the market due to a reduction in liquidity. These suppliers were replaced by a number of specialist lenders. However, some of the major players are returning, making for a more competitive lending environment.

Distribution via mortgage brokers is an important feature of the commercial mortgage market.

Commercial mortgage market demand is driven by SMEs, corporates and entrepreneurs gaining confidence in the economic stability and positive outlook, resulting in increased investment in property assets including property development given improving property values and minimal interest returns on cash savings.

Demand in the professional buy-to-let market has been increasing in recent years, with 18 per cent. of all UK housing stock now included in the Private Rented Sector ("**PRS**") as at December 2013—an increase of 95 per cent. since 2000[28]. At the same time, the amount of social housing properties as a percentage of the entire housing sector has decreased 3 per cent. between 2000 and 2013, further driving the demand for PRS as it is viewed as the only major alternative to home ownership. PRS growth is expected to continue, with the Department for Communities and Local Government forecasting that by 2020 more than 20 per cent. of the UK housing stock will be in the PRS and that by 2030 this will reach 25 per cent.[29].

Investment mortgages are recovering close to 2007 levels as prime property yields have reduced materially. Nearly half of all commercial investment in 2013 was in offices and two thirds was invested in London and the South East. Overseas customers are also an important component of commercial mortgages demand.

28 English Housing Survey Headline Report 2012-2013

29 Stephen Stringer, Deputy Director, Expanding the rented Sector Programme, DCLG, to CML Conference 19 June 2013

4.2 Residential Mortgage segment

According to the Council of Mortgage Lenders, there are 11.2 million residential mortgages in the UK, with loans worth £1.2 trillion[30]. In 2014, gross mortgage lending totalled £206 billion, an increase of 17 per cent. on 2013.

Aldermore's Residential Mortgages business had net loans of £2.6 billion at 31 December 2014, resulting in an estimated market share of 0.6 per cent.[31] The market can be segmented by mortgage product into owner-occupied (2013: 34 per cent.), first-time buyers (2013: 20 per cent.), remortgages (2013: 27 per cent.), buy-to-let (2013: 12 per cent.) and other (2013: 6 per cent.). The majority of mortgage customers, c.85 per cent., are employed individuals, c.11 per cent. are self-employed (a share that has fallen from c.23 per cent. in 2007), and the remainder are retired or other.

The UK is notable among European markets for the highly developed nature of its mortgage distribution channels[32] and with the intermediary channel being the largest. Intermediaries, also known as brokers (individuals and small firms), provide advice, assist in completing a mortgage application, filter the products available for a customer as well as facilitate the purchase of the mortgage product. Intermediaries account for around 55 per cent. of residential mortgages distributed in the UK. Some products, such as buy-to-let are even more heavily intermediary focused. The Mortgage Market Review conducted by the FCA will impact the distribution of mortgages via intermediaries by requiring every intermediary to hold a relevant mortgage qualification.

The other distribution channels include face-to-face advice and sales through branch networks. Finally, there is a small but growing direct channel via telephone and internet services.

In 2013, the average LTV of retail mortgages was 62 per cent. and the average income multiple was 2.9x. Within that, existing home-owner remortgages were at an average LTV of 54 per cent. in 2013 and an average income multiple of 2.6x. For first time buyers the average LTV in 2013 was 75 per cent. and the average income multiple 3.3x. Higher LTVs for first time buyers have been aided by "Help to Buy", discussed below[33].

The main players in the UK residential mortgage market are the large high street banks—Lloyds Bank, Nationwide, Barclays, HSBC, Santander and RBS, which together account for 63 per cent. of UK gross mortgage lending (outstanding balances) in the last comprehensive Treasury Report in 2011. The remainder of the market is served by smaller building societies, in particular Coventry, Yorkshire, Leeds, Skipton and Principality. Aldermore is ranked 19th (by lending) in the UK market and competes with the high street banks generally. Specifically in buy-to-let lending, Aldermore competes primarily with Nationwide (The Mortgage Works) and Lloyds Bank (BM Solutions).

The large incumbent banks have highly centralised, automated credit scoring systems supporting individual mortgage applications. Following the global financial crisis, incumbent banks withdrew from certain segments of the market where their automated credit processes meant that mortgage applications were rejected, in particular for customers who are self-employed, first-time buyers or returning residents to the UK.

Retail mortgage demand is driven principally by macro-economic factors including employment, interest rates and house price inflation. The recent improvement in UK economic growth, driving higher levels of employment, has supported growth in retail mortgages. At the same time, while interest rates remain low, the affordability of mortgages has also remained favourable. Furthermore, in the cases where mortgages are reverting to standard variable rates (at a wider spread against Base Rate) customers that would usually have remortgaged are often choosing not to re-mortgage, benefiting from very low Base Rates.

Gross mortgage lending still stands at less than half the level of its peak in 2007. The market fell to a trough of £135 billion in 2010, but is now recovering strongly, expanding by 17 per cent. in 2014 and 21 per cent. in 2013 following two years of low single-digit growth in 2011 and 2012.

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30 CML monthly report, January 2015

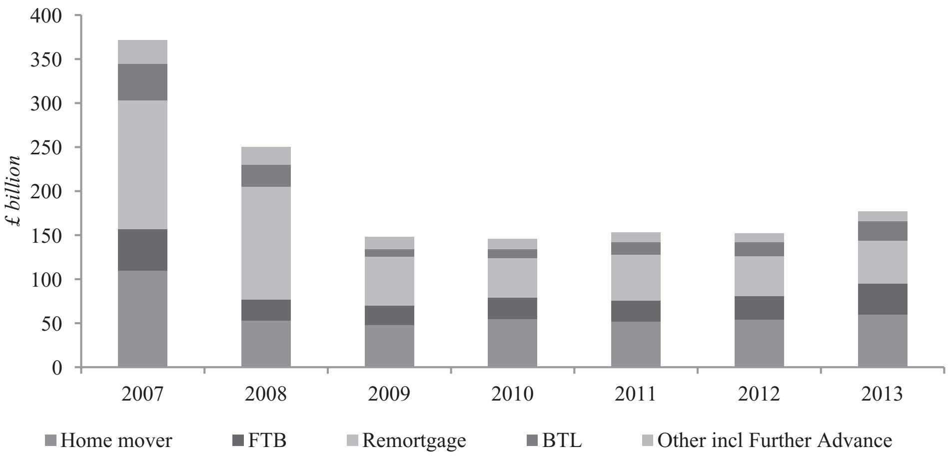
31 (a) Market size: Market size used for calculating Aldermore's market share based on total market origination for 2014. Data from: CML (Residential Mortgages).

(b) Market share: Aldermore's market share is based on 2014 origination for Residential Mortgages.

32 Statement supported by Treasury Mortgage Market Review

33 Taken from February 2014 CML data

Chart 6: Gross residential mortgage lending (by purchase type)



Source: CML

In particular, the market for first-time buyers has seen a recent increase, with the number of first-time buyers rising to more than 300,000 in 2014, the highest since 2007[34]. This is partly as a result of the UK Government's "Help to Buy" scheme which was launched in 2013 and provides shared-equity schemes for first-time buyers. This scheme has now been extended until 2020 and the scope increased to support existing homeowners, which is expected to provide further positive stimulus to the mortgage market.

Buy-to-let mortgages accounted for more than 12 per cent of UK mortgages in 2013, higher than levels seen in 2007 prior to the global financial crisis and following a trough of 6 per cent. in 2009. Buy-to-let mortgages have proved an attractive investment: £1,000 invested in 1996 was worth £13,000 in 2013 and future projections are for compound annual return rates above 10 per cent. which supports continued demand for buy-to-let lending. The buy-to-let mortgage market has increased rapidly during the last few years and between December 2000 and December 2013 the number of outstanding buy-to-let mortgages grew from 120,300 to 1.53 million, whilst the amount of outstanding mortgages rose from £9.1 billion to £174.4 billion. Although the buy-to-let mortgage market suffered during the global financial crisis, it has picked up in recent years, and gross advances in 2013 were 38 per cent. higher than in 2012, as shown in Chart 6 above.

There are some potential headwinds to growth in the UK retail mortgage market. The UK Government has recently concluded the Mortgage Market Review the recommendations from which took effect on 26 April 2014 and principally include shifting the responsibility for whether a customer can afford a loan entirely to the lender and not any intermediary assessing the application while also requiring a higher level of training for customer-facing staff advising on mortgage applications. Many of the incumbent banks have not operated with this approach previously, which is expected to result in a reduced supply of credit to the market as these banks adjust to the new regulations and affordability tests.

Another potential headwind is strong house price inflation which, in particular in London, has resulted in average income multiples increasing. This could constrain customers' affordability for retail mortgages while house price inflation exceeds wage inflation.

5 Retail Deposits

In the UK there are £1.1 trillion of deposits. The market is segmented into: (i) non-interest bearing current accounts; (ii) sight deposits, where the entire balance is accessible without penalty, either on demand or by close of business; and (iii) time deposits, where deposits are not accessible without penalty, on demand/at end of day. Launched in 1999 as a tax-free savings product, ISA balances have grown to form 19 per cent. of the deposit market at £206 billion[35].

The UK Government, via the Financial Services Compensation Scheme ("**FSCS**") provides a Government guarantee for retail deposits of up to £85,000.

[34] CML press release in January 2015

[35] Bank of England

Aldermore had retail deposits of £3.4 billion at 31 December 2014, resulting in a market share of 0.3 per cent.

The UK deposit market is large but is largely concentrated among the high street banks. Some new entrants, such as Tesco, are entering the market utilising their existing brand-value to attract customers and build a deposit base. Following the withdrawal of FLS, it is expected that competition may increase as some lenders lose this funding stream.

The largest distribution channel for deposit accounts is from banks via branches and online as well as phone distribution. A small share of the market is distributed via intermediaries. However, "best-buy" tables published in the media or on price comparison websites provide guidance to customers seeking the most attractive rates.

Customer demand for deposits and savings is driven by the rate of interest on cash deposit accounts, versus the returns on other assets (e.g. equity investment, bonds), disposable income to save (household savings ratio) and individual attitudes towards both saving and risk.

Growth in deposits ran at an average at 8 per cent. during 2001 to 2007, as rising asset prices, and higher interest rates helped grow market deposits. Since 2009 growth has been lower, averaging about 3 to 4 per cent. a year, a higher growth rate than consumer credit (due to customer deleveraging), but well below previous levels.

Seasonally, there is typically an increase in the second quarter as customers invest in ISA (tax-free savings) products around the change in tax year, although the third quarter is usually the busiest.

PART IX
INFORMATION ON THE GROUP

*Investors should read this Part IX: "*Information on the Group*" in conjunction with the more detailed information contained in this Prospectus including the financial and other information appearing in Part XII: "*Operating and Financial Review*".*

1 Overview

Aldermore is a British bank which focuses on secured and bespoke lending to the SME market and residential mortgages for retail customers. It is the holding company of the Group and has one principal subsidiary, Aldermore Bank PLC, which is authorised by the PRA and regulated by the FCA and the PRA.

Aldermore is a "legacy-free" bank. It employs a modern digital platform to support its distribution and customer service proposition and provide a scalable, efficient operating model. Aldermore has a strong and diversified online deposit franchise and the Directors believe that its target lending segments provide a significant and sustainable organic growth opportunity.

Aldermore was founded in May 2009 following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by the private equity firm AnaCap Financial Partners LLP. At the time of the acquisitions, Aldermore had customer lending in the region of £76 million and approximately 50 employees. Since then Aldermore has developed into a multi-product asset-based lender and through its focus on organic loan origination has grown significantly, having £5.6 billion of assets, approximately 160,000 customers and approximately 875 employees and contractors as at 31 December 2014. Between 1 January 2012 and 31 December 2014, 98 per cent. of loan origination was generated organically.

Aldermore focuses on specialist lending to SMEs and homeowners across four targeted lending segments which the Directors have identified as being underserved by incumbent banks and where they believe there are significant, sustainable and profitable growth opportunities. Aldermore's lending activity is supported by its deposit franchise and other sources of funding:

- **Asset Finance:** Aldermore offers Asset Finance loans on single transactions of predominantly between £5,000 and £1 million primarily to fund SME capital investment in certain key assets including plant and machinery, commercial vehicles, cars, IT equipment and business equipment. As at 31 December 2014, Aldermore's Asset Finance business had net loans of £1,044.3 million, and an estimated 3.0 per cent. of the total UK Asset Finance market[36];
- **Invoice Finance:** Aldermore provides working capital for SMEs by lending against outstanding invoices issued by a borrower to its customers. Borrower limits are set on a borrower specific basis and they typically operate with an advance rate of up to 85 per cent. of the value of the approved invoices. As at 31 December 2014, Aldermore's Invoice Finance business had net loans of £180.6 million, which constituted an estimated 1.0 per cent. of the total UK Invoice Finance market[36];
- **SME Commercial Mortgages:** Aldermore offers SME Commercial Mortgages of up to a maximum of £2 million on a single property, rising to £5 million over multiple properties, primarily to SMEs and professional property investors, secured on commercial property (including retail premises, offices, industrial units and warehouses) and professionally managed residential buy-to-let portfolios. As at 31 December 2014, Aldermore's SME Commercial Mortgages business had net loans of £1,011.3 million, and an estimated 1.0 per cent. of the total UK SME Commercial Mortgage market[36]; and
- **Residential Mortgages:** Aldermore offers Residential Mortgages of up to £1 million in the form of residential lending (owner-occupied mortgages) or buy-to let mortgages for landlords with less than 5 buy-to-let properties. As at 31 December 2014, Aldermore's Residential Mortgages business had net loans of £2.6 billion, and an estimated 0.6 per cent. of the total UK Residential Mortgage market[36]; and

[36] (a) Market size: Market size used for calculating Aldermore's market share based on total market for 2014, except Invoice Finance which represents a stock figure as at 30 September 2014. Data from: Finance & Leasing Association (Asset Finance); Asset Based Finance Association (Invoice Finance) and CML (Residential Mortgages). Market size for SME Commercial Mortgages based on H1 2014 DMU study. H1 2014 market origination annualised to give market size.

(b) Market share: Aldermore's market share is based on 2014 origination for Asset Finance, SME Commercial Mortgages and Residential Mortgages. Market share for Invoice Finance based on September 2014 period-end balance.

- **Funding:** Aldermore is funded predominantly through online retail and SME deposits and as at 31 December 2014, had a loan-to-deposit ratio of 108 per cent. Additional funding is provided by Aldermore's £333 million RMBS issued in April 2014 (its first securitisation transaction), participation in the Funding for Lending Scheme (as at 31 December 2014, Aldermore had drawn £485 million of UK Treasury Bills under the scheme of which £304 million was on balance sheet funding) and £40 million Subordinated Notes. This increasingly diversified mix of funding has resulted in declining funding costs. For the financial year ended 31 December 2014, Aldermore's average cost of funds was 2.1 per cent. compared to 2.8 per cent., and 3.9 per cent. for the financial years ended 31 December 2013 and 2012 respectively.

Aldermore has clearly defined control and risk functions in place and employs a modern IT infrastructure to support its operations and customer service proposition. This scalable digital platform has no "legacy" issues and can support Aldermore's planned organic growth.

Aldermore does not have a traditional branch network and as such does not have any costs associated with running such a branch network. Lending originations are conducted primarily through intermediaries with increasing direct distribution online, by phone and in person through Aldermore's regional offices across Great Britain which also provide product expertise, customer services and operational support services. Deposit accounts and savings products are directly originated and in the financial year ended 31 December 2014 almost all SME deposits and approximately 76 per cent. of retail deposits were originated online.

Aldermore has successfully grown in both scale and profitability. Profit before tax increased from £0.3 million for the year ended 31 December 2012 to £50.3 million for the financial year ended 31 December 2014. Return on equity for the financial year ended 31 December 2014 was 15.1 per cent. (excluding post-tax 2014 offer costs) compared with 11.6 per cent. for the financial year ended 31 December 2013.

As at 31 December 2014, Aldermore's fully loaded CRD IV CET1 Ratio was 10.4 per cent., its Total Capital Ratio was 14.8 per cent. and its Leverage Ratio was 6.3 per cent.

2 History and development of Aldermore

Aldermore was founded in May 2009 following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by the private equity firm AnaCap Financial Partners LLP. Throughout 2009 and 2010 Aldermore purposefully established capabilities in its chosen segments of the lending market, recognising not only customer demand but also the consistently good risk-adjusted returns and strong collateral characteristics of those segments.

Selected key milestones in Aldermore's history:

May 2009	Founded by CEO Phillip Monks with backing from funds advised and managed by AnaCap Financial Partners LLP through the acquisition of Ruffler Bank plc and Base Commercial Mortgages Limited
July 2009	Launched multi-channel retail savings
October 2009	Launched its Asset Finance business
November 2009	Acquired Absolute Invoice Finance
April 2010	Launched its Residential Mortgage business
September 2011	Raised £62 million in common equity from a consortium of leading global investors
May 2012	Raised £36 million from the issuance of Subordinated Notes with a nominal value of £40 million
June 2012	Launched SME business savings accounts
October 2012	SME lending reached £1 billion, customer deposits passed £2 billion.
February 2013	Became first UK bank offering full interactive customer service allowing customers to rate and review service online
February 2013	Residential Mortgage lending passed £1 billion
May 2013	First year of profitability (£0.3 million profit before tax for the year ended 31 December 2012) in its third full year of operations
September 2013	Customer deposits exceeded £3 billion
December 2013	Raised £40 million in common equity from partners of and funds managed by Toscafund Asset Management LLP and Lansdowne Global Financials Master Fund Limited to fuel its retail and SME lending growth
April 2014	Raised £333 million of funding from its inaugural RMBS
April 2014	Second year of profitability, with profits before tax rising to £25.7 million for the year ended 31 December 2013
December 2014	Issued £75 million of AT1 Securities
February 2015	Third year of profitability with profits before tax increasing to £50.3 million for the year ended 31 December 2014

3 Key strengths

The Directors believe that Aldermore's key strengths are:

3.1 UK SME bank with proven track record of profitability

Aldermore is a UK SME bank with a proven track record of profitability since breaking even in 2012. Since its establishment:

- its return on equity has increased from 0.7 per cent. for the financial year ended 31 December 2012 to 11.6 per cent. for the financial year ended 31 December 2013 and 15.1 per cent. (excluding post-tax 2014 Offer costs) for the financial year ended 31 December 2014. Aldermore's return on equity for the six months ended 31 December 2014 was 18.5 per cent.
- its net loan portfolio has grown from £2.1 billion as at 31 December 2012 to £3.4 billion as at 31 December 2013 and £4.8 billion as at 31 December 2014 and between 1 January 2012 and 31 December 2014, 98 per cent. of loan origination has been generated organically.
- its net interest income increased from £36.0 million for the financial year ended 31 December 2012 to £80.6 million for the financial year ended 31 December 2013 and £140.2 million for the financial year ended 31 December 2014.

- its retail and SME deposits have increased from £2.2 billion as at 31 December 2012 to £3.5 billion as at 31 December 2013 and to £4.5 billion (including corporate deposits) as at 31 December 2014.
- its profit before tax has increased from £0.3 million for the financial year ended 31 December 2012 to £25.7 million for the financial year ended 31 December 2013 and £50.3 million for the financial year ended 31 December 2014.

Aldermore's Directors believe that this track record stands them in good stead to take advantage of further opportunities that may arise in the future and to deliver on their plans.

3.2 Modern digital platform and strong distribution base supports superior customer service and flexible products

Aldermore employs a modern digital platform to support its distribution and customer service proposition and provide a scalable, efficient operating model. Aldermore's digital distribution model is at the heart of its service proposition. It supports approximately 14,000 intermediaries in addition to direct customers, enables responsive customer service (including prompt, effective and consistent credit-decision making and savings accounts that can be opened and funded in 15 minutes) and facilitates the growth of the business (for example, through the expansion of its intermediaries distribution network).

Aldermore's digital distribution model is supported by regional offices in Great Britain. With the exception of retail deposits, all central, back-office and operational functions (other than IT support), including loan servicing, are performed in-house by Aldermore. Aldermore does not have a traditional branch network and as such does not have the significant costs associated with running such a branch network.

Aldermore has established strong distribution channels for each of its targeted lending segments and has been recognised for providing expertise, superior customer service and flexible, straightforward products:

- Aldermore has approximately 400 broker and 200 vendor or dealer relationships within the Asset Finance division. To support these intermediaries, Aldermore has implemented an online "portal" which enables brokers to track applications. In addition a personal computer, smartphone and tablet application has been launched allowing introducers to price transactions and submit applications within 60 seconds. These tools enable intermediaries to automatically calculate repayment plans and commission, provide fast credit decisions and give full visibility on the progress of the proposal. It has recently opened up its in-house Asset Finance training programme to brokers in order to help them develop the next generation of commercial finance brokers. Additionally, Aldermore has established a number of programmes with equipment vendors, dealers, manufacturers and wholesale to provide financing to their customers in the UK. Origination from vendors, dealers, manufacturers and through its wholesale channel accounted for 23 per cent. of Aldermore's Asset Finance origination in 2013 and 25 per cent. in 2014. Aldermore's Asset Finance proposition was recognised by Credit Today in 2013 as the Asset Finance Firm of the Year.
- Aldermore has more than 500 intermediary groups within the Invoice Finance division. Whilst Invoice Finance distribution is predominately through commercial finance brokers, Aldermore's direct-to-customer proposition has grown strongly, with direct sales accounting for 23 per cent. of Invoice Finance origination during the course of 2013 and 29 per cent. in 2014. Additionally, Aldermore has developed tailored products for customers in the recruitment, logistics and construction sectors. In 2014, Aldermore was recognised by the National Association of Commercial Finance Brokers (NACFB) and awarded "Factor and Invoice Discounter of the Year".
- Within Residential Mortgages, Aldermore has approximately 12,000 registered and FCA authorised brokers many of whom operate through 8 key Mortgage Clubs and Networks. Brokers are able to submit an application within 15 minutes and obtain an initial credit decision within 90 seconds through the online intermediary portal, can manage their cases online and upload relevant documents to the case management system. They can also have access to underwriters where necessary in order to discuss individual cases. Aldermore has been recognised for the superior service it offers as evidenced by being one of only four banks/building societies to receive the "Financial Times Financial Adviser 5* Service Award in 2013" for Mortgages, a rating that it has achieved for the prior three years. In 2014, it was awarded "Best Buy to Let Mortgage Provider" at the Online Personal Wealth Awards, "Best Intermediary Mortgage Lender" at Your Mortgage Awards and "Best Specialist Lender" at both Financial Reporter and Legal & General Awards. In 2013, Aldermore launched a direct-to-consumer proposition and has built this up to 9 per cent. of origination during the course of 2013 and 12 per cent. in the year ended 31 December 2014.

- The same technology used by the Residential Mortgages division has been utilised within the SME Commercial Mortgages division to enable intermediaries to obtain a "decision in principle" online. Aldermore has expanded its distribution base to approximately 1,000 brokers as at the end of 2014. In addition, Aldermore has established a trading relationship with Mortgages for Business Ltd (a leading buy-to-let mortgage broker) utilising the "Keystone Mortgages" brand to offer a range of fixed and variable rate buy-to-let mortgages for mainstream, houses of multiple occupancy ("**HMOs**") and multi-unit properties available to both individual and limited company borrowers. Aldermore was awarded "Buy-to-Let Lender of the Year" and "Most Supportive Lender of the Year" by the National Association of Commercial Finance Brokers in 2013, and "Property Development Lender of the Year" at the Bridging and Commercial Awards in 2014. Direct distribution accounted for 9 per cent. of SME Commercial Mortgage origination in the years ended 31 December 2013 and 2014.

3.3 Aldermore's target lending segments provide a significant, sustainable and profitable growth opportunity

Aldermore focuses on specialist lending to SMEs and homeowners across four targeted lending segments which the Directors believe offer attractive risk-adjusted returns and growth opportunities. These include sectors and customers which the Directors have identified as being underserved by incumbent banks, a situation exacerbated by the financial crisis in 2008, which led to certain banks deleveraging their balance sheets as part of a wider reduction in their overall lending activities or by exiting certain specialist lending segments. Importantly, these segments also constitute large markets, meaning that Aldermore does not need to compete on market share or take adverse risk or low margins.

The value of lending to businesses in the UK in 2013 was £163 billion of which lending to SMEs was £43 billion[37]. As a consequence of SMEs' reduced ability to access credit, the growth rate in the stock of lending to SMEs has been negative for the past four years, according to data from the British Bankers Association and Bank of England[38]. The Breedon Report[39], which was commissioned by the UK Government Department for Business, Innovation & Skills to look specifically at the topic of financing UK SMEs, estimated the SME credit gap between supply and demand could rise to c.£26 - £59 billion by 2016. Current market dynamics in respect of the wider macro-economic recovery, increased business investment, home and property price rises, a strong demand for mortgages and a resurgence in business confidence further indicate the potential demand for finance in Aldermore's target markets.

Against this background, Aldermore has quickly gained market share and achieved significant organic growth in each of the key market segments in which it operates. Since 1 January 2012, 98 per cent. of loan origination was generated organically.

Organic customer loan origination	For the financial year ended 31 December		
	2014	2013	2012
	(£ millions)		
Asset Finance	739	610	350
Invoice Finance	45	68	82
SME Commercial Mortgages	422	292	232
Residential Mortgages	1,165	740	537
Total	**2,372**	**1,710**	**1,201**

The Directors believe Aldermore is well placed to continue to achieve strong, sustainable growth and good returns based on its predominantly secured lending model.

37 Bank of England—Trends in Lending April 2014

38 Bank of England—Trends in Lending April 2014

39 Boosting Finance Options for Business—Report of industry-led working group on alternative debt markets, March 2012

3.4 Attractive margins underpinned by consistent, clearly defined credit risk management

Aldermore's attractive margins are underpinned by consistent credit risk management. The vast majority of Aldermore's balance sheet is secured against a high proportion of tangible asset collateral and across its four key lending segments, it has low levels of non-performing loans. As at 31 December 2014:

- the average Asset Finance loan balance was approximately £32,000; 88 per cent. of agreements had tangible security; 0.25 per cent. of gross balances were three months or more in arrears; and loans had a weighted average maturity on a behavioural basis of 21 months;
- the average Invoice Finance facility balance was approximately £130,000; the average advance rate against eligible invoices was 69 per cent.; 3.1 per cent. of balances were in a collect-out situation;
- SME Commercial Mortgages had an average indexed LTV of 52.2 per cent.; average loan balance was approximately £320,000; 0.62 per cent. of SME Commercial Mortgage gross balances were three months or more in arrears; and the weighted average maturity on a behavioural basis was 51 months; and
- Residential Mortgages had an average indexed LTV of 66.8 per cent.; average loan balance was approximately £137,000; 0.23 per cent. of the Residential Mortgage gross balances were three months or more in arrears; and the weighted average maturity on a behavioural basis was 75 months.

Aldermore places considerable emphasis on its risk policies and governance and has processes in place to ensure that it carefully and prudently manages credit risks. Aldermore operates in markets where it has extensive industry and credit knowledge and focuses on products with asset security and strong risk-adjusted returns. Using a clearly defined and consistent risk appetite, Aldermore makes its underwriting decisions using sector and product experts who are supported by modern, efficient, data-driven risk management systems, allowing Aldermore to take a more pragmatic and holistic approach to its lending. Credit decisions and portfolio performance are subject to central monitoring, including the re-grading of portfolios on a monthly basis to monitor for early signs of credit deterioration. Portfolio servicing and administration of loans, and when necessary, arrears management and enforcement proceedings, are all managed internally by Aldermore's in-house operational team based in the UK. The Directors believe that Aldermore's consistent approach to credit risk management is reflected in the high proportion of tangible asset collateral and low level of non-performing loans. For further details on Aldermore's approach to credit risk and underwriting, see paragraph 6.2 of Part XIII: "*Risk Management—Credit Risk*" and paragraph 7 of this Part IX: "*Information on the Group—Credit risk management and the underwriting process*".

3.5 Strong online retail and SME deposits franchise, as recognised by customers and the industry

As at 31 December 2014, Aldermore had attracted approximately 105,000 deposit customers holding over 129,000 accounts with a simple proposition of delivering "great returns effortlessly".

Aldermore offers a straightforward range of deposit products for retail customers including Easy Access, Notice, ISA and Fixed Rate Savings accounts, all of which can be opened and funded online as well as over the telephone or by post. Aldermore's retail deposit proposition has been recognised in the market, having received a number of awards including "Best Bank Savings Provider" from Moneyfacts in 2013 and 2014, and "Best Online Cash ISA Provider" by Your Money Awards in 2014 and it was voted as Consumer Moneyfacts "ISA Provider of the Year" for the fourth year running in 2014. Furthermore, in 2014, Aldermore received the award for "Best Business Savings Account Provider" at the Savings Champion Awards and Best Bank Savings Provider at Your Money Awards. In 2013, Aldermore also launched a 'ratings and reviews' capability enabling customers to leave feedback which Aldermore publishes unfiltered (other than reviews containing personal data or inappropriate language) and to score Aldermore's product offering. Since launch of the capability to 31 December 2014, the average rating for both retail savings products and SME savings products was 4.6 out of 5. This feedback is then utilised to improve the service offered to customers.

Recognising that the SME deposit market was underserved in terms of service and proposition, Aldermore launched its small business savings accounts in 2012. Aldermore's "Know Your Business" online verification system enables SMEs to open and fund their savings accounts online within 15 minutes. The account opening process was recognised in the Business Moneyfacts Awards 2014 where Aldermore was a winner in the "Innovation in the SME Finance Sector" category. Aldermore has extended its offering through launching a Customised Fixed Rate Account that allows customers to quickly and flexibly select the exact maturity date (to the day) and rate combination to meet their needs, instead of picking the product of best fit from a shortlist of pre-defined terms.

3.6 Leveraging scalable and efficient digital operating model

In order to support its operations, Aldermore employs a modern, onshore, IT infrastructure composed of industry-standard systems that are configured to Aldermore's requirements. This digital enabling infrastructure is scalable such that it can expand to support predicted future growth with moderate ongoing investment and core IT applications are either unrestricted for future growth or structured in a manner that permits expansion through, for example additional licences. The modern nature of the IT infrastructure provides Aldermore with a flexible, reliable and secure platform that does not have any "legacy" issues.

Aldermore's modern IT infrastructure gives Aldermore a further competitive advantage and requires only moderate ongoing investment to maintain this advantage. Aldermore is therefore able to focus investment on enhancements to its IT architecture and on new initiatives that further support its customer service proposition.

The Directors believe that Aldermore's branch-free distribution model is better suited to the digital era, with the regional offices representing the physical footprint that Aldermore requires to service its SME customers. The absence of a large, under-utilised branch network enables Aldermore to distribute products and service customers more cost effectively.

Furthermore, Aldermore's operations are entirely, and Aldermore's customers are almost entirely, based in Great Britain. The Directors believe that this geographical simplicity is a significant strength against the backdrop of a market where many banks are undergoing costly exercises to refocus on domestic operations and core asset classes. In contrast, Aldermore has not been, and is not, exposed to legislative and regulatory regimes beyond the UK and EU, nor multiple tax regimes and has negligible exposure to foreign currencies.

Aldermore is successfully leveraging its operating model. Between 31 December 2012 and 31 December 2014, whilst Aldermore's loan book grew at a compound annual rate of 53 per cent., the compound rate of increase in its cost base over the same period was only 38 per cent. (excluding 2014 offer costs). This has driven the cost/income ratio down from 90 per cent. in 2012 to 60 per cent. (excluding 2014 offer costs) in 2014. In addition, whilst Aldermore's net loan book grew at a compound annual rate of 53 per cent. between 31 December 2012 and 31 December 2014, the number of front line employees servicing customers has only increased annually by around 22 per cent. on average.

3.7 Declining funding costs driven by diversification of funding sources

Aldermore has a stable funding base which is predominantly funded by online retail and SME deposits. Further diversification of funding is provided by the RMBS issuance, Aldermore's recent entry into the corporate deposits market and Aldermore's participation in the Funding for Lending Scheme.

As at 31 December 2014, Aldermore had £4.5 billion of customer deposits with an average retention rate of 68 per cent. for the period from 1 January 2012 to 31 December 2014. Aldermore's inaugural RMBS issue was completed in April 2014, with notes priced at 67 basis points over LIBOR. As part of the Funding for Lending Scheme, which Aldermore first accessed in 2012, Aldermore has generated secured funding via sale and repurchase agreements of £304 million as at 31 December 2014, utilising securities drawn from the Funding for Lending Scheme. As at 31 December 2014, Aldermore had a loan to deposit ratio of 108 per cent.

The following table provides a breakdown of Aldermore's funding as at 31 December 2014, 2013 and 2012.

	As at 31 December		
	2014	2013	2012
		(£ '000)	
Retail deposits	3,411,303	2,945,019	2,060,694
SME deposits	1,024,400	518,999	100,995
Corporate deposits	23,259	—	—
RMBS	279,143	—	—
Funding for Lending Scheme	304,207	383,071	114,579
Subordinated Notes	36,758	35,571	34,600
Other Wholesale Funding	1,700	2,880	500
Total	**5,080,770**	**3,885,540**	**2,311,328**

Note:

(1) AT1 Securities are considered as capital and not included as part of funding.

Aldermore's average cost of funding has declined from 3.9 per cent. in 2012 to 2.1 per cent. in 2014. This has been driven by diversification to lower cost funding of SME deposits, the RMBS and Funding for Lending Scheme, and a decline in retail deposit costs (as Aldermore has attracted deposits at lower costs by tactically using 'Best Buy' tables and actively managed its back book and retention rates by offering more competitive rates at certain times). The Board views generation and maintenance of Aldermore's retail and SME deposit funding base as a key part of Aldermore's strategy, although Aldermore expects to undertake issuances of asset backed securities in the next couple of years to further diversify its funding mix.

The following table provides a breakdown of Aldermore's cost of funding for the financial years ended 31 December 2014, 2013 and 2012.

	For the financial year ended 31 December		
	2014	**2013**	**2012**
		(percentages)	
Cost of funding(1)	2.1	2.8	3.9

Note:

(1) Cost of funding is calculated as interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

3.8 Strong capital base and liquidity

Aldermore has levels of capital which are in excess of the requirements set by the PRA. Its capital position has been strengthened by the issuance of the AT1 Securities. As at 31 December 2014, Aldermore had a fully loaded CRD IV CET1 Ratio of 10.4 per cent., a Total Capital Ratio of 14.8 per cent. and a Leverage Ratio of 6.3 per cent. Similarly, Aldermore maintains strong levels of liquidity.

The Board believes that these ratios demonstrate that Aldermore is well placed to meet the foreseeable new capital and liquidity requirements in the short to medium-term from both Europe and the implementation of the recommendations of the ICB. The Board believes that Aldermore's capital base provides a platform to support continued growth. For further information on Aldermore's capital and liquidity resources, please see paragraph 11 of this Part IX: "*Information on the Group—Capitalisation, liquidity and sources of funding*".

3.9 Aldermore is a "legacy-free" British bank and is not exposed to costs and uncertainty faced by some other banks

Aldermore is a "legacy-free" bank with a proven track record of delivery. Since its establishment and launch in 2009 it has demonstrated a strong record of execution. Examples include the launch of the Residential Mortgages business in 2010, integration of the Invoice Finance business following its acquisition, the development of an SME deposits business in 2012 and more recently its inaugural RMBS issuance in order to further diversify funding.

As it was only established in 2009, Aldermore is not exposed to the costs and uncertainty faced by some other banks. Legacy conduct issues, for example PPI redress, may continue to have a significant impact on the profitability of certain participants in the UK banking market. The aggregate costs and provisions taken by Lloyds Banking Group, Royal Bank of Scotland, HSBC, Barclays and Standard Chartered in relation to PPI and interest rate hedging product mis-selling were approximately £6 billion, £10 billion, and £7 billion in 2011, 2012 and 2013 respectively. Historic conduct issues present an acute challenge to a number of banks, exposing them to uncertainty and potentially high remediation costs and require significant attention from management. Aldermore has not experienced any significant legacy or systemic conduct issues other than in relation to a small number of loans which are regulated under the CCA and referred to in Note 32 of Part XV: "*Historical Financial Information*".

3.10 Experienced management team leading a motivated employee base

Aldermore, led by Chief Executive Officer, Phillip Monks, has an experienced Senior Management team, which has a broad range of complementary experiences as set out in Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*". The Senior Management team has an entrepreneurial approach coupled with significant experience of bank operations and governance, which underpins Aldermore's future strategy.

The Board believes that, through its experienced management team and motivated employees, Aldermore is well placed to grow its business and compete effectively with its competitors.

4 Strategy

Aldermore intends to continue with its successful strategy of providing intermediaries and customers with a reliable, expert, dynamic and straightforward banking service across targeted segments. The Board believes that by focusing on its existing model and the following strategic priorities, Aldermore can continue to take advantage of the significant growth opportunity available to it and deliver strong, sustainable risk-adjusted returns:

4.1 Continuing organic growth whilst maintaining rigorous credit standards

There are positive market dynamics in Aldermore's target market segments with resurgent business confidence, strong demand for mortgages and unfulfilled demand for SME lending. Against this background, Aldermore aims to further grow its loan origination, expand its market share and seek value by utilising its expert manual underwriting (supported by efficient data-driven risk management systems), and take advantage of lending opportunities whilst maintaining rigorous credit standards.

The Board believes that Aldermore can continue to grow its loan origination and achieve attractive risk-adjusted returns. Aldermore expects nominal growth in net loans in line with current run rates. Furthermore, it aims to target a return on equity of close to 20 per cent. by the end of 2016 and is targeting a cost/income ratio of less than 40 per cent. by the end of 2017, whilst targeting a fully loaded CRD IV CET1 Ratio of around 11 per cent. and a Leverage Ratio in excess of 5 per cent.

Aldermore will evaluate growth opportunities in its existing four key lending segments and seek to move into new specialist sub-sectors as demonstrated by the recent expansion of its Residential Mortgages proposition into the short term property finance market with a range of bridging products.

4.2 Further enhancing its customer value proposition

Aldermore provides expertise in each of its chosen customer and lending segments. For example, within Asset Finance, Aldermore has specialist sales teams focused on materials handling, construction, agriculture and professional practices. Aldermore has developed a targeted proposition for the logistics industry, incorporating an invoice finance facility with a fuel card where customers can benefit from up to 14 days free credit on their fuel purchases and the ability to finance the purchase of new vehicles. More recently, Aldermore launched a proposition targeted at recruitment agencies providing an invoice finance facility and access to third party services such as back office support (e.g. payroll), industry body membership and credit risk management at preferential rates. Aldermore believes there is the opportunity to enhance further its proposition to provide a more holistic offering to customers based upon their needs in a number of other customer/industry segments, such as the private rental sector/landlords. By deepening and broadening customer relationships, Aldermore aims to increase its cross-selling of products to customers.

4.3 Strengthening distribution channels including direct and existing relationships with intermediaries

Aldermore intends to strengthen further its distribution channels across each of its four key lending segments:

- Asset Finance: further developing its "vendor" proposition by developing existing relationships and forming new relationships with equipment vendors, dealers and manufacturers and SME businesses, strengthening its relationship with intermediaries in order to increase repeat business, investing further in IT to deliver improvements in processing by completing a straight-through origination and servicing platform, improving service levels and response times and developing a more comprehensive tablet based self-service intermediary portal, allowing complex transaction pricing, credit application backed by auto-credit decisioning, on-line documentation production and the potential for an e-signature capability. In addition, introducers would be able to review their portfolio performance through interactive self-service dashboards;
- Invoice Finance: leveraging strategic partnerships with national brokers to drive increased volumes and expanding its direct marketing activity by increasing its online and outbound call capability. Aldermore also plans to develop a direct sales portal for Invoice Finance to enable intermediaries to transact digitally and enable broker and direct portals to be available on tablet and mobile devices. Furthermore,

Aldermore recently launched a targeted offering for accountancy practices acting as introducers and plans to develop distribution via referrals from accounting practices;

- SME Commercial Mortgages: expanding its broker panel and leveraging existing relationships to drive volume, further developing its direct proposition by growing its sales team to support origination growth and developing its broker portal technology where intermediaries can obtain a "decision in principle" online and to increase direct sales. Furthermore, Aldermore is seeking to leverage its integrated approach to customers in the private rental sector so that a single team at Aldermore is able to service a full spectrum of customers from amateur landlords to large corporate portfolios;
- Residential Mortgages: continuing to develop intermediaries distribution to encourage repeat business and developing further its direct distribution channel by using the same portal technology that it uses to support its intermediaries network and improve retention rates through loyalty fixed rate products. Also providing a more holistic private rental sector offering through further enhanced broker access to its processes through the introduction of a single online point of entry irrespective of the type of property or portfolio.

Aldermore's regional offices give good national coverage in Great Britain and the Directors do not see the number of offices growing significantly in the near term. Historically, the regional office network supported the Invoice Finance segment. However, it will be increasingly used to cross-sell into other business segments through its customer relationship managers.

4.4 Developing product franchise and continued product innovation

Aldermore has developed a strong suite of products in its chosen segments and believes there are opportunities to extend this further to other areas that offer strong risk-adjusted returns. Each new product offering is supported by the relevant underwriting and sector expertise.

Asset Finance

Aldermore has recently launched finance for "soft assets" such as telephony and IT systems, as well as a wider array of hard assets and has started providing stocking finance for dealers and vendors in order to support Aldermore's expansion within the vendor distribution channel. Going forward, Aldermore plans to continue with the expansion of its Asset Finance products range.

Invoice Finance

Aldermore intends to further expand its offering through providing trade finance and enhancing its "bad debt" protection products as well as the recently launched construction finance and recruitment finance propositions. Approximately 13 per cent. of invoice finance clients in the UK market currently use export or import financing and the construction sector represents approximately 5 per cent. of current invoice finance client numbers in the UK market[40].

SME Commercial Mortgages

Aldermore intends to expand its product offering and explore cross-selling opportunities into other business lines. Product development in the SME Commercial Mortgages division is predominately focused on the private rental sector proposition which is viewed as a developing sub-sector. Aldermore has created a centre of industry excellence which provides accessible financial solutions to support customers in the private rental sector.

Residential Mortgages

The Directors believe there is the opportunity to develop a more focused product set for self-employed borrowers and professionals and to provide larger loans in the owner-occupied sector. Aldermore has also recently entered into the short term property finance market with a range of bridging products designed to help customers bridge a financing gap to secure a property or development project.

Savings

Aldermore has recently extended its offering through the launch of a customised fixed rate savings account which allows SME customers to select quickly and flexibly the exact maturity date and rate combination to meet their needs, instead of picking the product of best fit from a shortlist of pre-defined terms. The core benefit to customers is that the product enables them to maximise the return on their savings by leaving the

[40] Source: The Asset Based Finance Association data as at December 2013.

funds in the account until the last date before withdrawal. Aldermore recently launched a corporate savings product which enables Aldermore to take deposits from institutions including public sector local authorities, credit unions, charities and listed entities. Aldermore is exploring additional routes to market including optimisation of cross-sales to existing customers.

4.5 Leveraging Aldermore's digital capability

The Board believes that leveraging Aldermore's modern digital capability is key to its future strategy. As at 31 December 2014, approximately 129,000 saving accounts were accessed by online users. Aldermore has also developed a strong social media presence and has also launched an "Ask and Answer" service that is designed to encourage further engagement with SMEs. In the Residential Mortgages segment, Aldermore intends to further develop its direct distribution channel by using the same portal technology that it uses to support its intermediaries network.

Aldermore believes its digital capability can be further leveraged to (i) enable Aldermore to execute product innovation and proposition development in an efficient and cost effective manner, (ii) simplify the customer journey and "take the hassle" out of banking (further building customer advocacy and loyalty), (iii) identify more opportunities for cross selling through innovative use of data, (iv) enhance process efficiency and (v) deepen and extend credit understanding and insights.

Aldermore aims to leverage its scalable digital platform in order to continue growing the size of its loan book and deposits whilst managing costs associated with servicing. Aldermore has already demonstrated its capability in this regard.

5 Group structure and principal subsidiaries

The Company is the parent of the Aldermore Group and has one principal Subsidiary, Aldermore Bank PLC. Aldermore Bank PLC is a UK deposit-taking institution, authorised by the PRA and regulated by the FCA and the PRA.

6 Business and activities

6.1 Introduction

Aldermore offers a range of banking products and services to SMEs and individuals in the UK across four targeted lending segments: Asset Finance, Invoice Finance, SME Commercial Mortgages and Residential Mortgages. It also offers a range of savings and deposit accounts.

Aldermore's business focuses on organic loan origination. Between 1 January 2012 and 31 December 2014, 98 per cent. of loan origination was generated organically.

The following table sets out summary information relating to Aldermore's market segments for the financial year ended and as at 31 December 2014.

	For the financial year ended/as at 31 December 2014					
£ million	**Asset Finance**	**Invoice Finance**	**SME Commercial Mortgages**	**Residential mortgages**	**Central Function**	**Total**
			(£'000)			
Net interest income	36,935	5,949	41,552	63,497	(7,718)	140,215
Total operating income/ (expense)	39,999	23,492	43,070	67,606	(9,150)	165,017
Segmental result	**25,460**	**5,369**	**33,959**	**56,803**	**(71,286)**	**50,305**
Assets	1,044,298	180,576	1,011,291	2,564,889	764,179	5,565,243
Liabilities	—	—	—	—	(5,186,393)	(5,186,393)

The following table sets out summary information relating to Aldermore's market segments for the financial year ended and as at 31 December 2013.

	For the financial year ended/as at 31 December 2013					
	Asset Finance	Invoice Finance	SME Commercial Mortgages	Residential mortgages	Central[(1)] Function	Total
			(£'000)			
Net interest income	23,015	5,061	25,348	31,750	(4,532)	80,642
Total operating income/(expense)	25,007	22,922	25,437	34,625	354	108,345
Segmental result	**12,921**	**3,272**	**18,680**	**26,420**	**(35,601)**	**25,692**
Assets	720,198	211,962	761,998	1,679,686	829,148	4,202,992
Liabilities	—	—	—	—	(3,937,635)	(3,937,635)

Note:

(1) These costs are mainly related to staff and office costs, costs associated with the savings and Treasury divisions, information technology related costs, depreciation and amortization costs.

6.2 Asset Finance

Aldermore offers Asset Finance to fund SME capital investment in certain assets including plant and machinery, commercial vehicles, cars, IT and telephony equipment, business equipment and receivables. Aldermore focuses on specific asset sectors such as logistics, manufacturing, construction and agriculture because they:

- exhibit a high propensity for use of Asset Finance;
- offer strong, risk-adjusted returns;
- provide diverse end-user risk exposure; and
- have established and liquid secondary asset markets.

The Directors believe that Aldermore differentiates itself in this segment through its combination of depth of industry expertise (including logistics, manufacturing, construction and agriculture), competitive pricing of simple, transparent products and focus on specific types of asset classes. Furthermore, Aldermore has a strong intermediaries proposition consisting of approximately 400 broker and 200 vendor or dealer relationships. These intermediaries utilise an online broker portal and have access to Aldermore's underwriters, thereby allowing them to discuss individual loan applications directly with sector experts.

The following table sets out a breakdown of Aldermore's Asset Finance book by asset type as at 31 December 2014.

Asset Type	As at 31 December 2014
	(percentages)
Plant and machinery	37
Commercial vehicles	30
Receivables	11
Cars—new	5
Cars—used	7
IT equipment	2
Other	8
Total	100

Aldermore's customers are geographically spread throughout the UK across a range of sectors. The following table sets out a breakdown of Aldermore's Asset Finance book by client sector type as at 31 December 2014.

Client Sector	As at 31 December 2014
	(percentages)
Logistics	19
Manufacturing	14
Construction	11
Wholesale and retail trade	13
Plant hire	9
Financial intermediation	7
Agriculture	5
Community activities	7
Utilities	2
Other(1)	13
Total	**100**

Note:

(1) "Other" includes education, health and mining.

Aldermore offers Asset Finance loans on single transactions of predominantly between £5,000 and £1 million with a typical term of 36 to 48 months and an average loan balance of approximately £32,000 as at 31 December 2014. 88 per cent. of Aldermore's Asset Finance portfolio is secured against tangible assets as at 31 December 2014. 0.25 per cent. of gross balances were three months or more in arrears as at 31 December 2014.

The majority of Aldermore's Asset Finance loans are secured against the underlying asset, predominantly business critical assets, that is being acquired using the loan on terms which allows for the repossession and sale of the asset if the borrower fails to comply with the terms of the loan.

As at 31 December 2014, Aldermore had approximately 33,000 Asset Finance customers with net lending of £1,044.3 million and with a market share of approximately 3.0 per cent. of the total UK Asset Finance market[41]. For the year ended 31 December 2014, Aldermore's net new lending amounted to £324.1 million. Aldermore currently offers both fixed term and variable rate asset financing.

Aldermore offers Asset Finance through hire purchase, leasing or loans. Hire purchase entails the borrower paying an initial deposit and VAT at the time of purchase followed by payment of the remaining balance and interest through regular instalments. The asset is purchased by Aldermore on behalf of the borrower and is owned by Aldermore until the borrower has made the final payment at which stage ownership is transferred to the borrower.

Asset Finance through leasing involves Aldermore buying and owning the asset. The borrower enters into an agreement with Aldermore whereby it hires the asset from Aldermore at an agreed rent over a set period. The borrower has the option of retaining use and possession of the asset when the lease contract expires, potentially at a price agreed at the start of the lease period. Alternatively, the borrower can sell the equipment for and on behalf of Aldermore and retain the vast majority of the sale proceeds as a rebate of rentals. As the asset owner, Aldermore claims and reflects any available writing-down allowances on the asset purchase in lower monthly lease payments.

As an extension to Aldermore's Asset Finance offering for office equipment, it also provides unsecured loans to accountants and solicitors. Furthermore, some contracts are secured on assets and do not constitute lease or hire purchase agreements.

41 (a) Market size: Market size used for calculating Aldermore's market share based on total market origination for 2014. Data from: Finance & Leasing Association (Asset Finance).

(b) Market share: Aldermore's market share is based on 2014 origination for Asset Finance.

The following table sets out a breakdown of Aldermore's Asset Finance lending by product type as at 31 December 2014 and 31 December 2013.

Product Type	As at 31 December 2014	As at 31 December 2013
	(percentages)	
Hire purchase lending	64	62
Lease lending	24	25
Loans & Other[(1)]	12	13
Total	**100**	**100**

Note:

(1) "Other" includes transfers of contracts from other financial institutions.

In order to ensure that the borrower can meet its loan repayment obligations, Aldermore seeks to ensure, among other things, that the borrower is generating sufficient cash flow to repay the loan. It carries out checks on the borrower's financial background, current business performance and credit report.

During the financial year ended 31 December 2014, approximately 75 per cent. of Aldermore's Asset Finance loans were originated through brokers. Aldermore also works with equipment vendors, dealers and manufacturers to provide Asset Finance. This entails providing finance to a vendor's customer to enable them to acquire or lease the vendor's equipment. Aldermore takes security over the asset until the loan has been repaid.

For information about Aldermore's strategy in the Asset Finance segment, please see paragraph 4 of this Part IX: "*Information on the Group—Strategy*".

6.3 Invoice Finance

Aldermore provides working capital for SMEs by lending against outstanding invoices issued by the borrower to its customer. The borrower will receive an advance of up to 85 per cent. of the value of approved invoices, although Aldermore's Invoice Finance loans are secured by way of security on the whole book of receivables.

The Directors believe that Aldermore differentiates itself in this segment through its industry expertise (including manufacturing, wholesale, construction, recruitment and logistics), simple and clearly priced products and responsive customer service through its sector specialist service teams and local relationship managers. In addition, Aldermore has a strong intermediaries proposition consisting of more than 500 intermediary groups.

Aldermore offers invoice financing in the form of factoring and invoice discounting. Factoring, which is typically offered to smaller businesses without a dedicated sales ledger management function, involves Aldermore advancing up to 85 per cent. of the value of approved invoices and its credit control team taking responsibility for the borrower's debt collection. The average advance rate against invoices was 69 per cent. as at 31 December 2014.

Invoice discounting, which is typically offered to larger businesses with an effective accounts function and turnover of over £500,000, entails advancing up to 85 per cent., of the borrower's outstanding sales ledger. The borrower continues to control its sales ledger and is responsible for collecting the debt from its customer.

Aldermore's invoice financing clients are typically owner managed SME businesses with a local or national sales focus in sectors such as manufacturing, wholesale, recruitment and logistics. The following table sets out a breakdown of Aldermore's Invoice Finance book by client sector as at 31 December 2014.

Client Sector	As at 31 December 2014
	(percentages)
Manufacturing	37
Wholesale	17
Recruitment	16
Logistics	14
Other business activities	12
Other(1)	4
Total	**100**

Note:

(1) "Other" includes construction, recycling and securities activities.

As at 31 December 2014, Aldermore had approximately 1,200 Invoice Finance customers with total net lending of £180.6 million representing approximately 1.0 per cent. of the total UK invoice finance market[42]. During the year ended 31 December 2014, Aldermore's net new lending amounted to (£31.4) million as Aldermore has moved to focus on providing smaller loans to smaller clients. As at 31 December 2014, 3.13 per cent. of balances were in a collect-out situation.

The following table sets out a breakdown of Aldermore's Invoice Finance book by product type as at 31 December 2014 and 2013.

Product Type	As at 31 December 2014	As at December 2013
	(percentages)	
Factoring	51	53
Invoice discounting	49	47
Total	**100**	**100**

During the financial year ended 31 December 2014, approximately 71 per cent. of Aldermore's Invoice Finance loan assets were originated through intermediaries.

For information about Aldermore's strategy in the Invoice Finance segment, please see paragraph 4 of this Part IX: "*Information on the Group—Strategy*".

6.4 SME Commercial Mortgages

Aldermore's SME Commercial Mortgages portfolio consists of mortgage loans to SMEs and professional property investors, secured on primarily professionally managed residential buy-to-let portfolios and commercial property (including retail premises, offices, industrial units and warehouses). In addition, Aldermore finances a modest amount of property development with a focus on residential development by established regional developers with a proven track record. It offers mortgages up to a maximum of £2 million on a single property, rising to £5 million over multiple properties.

Aldermore's SME Commercial Mortgage loans are fully secured by way of first ranking charge on the property, to ensure that Aldermore's claim to the property, in the event of default, is senior to those of other potential creditors. The terms of the mortgage loan allow for repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan.

42 (a) Market size: Market size used for calculating Aldermore's market share for Invoice Finance represents a stock figure as at 30 September 2014. Data from: Asset Based Finance Association (Invoice Finance).

(b) Market share: Market share for Invoice Finance based on September 2014 period-end balance.

The following table sets outs a breakdown of Aldermore's SME Commercial Mortgage book by property type.

Property Type	As at 31 December 2014
	(percentages)
Residential	52
Shop	18
Office	11
Warehouse	7
Industrial Unit	3
Property development	7
Other	2
Total	**100**

As at 31 December 2014, Aldermore's SME Commercial Mortgages had an average indexed LTV of 52 per cent. with a maximum available LTV of 75 per cent. on commercial property and 80 per cent. on residential investment property. As at 31 December 2014, the average loan balance was approximately £320,000 and 0.62 per cent. of SME Commercial Mortgage gross balances were three months or more in arrears.

As at 31 December 2014, Aldermore had approximately 3,200 SME Commercial Mortgage customers with net loans of £1,011.3 million and had approximately 1.0 per cent. of the UK commercial mortgage market.[43] During the year ended 31 December 2014, Aldermore's net new lending amounted to £249.3 million. Aldermore's SME Commercial Mortgage loans are generally granted for a term between 5 and 20 years.

Aldermore offers commercial investment mortgages (where the borrower is seeking to purchase a property which will be rented by tenants), owner occupied business mortgages (where businesses trade from their own premises) and commercial buy-to-let mortgages.

The following table sets out a breakdown of Aldermore's SME Commercial Mortgages by product type as at 31 December 2014 and 31 December 2013.

Product Type	As at 31 December 2014	As at 31 December 2013
	(percentages)	
Professional buy-to-let mortgages	50	54
SME Commercial Mortgages	43	41
Property development	7	5
Total	**100**	**100**

43 (a) Market size for SME Commercial Mortgages based on H1 2014 DMU study. H1 2014 market origination annualised to give market size.

(b) Market share: Aldermore's market share is based on 2014 origination for SME Commercial Mortgages.

The following table sets out the geographical distribution of Aldermore's SME Commercial Mortgage loans as at 31 December 2014.

Region	As at 31 December 2014
	(percentages)
East Anglia	7
Greater London	20
North West	14
Scotland	6
South East	16
South West	10
West Midlands	7
Yorkshire & Humberside	7
Other	14
Total	**100**

Aldermore currently offers both fixed term and variable rate SME Commercial Mortgage loans. The fixed rate mortgage is fixed for an agreed period of time, usually 2, 3 or 5 years. At the end of the fixed rate period, most mortgages revert to LIBOR and a small number to Bank of England Base Rate.

The variable rate mortgage is mostly linked to LIBOR for the term of the mortgage.

In order to reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, Aldermore imposes early repayment charges on some of its mortgage products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed or variable rate for the particular product.

The following table provides a breakdown of Aldermore's SME Commercial Mortgages, broken down by interest rate type, as at 31 December 2014 and 31 December 2013.

Interest rate type	As at 31 December 2014	As at 31 December 2013
	(percentages)	
Fixed rate	12	7
Variable rate	88	93
Total	**100**	**100**

Aldermore offers repayment and interest-only SME Commercial Mortgages. Borrowers with repayment mortgages pay off both interest and capital, usually on a monthly basis. Borrowers with interest-only mortgages pay off only the interest, usually on a monthly basis, and repay the capital at the expiry of the mortgage term.

The table below sets out Aldermore's SME Commercial Mortgage loans, broken down by repayment type as at 31 December 2014.

Mortgage by repayment type	As at 31 December 2014
	(percentages)
Repayment	44
Interest only	56
Total	**100**

Aldermore manages its credit portfolio by regularly monitoring the credit profile of each of its borrowers and credit exposure concentrations in particular industries or corporate groups. In the context of SME Commercial Mortgages, Aldermore has certain lending criteria which seek to ensure that the borrower has a clear credit history. Furthermore, Aldermore requires borrowers to supply detailed financial information or demonstrate a strong financial track record before mortgage loans are approved.

During the financial year ended 31 December 2014, approximately 91 per cent. of Aldermore's SME Commercial Mortgages were originated through intermediaries.

For information about Aldermore's strategy in the SME Commercial Mortgages segment, please see paragraph 4 of this Part IX: "*Information on the Group—Strategy*".

6.5 Residential Mortgages

As at 31 December 2014, Aldermore had approximately 18,800 Residential Mortgage customers and net lending of £2.6 billion. It is estimated that Aldermore had at 31 December 2014 0.6 per cent. of the UK residential mortgage market[44]. During the years ended 31 December 2014 and 31 December 2013, Aldermore's net new lending amounted to £885.2 million and £725.9 million respectively. Aldermore's Residential Mortgage loans are generally granted for a term of between 10 and 35 years although weighted average maturity on a behavioural basis (i.e. until the mortgage is expected to be refinanced by a new mortgage from another lender or otherwise repaid) is 75 months.

The Directors believe that Aldermore differentiates itself in the Residential Mortgages segment through its use of modern technology enabling it to provide a responsive customer service and by system driven credit rules enabling efficient use of manual underwriting to determine whether to lend to customers. In contrast to some large incumbent banks, Aldermore utilises personnel who possess extensive sector and product expertise to make underwriting decisions. This allows Aldermore to adopt a more pragmatic approach to its mortgage lending and enables it to lend to those customers who despite having a prime credit rating may fall outside the lending criteria of the automated decision processes used by some large incumbent banks, for example, people who are self employed, first time buyers or returning residents to the UK. Aldermore's credit risk management processes were established with the FCA's Mortgage Market Review in mind and as such required no significant adjustment to be compliant with the rules introduced following the FCA's Mortgage Market Review in April 2014.

Aldermore's lending portfolio consists of Residential Mortgage loans to borrowers in the form of either residential lending (where the borrower is the owner and occupier of the mortgaged property) or buy-to-let lending (where loans are advanced to borrowers who currently let or intend to let the mortgaged property).

The following table sets out a breakdown of Aldermore's Residential Mortgages by product type as at 31 December 2014 and 31 December 2013.

Product Type	As at 31 December 2014	As at 31 December 2013
	(percentages)	
Buy-to-let lending	62	70
Residential lending (owner/occupier)	38	30
Total	**100**	**100**

Aldermore's Residential Mortgage loans are secured on the UK residential property of the borrower on terms which allow for repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan. The security is taken by way of first ranking charge on the property to which the mortgage loan relates to ensure that Aldermore's claim to the property, in the event of default, is senior to those of other potential creditors.

Aldermore Residential Mortgages had an average indexed LTV of 67 per cent. as at 31 December 2014. The maximum available LTV for owner-occupied mortgages without additional security is 85 per cent., increasing to 95 per cent. where backed by the Help to Buy Mortgage Guarantee scheme and up to 100 per cent. under the Family Guarantee product range (where a charge is also taken over the guarantor's property). Aldermore offers Residential Mortgages of up to £1 million with an average loan balance of approximately £137,000 as at 31 December 2014. At the same date, 0.23 per cent. of the Residential Mortgage gross balances were three months or more in arrears.

[44] (a) Market size: Market size used for calculating Aldermore's market share based on total market origination for 2014. Data from: CML (Residential Mortgages).

(b) Market share: Aldermore's market share is based on 2014 origination for Residential Mortgages.

Aldermore currently offers fixed term, variable rate and discount rate mortgages. The fixed rate mortgage is fixed for an agreed period of time, usually 2, 3 or 5 years. At the end of the fixed rate period, the mortgage reverts to the Aldermore Managed Rate.

The variable rate mortgage is linked to the Aldermore Managed Rate for the term of the mortgage. With a discounted rate mortgage, the initial rate payable is reduced by a set amount from the Aldermore Managed Rate for an agreed period, usually 1 or 2 years. At the end of the discounted rate period, the mortgage reverts to a variable rate linked to the Aldermore Managed Rate. To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, Aldermore applies early repayment charges on some of its mortgage products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed, variable or discounted rate for the particular product.

The following table provides a breakdown of Aldermore's Residential Mortgages, broken down by interest type, as at 31 December 2014 and 31 December 2013.

Interest rate type	As at 31 December 2014	As at 31 December 2013
	(percentages)	
Fixed rate	65	60
Variable rate	35	40
Total	**100**	**100**

Aldermore offers repayment and interest-only Residential Mortgages. Borrowers with repayment mortgages pay off both interest and capital, on a monthly basis. Borrowers with interest-only mortgages pay off only the interest, on a monthly basis, and repay the capital at the expiry of the mortgage term. In line with the wider market, Aldermore's buy-to-let mortgages are typically interest-only. Aldermore applies rigorous affordability rental cover tests as part of its underwriting process and assessments of asset suitability for the purpose of security for its buy-to-let mortgages.

The table below sets out Aldermore's Residential Mortgage loans, broken down by repayment type as at 31 December 2014.

Product	As at 31 December 2014
	(percentages)
Repayment	35
Interest only	65
Total	**100**

The following table sets out the geographical distribution of Aldermore's Residential Mortgage loans as at 31 December 2014.

Region	As at 31 December 2014
	(percentages)
East Anglia	10
East Midlands	5
Greater London	25
North West	10
South East	21
South West	9
West Midlands	6
Yorkshire	6
Other	8
Total	**100**

In order to minimise credit risk on Residential Mortgages, Aldermore's credit procedures for Residential Mortgage lending take into account, among other factors, the borrower's credit history, LTV criteria and income multiples.

During the financial year ended 31 December 2014, approximately 88 per cent. of Aldermore's Residential Mortgages were originated through intermediaries.

For information about Aldermore's strategy in the Residential Mortgages segment, please see paragraph 4 of this Part IX: "*Information on the Group—Strategy*".

6.6 Savings

Aldermore offers a range of straightforward retail and SME business saving products to its customers. It recently launched a corporate deposits product and has received funds from a broad range of depositors including public sector authorities, credit unions, charities and listed entities.

As at 31 December 2014, Aldermore's savings deposit base had approximately 105,000 customers and £4.5 billion of deposits, having grown at a compound average rate of 44 per cent. since 31 December 2012. As at 31 December 2014, Aldermore's loan-to-deposit ratio was 108 per cent. and the average balance per account was approximately £34,000. The vast majority of savers are fully covered by FSCS with only approximately 250 customers that were not eligible for FSCS cover (as per FSCS test result in May 2014).

The following table compares Aldermore's savings deposits by type of customer segment as at 31 December 2014, 31 December 2013 and 31 December 2012.

	As at 31 December		
	2014	**2013**	**2012**
		(£ millions)	
Retail deposits	3,411	2,945	2,061
SME deposits	1,024	519	101
Corporate deposits	23	0	0
Total	**4,459**	**3,464**	**2,162**

Aldermore offers a range of fixed term, notice, easy access and cash ISA products. The following table provides a breakdown of Aldermore's retail savings account book by account type as at 31 December 2014 and 31 December 2013.

Retail savings deposits	**As at 31 December 2014**	**As at 31 December 2013**
	(percentages)	
Fixed Rate Accounts	50	44
Notice Accounts	16	20
Easy Access Accounts	15	18
Fixed Rate Cash ISAs	12	10
Notice Cash ISAs	7	7
Total	**100**	**100**

The following table provides a breakdown of Aldermore's SME savings account book by account type as at 31 December 2014 and 31 December 2013.

SME savings deposits	**As at 31 December 2014**	**As at 31 December 2013**
	(percentages)	
Fixed Rate Accounts	43	59
Fixed Rate Accounts with Access	2	2
Customised Fixed Rate Accounts	11	1
Easy Access Account	44	38
Total	**100**	**100**

Aldermore operates its SME deposit product on an in-house IT platform. The Directors believe that this innovative platform enables product and service differentiation and provides potential for future product expansion.

Aldermore has outsourced administrative back office services for its retail deposit business to Newcastle Building Society allowing it to benefit from Newcastle Building Society's regulatory and operational expertise. These services include product set-up and maintenance, customer on-boarding, account opening and management, account closures, management of online application and transaction pages and certain telephone and postal based account operating services. The Newcastle Building Society relationship is managed by a dedicated team at Aldermore which provides effective governance and oversight of pre-determined performance service standards. Aldermore retains control of proposition, pricing, customer communication and any intellectual property in relation to product design.

As part of its growth strategy in the deposit savings market segment, Aldermore intends to:

- improve customer experience by core software and environment updates;
- enhance technological functionality to drive additional purchases and launch new products;
- develop cross-selling opportunities with the existing savings base;
- extend customer base with retail by targeting the family segment and leveraging the existing Aldermore SME franchise; and
- expand distribution by exploring third-party distribution partnerships.

7 Credit risk management and the underwriting process

7.1 Credit risk management

Aldermore manages credit risks associated with lending through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. Each business segment has separate rules and applications have to conform to the criteria therein.

Aldermore also seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans or certain sectors which can represent higher risk.

For further details on Aldermore's approach to credit risk see paragraph 6 of Part XIII: "*Risk Management—Principal Risks*".

7.2 The underwriting process

Aldermore's expert manual underwriting is supported by modern systems. Rule based filters provide rapid online decisions in principle. Aldermore's online portal links to external sources to complete identity and fraud checks and build a virtual underwriting file highlighting any specific issues. Where Aldermore is unable to auto-accept the proposal, its expert underwriters will carry out a manual review. This approach allows Aldermore to use targeted human underwriting in a cost-effective manner. Furthermore, it allows improved pricing and cost-effective scalability.

Asset Finance

In Asset Finance, the underwriting process is initiated by the intermediary submitting an application to Aldermore via, depending on the intermediary's technical capabilities, its online proposal system, direct interface with Aldermore's system or email.

Whilst Aldermore has built and is using an auto-decisioning capability for smaller lower risk transactions, the majority of proposals are submitted to manual underwriters with appropriate credit approval mandate and industry expertise. Smaller transactions (i.e. less than £100,000) are generally underwritten within 4 hours of submission whilst larger and more complex transactions are generally handled within 2 business days. As part of the underwriting process, individual underwriters will, where necessary, proactively engage with the intermediary to request additional information to enable a timely credit decision.

A team of underwriters carefully reviews all applications referred to them. Information on the business and the individuals behind the business is considered and financial and credit information is obtained from external credit reference agencies. Assets which act as security are valued and the future resale value of assets is, where appropriate, also considered. Where appropriate, audits and site visits are used to ensure that Aldermore maintains oversight of certain facilities as well as an awareness of the location, use and condition of assets being financed.

Credit approval mandates are tiered on the basis of underwriter seniority, loan size and asset category. If a transaction is larger than the underwriter's credit mandate, it will be referred to a more senior underwriter or to the credit committee (see Part XIII: "*Risk Management*" for further information regarding Aldermore's risk governance structure). Underwriting decisions are monitored through a quality control process for training and development of the teams and to ensure credit policies are being followed.

Invoice Finance

In Invoice Finance, following the application, a fact-finding site visit is undertaken by a regional manager. Where appropriate non-binding indicative terms are offered to the customer. If the terms are accepted, a formal collateral survey is undertaken usually by an internal survey team. However, in more complex cases, the survey may be outsourced to a panel surveyor. For applications in excess of £500,000, an internal cross-functional deal forum is held.

On receipt of the debtor book survey, a full credit application is submitted to the central underwriting team via Aldermore's customer relationship management system. The approval process includes a detailed review of the management, financial and operational strength of the client's business and careful consideration is given to the quality and contractual collectability of the underlying receivables which act as security. Information on the business and the individuals behind the business is carefully reviewed and financial and credit information is obtained from external credit reference agencies.

During the term of the facility, audits and reconciliations are performed to ensure the risk of fraud and default risks associated with client failure are carefully managed.

Credit approval mandates are tiered on the basis of seniority, loan size and asset category. If a transaction is larger than the underwriter's credit mandate, it will be referred to a more senior underwriter or to the credit committee. Where required, the underwriter will request additional decision-making information from the regional sales manager.

In order to ensure appropriate credit quality, the underwriters are subject to quality control assessments.

SME Commercial Mortgages

In SME Commercial Mortgages, the underwriting process is initiated by the submission of an application to Aldermore's portal for an initial "Heads of Terms" decision. All full applications are subject to manual underwriting by experienced personnel who are subject to quality control assessments from credit risk as well as internal audits.

Properties are individually valued and a detailed report produced to ensure the property represents suitable security. Consideration is given to whether the property has alternate use or has an identifiable market in the event of default, where the asset acting as security has to be recovered and sold. Valuations are performed by qualified external surveyors. The valuation reports also provide commentary on the tenancy/letting of properties where the commercial mortgages are connected to an investment property transaction.

Affordability assessments are performed on all loans and other forms of security are often obtained, such as a personal guarantee.

Residential Mortgages

In Residential Mortgages, the underwriting process is initiated by the submission of an application to Aldermore's paperless portal. An initial assessment of the application is carried out and the intermediary is able to obtain a system driven "decision in principle". Rules embedded within the on-line system determine if an application auto-fails or auto-passes, then requesting key information via portal messaging. Applications that auto-fail as well as approved "decisions in principle" are referred by the system for manual underwriting. These go to mandated underwriters who have been trained and tested as suitable to hold mandates at various levels. Applications are underwritten in accordance with a residential mortgage lending policy and each loan has to undergo an affordability assessment, which takes into account the specific circumstances of each borrower. Information is obtained on all loan applications from credit reference agencies which provide a detailed insight into the applicant's credit history and indebtedness which is carefully reviewed by the underwriters.

As in other business segments, credit approval mandates are tiered on the basis of seniority, loan size and asset category. If a transaction is larger than the underwriter's credit mandate, it will be referred to a more senior underwriter or to the credit committee.

In order to ensure appropriate credit quality, the underwriters are subject to quality control assessments.

8 Distribution channels

Aldermore has an efficient distribution model which combines a wide range of specialist lending intermediaries and direct customer distribution with a modern digital infrastructure. Aldermore does not have a traditional branch network. Instead, Aldermore distributes its products predominantly through intermediaries, and also utilises distribution online, by phone or from its regional offices around Great Britain.

8.1 Intermediaries

Aldermore's intermediary-led distribution model is designed to meet the needs of its customers and provide Aldermore with a scalable platform for future growth. Generally, across the banking industry, SME customers tend to seek advice from intermediaries/brokers due to lack of in-house expertise. Similarly, a significant proportion of mortgage customers tend to seek advice from qualified mortgage brokers.

Aldermore has access to a wide range of specialist lending intermediaries and brokers. Its total distribution network comprises approximately 14,000 brokers and intermediaries thereby ensuring that Aldermore is not reliant on any particular intermediary or group of intermediaries. During the year ended 31 December 2014, Aldermore derived approximately 84 per cent. of its lending business from intermediaries.

Asset Finance

The Asset Finance segment is supported by approximately 400 brokers and 200 vendors or dealers. Of total origination of £739 million in the year ended 31 December 2014, distribution via intermediaries was 75 per cent. The top ten brokers accounted for 23 per cent. of origination in the year ended 31 December 2014.

Invoice Finance

The Invoice Finance segment is supported by more than 500 intermediary groups. Of total origination of £45 million in the year ended 31 December 2014, distribution via intermediaries was 71 per cent. The top ten brokers accounted for 21 per cent. of origination in the year ended 31 December 2014.

SME Commercial Mortgages

The SME Commercial Mortgages segment is supported by approximately 1,000 brokers. Of total origination of £422 million in the year ended 31 December 2014, distribution via intermediaries was 91 per cent. Aldermore maintains a tightly-controlled broker panel for its SME Commercial Mortgage products, which it regularly reviews. Strategic relationships with key brokers include a trading arrangement with "Mortgages for Business". The top ten brokers accounted for 50 per cent. of origination in the year ended 31 December 2014.

Residential Mortgages

Of total origination of £1,165 million in the year ended 31 December 2014, distribution via intermediaries was 88 per cent. Aldermore has approximately 12,000 registered and FCA authorised brokers with strong strategic relationships with major distributors (including Legal & General, Sesame Bankhall and Connells). The top ten brokers accounted for 8 per cent. of origination in the year ended 31 December 2014.

Aldermore works closely with its intermediaries in collating information required for assessing customer credit quality. Aldermore's IT infrastructure supports its intermediaries network in a number of ways, providing easy access and facilitating decision-making. For example, in the Residential Mortgages market, intermediaries can submit applications to Aldermore's paperless portal within 15 minutes and receive an initial credit decision within 90 seconds. Furthermore, intermediaries can monitor the progress of an application online and speak directly to an experienced underwriter if required in order to discuss individual cases.

8.2 Direct

Internet

Aldermore employs a modern IT infrastructure to support the offering of its products directly to its customers through the internet.

Direct sales for the year ended 31 December 2014 accounted for 25 per cent. for Asset Finance[45], 29 per cent. for Invoice Finance, 9 per cent. for SME Commercial Mortgages and 12 per cent. for Residential Mortgages. Almost all SME deposit accounts and 76 per cent. of retail savings accounts are opened directly online.

The expansion of its direct distribution channels is a key part of Aldermore's future digital strategy (for further details see paragraphs 3.6 and 4.3 of this Part IX: "*Information on the Group—Key strengths—Leveraging scalable and efficient digital operating model*" and "*Information on the Group—Strategy—Strengthening distribution channels including direct and existing relationships with intermediaries*").

Telephony

Aldermore has a telephony service in connection with its retail and SME deposits business and an in-bound only telephony service in connection with its Residential Mortgage business. During the year ended 31 December 2014, it distributed approximately 5 per cent. of its retail deposit business through telephony. The back office operations (including telephony) for its retail deposit business have been outsourced to Newcastle Building Society (for further details see paragraph 6.6 of this Part IX: "Information on the Group—Business and activities—Savings"). Aldermore's Invoice Finance segment currently operates a limited telephony service. As part of its growth strategy, Aldermore plans to enhance its direct sales capability via telephony.

In person

Aldermore undertakes client management and makes some direct sales, in person, through staff based at a number of its regional offices. Historically, the regional office network supported the Invoice Finance segment. However, it will be increasingly used to cross-sell into other business segments through its customer relationship managers.

9 Information technology

Aldermore employs a modern, onshore IT infrastructure composed of industry standard systems that are configured to Aldermore's requirements. This digitally enabled infrastructure is scalable such that it can expand to support predicted future growth with moderate ongoing investment. Core IT applications are either unrestricted for future growth or structured in a manner that permits, for example, expansion through additional licences. The modern nature of the IT infrastructure provides Aldermore with a flexible, reliable and secure platform that does not have any "legacy" issues.

The Board appreciates that as Aldermore develops its online proposition, expands its product franchise and develops its overall market profile, the availability and stability of its IT platform will become increasingly critical to enable growth and to build brand reputation. Given the importance of Aldermore's IT infrastructure to its future growth, Aldermore continues to invest in its digital capabilities.

During 2012, 2013 and 2014, Aldermore invested £9.1 million, £9.2 million and £11.5 million (which includes the £1.6 million written-off in relation to intangible assets) respectively across both capital and operational expenditure:

- improving data centre resilience and workload balancing by increasing capacity in a secondary data centre and processing requirements thereby reducing reliance on a single site;
- further strengthening back up and recovery facilities;
- developing its core operating software;
- implementing a new general ledger system; and
- developing skills and human resources in the IT team and external support partners.

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45 Asset Finance figure includes vendor, direct and wholesale distribution

Investment continues to be made in Group wide capabilities such as IT security, cyber-crime prevention and customer relationship management (which will provide increased cross-selling opportunities and sales force management), regulatory compliance, risk management and treasury capabilities. Aldermore expects to make further investments in its customer-facing web presence and portals to exploit growing use of mobile and tablet devices by consumers.

10 Employees and operational functions

10.1 Employees

As at 31 December 2014, Aldermore had approximately 875 employees and contractors.

Aldermore appreciates that dynamic growth depends on dynamic employees and is committed to maintaining an engaged and motivated workforce.

Aldermore continues to focus on career development opportunities. In 2013, key initiatives included creating the "Developing Leaders Programme" and the "Next Generation Leadership Programme", and "Train the Trainer" workshops designed to deliver more local and on-demand training. Aldermore also raised awareness about its employee assistance programme which provides guidance and advice for staff and their families. In 2014, Aldermore continued its emphasis on leadership, management capability and career development. In addition to launching a new career development toolkit, Aldermore enhanced its Next Generation Leadership Programme. In the latter part of the year, it implemented a new approach to "Front Line Manager Capability" with a comprehensive and structured development programme being developed for full launch in 2015.

10.2 Employee Functions

With the exception of back-office operations for retail deposits which are undertaken by Newcastle Building Society and IT support, all operational functions (including loan servicing) are undertaken by Aldermore's in-house employees situated in its regional offices in Great Britain. The IT function has a support model that utilises both internal and external expertise to optimise delivery.

The table below sets out Aldermore's employee base by function as at 31 December 2014.

Function	No. of employees as at 31 December 2014
Asset Finance	146
Invoice Finance	223
SME Commercial Mortgages	84
Residential Mortgages	132
Savings	4
Operations and IT	103
CEO Office	12
Finance	90
Human Resources	17
Marketing	29
Risk	36
Total	**876**

Head Office/Front Office	No. of employees as at 31 December 2014
Head Office	287
Front Office	589
Total	**876**

11 Capitalisation, liquidity and sources of funding

11.1 Capitalisation

Aldermore has levels of capital which are in excess of the requirements set by the PRA. As at 31 December 2014:

- Aldermore's fully loaded CRD IV CET1 Ratio was 10.4 per cent.;
- Aldermore's Total Capital Ratio was 14.8 per cent.; and
- Aldermore's Leverage Ratio was 6.3 per cent.

The Board believes that these ratios demonstrate that it is well placed to meet the new capital requirements from both Europe and the implementation of the recommendations of the ICB.

In May 2012, the Group raised £36 million by issuing Subordinated Notes with a nominal value of £40 million. The Subordinated Notes can be called for repayment from May 2017 and comply with the Capital Requirement Regulation's definition of Tier 2 capital.

In December 2014, Aldermore raised £73.7 million (net of costs) by issuing AT1 Securities with a principal amount of £75 million. The AT1 Securities are perpetual securities with no fixed redemption date. However, Aldermore may, in its discretion and subject to certain conditions (including obtaining regulatory approval), elect to redeem or repurchase the AT1 Securities in certain circumstances. For further information on the AT1 Securities see paragraph 15.4 of Part XX: "*Additional Information—Material contracts—AT1 Securities*".

The table below sets out Aldermore's total capital, split by type of capital, as at 31 December 2014.

Total Capital Resources	As at 31 December 2014
	(£ millions)
Common Equity Tier 1	281.2
AT1 Securities	73.7
Total Tier 2 capital	45.3
Total regulatory capital	400.2
Total risk weighted assets	**2,702.0**

The table below sets out the composition of Aldermore's CET1 capital, as at 31 January 2015.

Common Equity Tier 1	As at 31 January 2015
	(£ millions)
Share capital	23.7
Share premium	—
Warrant reserve	2.2
Retained earnings	277.9
less intangible assets	(22.4)
Total Common Equity Tier 1	**281.4**

The table above excludes the Available for Sale ("**AFS**") reserve, on a comparable basis to 31 December 2014. However, as detailed in Note 42 to the Historical Financial Information set out in Part XV: "*Historical Financial Information*" of this Prospectus, with effect from 1 January 2015, the AFS reserve will be included in the Group's CET1 capital.

11.2 Liquidity

Aldermore holds liquidity principally in the form of high quality liquid assets. As at 31 January 2015, this is made up of unencumbered cash (£27.2 million), a Bank of England reserve account (£32.0 million), liquid debt securities (£578.0 million excluding accrued interest) and UK Treasury Bills held under the Funding for Lending Scheme which are not subject to repurchase agreement (face value of £160 million).

For liquidity purposes, certain adjustments or 'haircuts' are applied to these assets to reflect the level of risk and different asset classes, consistent with Aldermore internal policy and external regulations. At 31 January 2015, Aldermore held a 14.8 per cent. liquidity buffer (liquid assets excluding encumbered cash as a percentage of total funding liabilities). Based on the liquidity buffer held, Aldermore has sufficient liquidity to meet its day to day cash flow needs, with consideration being given to both normal and stressed conditions (over a survival period of 91 days) as well as internal and regulatory liquidity requirements.

11.3 Sources of Funding

The majority of Aldermore's funding for its customer loans is generated through customer liabilities in the form of retail and SME deposits (for further information, see paragraph 6.6 of this Part IX: "*Information on the Group—Business and activities—Savings*"). The Board views the generation and maintenance of its retail and SME deposit funding base as a key part of its strategy.

In addition, Aldermore has the following sources of funding:

- the £333 million AAA UK RMBS transaction; and
- £485 million of UK Treasury Bills through the Funding for Lending Scheme of which £304 million was on balance sheet funding as at 31 December 2014.

11.3.1 RMBS

In April 2014, Aldermore successfully raised £333.3 million in capital from a AAA RMBS issuance of Class A Notes by a special purpose vehicle, Oak No. 1 PLC (the "**Issuer**"), to third party investors. The transaction was backed by a pool of 2,686 first-ranking owner occupied UK residential mortgages originated by Aldermore with an average balance of £134,878 and an average remaining contractual term of 20.9 years. The Class A Notes were admitted to the Official List of the Irish Stock Exchange Limited pursuant to a prospectus dated 8 April 2014.

As part of the RMBS transaction, variable funding notes (the "**Class Z VFN**") were also issued and retained by Aldermore Bank PLC. At the date of issuance, the initial principal amount of Class Z VFN was £38.9 million. A maximum principal amount of £500 million may be funded by Aldermore as holder of the Class Z VFN at the request of the Issuer. This commitment to provide further funding is scheduled to terminate in May 2019 (or, if earlier, the occurrence of an event of default under the RMBS transaction).

The margin applicable to the interest rate on the Class A Notes is subject to a step-up, as more fully described in the table below.

The key terms of the RMBS transaction are as follows:

Class of Notes	Initial Principal Amount	Interest Rate	Relevant Margin	Step-up Date	Ratings (Moody's/S&P)	Final Maturity Date
Class A Notes	£333,300,000	3 month GBP LIBOR plus Relevant Margin	Prior to the Step-Up Date 0.67 per cent. per annum and on and after the Step-Up Date 1.34 per cent. per annum	The Interest Payment Date falling in May 2019	Aaa(sf)/AAA(sf)	The Interest Payment Date falling in February 2052
Class Z VFN	£38,945,500 (being the initial Principal Amount subscribed for as at 10 April 2013) up to a maximum of £500,000,000	3 month GBP LIBOR plus Relevant Margin	0.00 per cent. per annum	N/A	Not rated (retained by Aldermore)	The Interest Payment Date falling in February 2052

The RMBS is in line with Aldermore's strategy of diversifying its funding sources. Aldermore expects to undertake further issuances of asset backed securities in the next couple of years to further diversify its funding mix.

11.3.2 Funding for Lending Scheme

Aldermore has utilised the Funding for Lending Scheme as an additional source of funding. As at 31 December 2014, FLS funding accounted for 6 per cent. of Aldermore's funding. Under FLS, Aldermore receives Treasury Bills from the Bank of England at a subsidised cost which it then uses as collateral in third party secured financing arrangements. This supports Aldermore's ability to offer competitive pricing on its lending products to borrowers. On 2 December 2014 the Bank of England announced a one year extension to the FLS for those participants continuing to support SME lending and Aldermore may, if desired, choose to draw down further liquidity from FLS. However, Aldermore is not reliant on using FLS funding to support its forecast growth.

PART X
DIRECTORS, SENIOR MANAGEMENT, CORPORATE GOVERNANCE AND REMUNERATION POLICY

SECTION A

DIRECTORS, SENIOR MANAGEMENT, AND CORPORATE GOVERNANCE

Directors

The following table lists the names, positions and ages of the Directors:

Name	Age	Position	Date appointed
Glyn Jones	62	Chairman	21 March 2014
Phillip Monks	55	Chief Executive Officer	20 May 2009
James Mack	43	Chief Financial Officer	30 September 2013
Peter Cartwright	49	Non-Executive Director	3 December 2008
Neil Cochrane	30	Non-Executive Director	4 September 2014
Danuta Gray	55	Senior Independent Director	29 September 2014
John Hitchins	60	Independent Non-Executive Director	28 May 2014
Peter Shaw	55	Independent Non-Executive Director	4 September 2014
Christopher Stamper	59	Independent Non-Executive Director	6 February 2014
Cathy Turner	51	Independent Non-Executive Director	28 May 2014

The business address of each of the Directors is Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire, RG1 1AX.

The management expertise and experience of each Director is set out in his/her biography below:

Executive Directors

Phillip Monks—Chief Executive Officer

Phillip was part of the team which founded Aldermore in 2009 and has over 30 years' industry experience. Most recently he established, and obtained a banking licence for, Europe Arab Bank where he was CEO until 2008. Prior to this, Phillip held senior roles within Barclays Bank plc, including Branch Director of Barclays Private Bank in Geneva, Director of Business and Corporate Banking in North West England, Managing Director of Barclays Corporate Banking in London, the Midlands and South East and, finally, CEO of Gerrard Investment Management from 2003 upon its acquisition by Barclays from Old Mutual plc.

James Mack—Chief Financial Officer

James joined Aldermore in June 2013 and is responsible for the Finance and Treasury functions. From 2010, he held a number of senior finance roles within the Co-operative Banking Group including Acting CFO, Director of Financial Control and Head of Financial Planning and Analysis. Prior to this, James spent six years with the Skipton Building Society and was instrumental in leading the merger with the Scarborough Building Society. James joined KPMG in 1993 and spent 11 years in their financial services practice.

Non-Executive Directors

Glyn Jones—Chairman

Glyn joined the Board as Chairman in March 2014. He is currently the Senior Independent Director on the board of Direct Line Insurance Group plc and, since May 2007, has been the chairman of Aspen Insurance Holdings Limited, a New York listed specialty lines insurance and re-insurance business. Glyn was formerly the chairman of Towry Holdings Limited between 2006 and 2011. He also served as chairman of Hermes Fund Managers from 2008 to 2011 and was chairman of the sister company BT Pension Scheme Management for a part of this period. Glyn was chief executive officer of the independent investment group, Thames River Capital, from 2005 to 2006. From 2000, he served as chief executive officer of Gartmore Investment Management in the UK for four years. Prior to this, Glyn was chief executive officer of Coutts NatWest Group and Coutts Group, having joined in 1997. In 1991, Glyn joined Standard Chartered in Hong Kong where he became the general manager of Global Private Banking. He was a consulting partner with Coopers & Lybrand/Deloitte Haskins & Sells Management Consultants from 1981 to 1990. Glyn is a graduate of Cambridge University and a Fellow of the Institute of Chartered Accountants in England & Wales.

Peter Cartwright—Non-Executive Director

Peter's involvement with the Board dates back to the launch of Aldermore in May 2009. He is one of the founding partners of AnaCap Financial Partners LLP where he is also the Co-Managing Principal responsible for developing AnaCap's portfolio company investments. Prior to AnaCap, Peter was commercial director within a specialty insurance services provider backed by a UK-based private equity firm, and between 1999 and 2003 was Sales & Marketing Director and Operations Director for GMAC UK and On:line Finance, respectively, having previously worked for GE Capital. Peter is an experienced business builder and operational specialist and holds various non-executive and supervisory board roles within banks and financial services companies across Europe.

Neil Cochrane—Non-Executive Director

Neil joined the Board as a Non-Executive Director in September 2014. Neil's involvement with Aldermore dates back to May 2010, when he joined AnaCap Financial Partners LLP's Business Services team. This role saw Neil take responsibility for day-to-day interaction with senior management of AnaCap's portfolio companies on strategic and operational development. Neil is currently an investment director within the team. Neil brings eight years of strategic financial services experience to this role. He started his career as a consultant at Oliver Wyman Financial Services in 2006 where he was involved in a broad range of projects for banking and insurance clients. His assignments covered clients in the UK, Europe and the U.S. and were predominately focused on new business launches, strategy development, M&A and risk management. Neil graduated from the University of Nottingham in 2006 with a BA (Hons) in Economics.

Danuta Gray—Senior Independent Director

Danuta joined the Board as the Senior Independent Director in September 2014. Danuta has extensive business experience having spent 26 years in the telecommunications sector. Starting her career at BT in 1984, Danuta held numerous senior roles becoming Senior Vice President, BT Europe in 1999. During her time at BT she gained experience in marketing, customer service, communications, technology and sales, and in leading and implementing change. Danuta was Chairman of Telefónica O2 in Ireland until December 2012, having previously been its Chief Executive from 2001 to 2010. Previously Danuta served for seven years on the board of Irish Life & Permanent PLC as Chairman of the Remuneration Committee and was a non-executive director of Aer Lingus PLC from 2006 to 2013. Danuta is currently also a non-executive director at Old Mutual PLC, Michael Page International PLC and Paddy Power PLC.

John Hitchins—Independent Non-Executive Director

John is an independent Non-Executive Director and chairs the Audit Committee. He was appointed to the Board in May 2014. He brings 36 years of experience in the audit arena, having spent his whole career at PricewaterhouseCoopers ("**PwC**"), including as an audit partner. John was formerly Chairman of the Banking Committee of the Institute of Chartered Accountants in England & Wales and a board member of the Institute's Financial Services Faculty. He has also served as a member of the Institute's Business Law Committee. During his career with PwC, John specialised in bank auditing and financial advisory services and his clients have included institutions such as Euroclear, Lloyds Banking Group, The Bank of England, Bank of Ireland, Britannia Building Society, Barclays, JP Morgan Chase and Nomura. Until recently, John was a member of the UK FCA Practitioner and Markets Practitioner Panels. He is currently a member of the Governing Council of the Centre for the Study of Financial Innovation, a not-for-profit City-based think tank. John is a graduate of Oxford University and a Fellow of the Institute of Chartered Accountants in England & Wales.

Peter Shaw—Independent Non-Executive Director

Peter joined the Board as an independent Non-Executive Director in September 2014 and chairs the Risk Committee. Peter brings over 30 years of financial services experience to his new role, having spent most of his career at RBS NatWest. Joining NatWest as a graduate trainee in 1981, Peter worked across a number of business areas during his career with the group including retail, SME, private banking, corporate banking, HR and risk. Between 1994 and 2002, Peter was Managing Director of various group businesses offshore, based in Jersey. In 2002, Peter returned to the UK to become COO of the Risk Function at

Group Head Office and between 2004 and 2010 Peter was Chief Risk Officer for various group businesses including RBS UK Retail, Wealth & Ulster Bank. Between May 2012 and January 2013, Peter acted as interim Chief Risk Officer for the Co-operative Banking Group. Peter is currently also a non-executive director at Bank of Ireland UK PLC, where he is chair of the bank's risk committee and a member of the audit committee. Peter graduated from London South Bank University in 1981 with a BA in Modern Languages. Peter holds an ACIB and DipFS. He is also a Fellow of the Chartered Institute of Bankers in Scotland.

Christopher Stamper—Independent Non-Executive Director

Chris is an independent Non-Executive Director and was appointed to the Board in February 2014. He brings 35 years of experience in the asset finance industry, most recently as director and CEO of ING Lease (UK) Ltd. He is a founding governor of The Leasing Foundation and was a director of Finance and Leasing Association Ltd. from 2003 to 2012 and a former Chairman of their Asset Finance Division. Previously, Chris was Head of Abbey Business responsible for five business units focused on the SME market. Prior to this, Chris was the Managing Director of Lombard Sales Finance where he spent 21 years.

Cathy Turner—Independent Non-Executive Director

Cathy is an independent Non-Executive Director and chairs the Remuneration Committee. She was appointed to the Board in May 2014. She is currently Non-Executive Director and Chair of the Remuneration Committee of Countrywide plc. She is also a Vice President of UNICEF UK and a member of the board of the Royal College of Art. She is also an Associate of the advisory group Manchester Square Partners. Cathy has extensive industry experience working with Deloitte & Touche, Ernst & Young and Watson Wyatt as a compensation and benefits consultant in her early career. She subsequently joined Barclays PLC, where she was a member of the Group Executive Committee with responsibility for Human Resources, Corporate Affairs, Strategy and Brand and Marketing. During her time with Barclays she was also Director, Investor Relations for four years and had extensive experience in remuneration in her many roles. Most recently, she was Chief Administrative Officer of Lloyds Banking Group PLC. Cathy is a graduate of the University of Lancaster.

Senior Management

The Company's current Senior Management, which is inclusive of the two Executive Directors listed above, is as follows:

Name	Age	Position
Steve Barry	46	Chief Risk Officer
Vicki Harris	48	Group Marketing and Strategy
Ali Humphries	50	Group HR Director
Paul Myers	50	Chief Operating Officer
Mark Stephens	55	Deputy CEO and Group Commercial Director

The management expertise and experience of each Senior Manager is set out in their biography below:

Steve Barry—Chief Risk Officer

Steve joined Aldermore in 2009 and is responsible for Credit, Operational and Treasury Risk as well as Compliance. He has over 20 years' experience in the financial services industry in a range of roles including Finance and Risk Director at Beacon Group, Partner in charge of Risk & Liability Management at AnaCap Financial Partners and CFO and Head of Risk for London Mortgage Company.

Vicki Harris—Group Marketing and Strategy

Vicki joined Aldermore in June 2014 and is responsible for Marketing and Group Strategy. Prior to joining Aldermore, Vicki was at Octopus Investments, a fast growing UK retail fund manager, where she was COO responsible for scaling the company's operations and customer engagement model. Vicki worked for GE Capital for 11 years in both operational and corporate roles and launched the European arm of GE Healthcare Financial Services. In 2009, she was appointed MD of Strategy and Marketing for GE Capital EMEA with the mission to rebuild the business model post the financial crisis. She also held senior roles in GE's private equity arm. Before GE, Vicki worked in consulting for McKinsey and in M&A and business development for The Rank Organisation. Vicki is a graduate of Cambridge University and a member of the Institute of Chartered Accountants in England & Wales.

Ali Humphries—Group HR Director

Ali joined Aldermore in July 2010 and has over 20 years experience in human resources. Her previous experience includes Head of HR roles with Nationwide Building Society and HBOS, as well as 11 years in Organisation Development with Zurich Financial Services. Ali was director of her own consulting business providing interim and project management services to blue-chip companies. Ali is responsible for Aldermore's HR function including reward, performance management, recruitment and HR shared services.

Paul Myers—Chief Operating Officer

Paul was part of the team that founded Aldermore in 2009. Prior to this, he was engaged as an independent consultant with several blue-chip financial services companies. Paul spent over 20 years in various roles with Barclays Bank plc, holding a range of executive-level positions, including Chief Operating Officer, in a variety of disciplines across Barclays' SME banking divisions. Paul is responsible for the Savings division and Aldermore's infrastructure including IT, operating models and efficiency and management information systems.

Mark Stephens—Deputy CEO and Group Commercial Director

Mark was also part of the team which founded Aldermore in 2009 and has over 30 years' experience in the banking industry. He was former CEO of Base Commercial Finance which became part of Ruffler Bank and later Aldermore in 2009. Prior to this, he held senior positions at Abbey National (now Santander UK), where he was Head of Commercial Lending, Anglo Irish Bank Corporation plc and Halifax Bank plc.

Corporate governance

UK Corporate Governance Code

The Board is committed to the highest standards of corporate governance. As of the date of this Prospectus, and on and following Admission, the Board complies and intends to continue to comply with the requirements of the UK Corporate Governance Code. The Company will report to its shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules.

As envisaged by the UK Corporate Governance Code, the Board has established an Audit Committee, a Corporate Governance and Nomination Committee and a Remuneration Committee and has also established a Risk Committee and a Disclosure Committee. If the need should arise, the Board may set up additional committees as appropriate.

The UK Corporate Governance Code recommends that at least half the board of directors of a UK-listed company, excluding the chairman, should comprise non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement. As of the date of this Prospectus, the Board consists of 8 Non-Executive Directors (including the non-executive Chairman) and 2 Executive Directors. The Company will seek to appoint a further non-executive director to the Board following the resignation of John Callender effective on 27 February 2014. The Board regards all of the Non-Executive Directors, other than Peter Cartwright and Neil Cochrane, as "independent non-executive directors" within the meaning of the UK Corporate Governance Code and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board regarded Glyn Jones as independent upon his appointment as Chairman for the purposes of the UK Corporate Governance Code. The UK Corporate Governance Code recommends that the board of directors of a company with a premium listing on the Official List of the FCA should appoint one of the non-executive directors to be the Senior Independent Director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of Chairman, CEO or other Executive Directors has failed to resolve or for which such contact is inappropriate. Danuta Gray has been appointed Senior Independent Director.

The UK Corporate Governance Code further recommends that directors should be subject to annual re-election. The Company intends to comply with these recommendations.

Audit Committee

In compliance with the requirements of the UK Corporate Governance Code, the Audit Committee is made up of three members who are all independent Non-Executive Directors and includes one member with recent and relevant financial experience. The Audit Committee is chaired by John Hitchins, who is considered by the Board to have recent and relevant financial experience. Its membership is as follows:

Name	Committee Position
John Hitchins	Chairman
Peter Shaw	Member
Christopher Stamper	Member

The Audit Committee will normally meet at least four times a year at the appropriate times in the reporting and audit cycle. The Audit Committee has responsibility for, amongst other things, the monitoring of the financial integrity of the financial statements of Aldermore and the involvement of the Auditors in that process as well as reviewing the Company's internal control and risk management systems. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports, remains with the Board.

The Audit Committee also receives regular updates from internal audit. The Committee reviews and assesses the annual internal audit work plan and receives reports on the results of the internal auditors' work.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with requirements for the quorum for and the right to attend meetings. The duties of the Audit Committee covered in the terms of reference are: financial statements and reporting, narrative reporting, reviewing the effectiveness of the Group's internal control and financial reporting and, in conjunction with the Risk Committee, reviewing statements concerning internal control risk management systems, reporting on the adequacy and security of Aldermore's whistleblowing arrangements and procedures for detecting fraud, Aldermore's internal audit function, and Aldermore's relationship with its external auditors. The terms of reference also set out the authority of the Audit Committee to carry out its duties.

Risk Committee

The Risk Committee is made up of four members; three of whom are independent Non-Executive Directors. Its membership is as follows:

Name	Committee Position
Peter Shaw	Chairman
Peter Cartwright[(1)]	Member
John Hitchins	Member
Christopher Stamper	Member

(1) Neil Cochrane has been appointed as an alternate Director to Peter Cartwright.

The Risk Committee will normally meet at least four times per year. The Risk Committee oversees the development, implementation and maintenance of Aldermore's risk management framework, ensuring that its strategy, principles, policies and resources are aligned to Aldermore's risk appetite, as well as to regulatory and industry best practices. The Risk Committee also monitors and reviews the formal arrangements established by the Board in respect of internal controls and risk management framework and reviews the effectiveness of Aldermore's systems for risk management and compliance with financial services legislation and other regulations.

The terms of reference of the Risk Committee cover such issues as membership and frequency of meetings, together with the requirements for the quorum for and the right to attend meetings. The duties of the Risk Committee covered in the terms of reference relate to the following: the Company's overall risk appetite, risk tolerance and risk strategy; the risk management framework; monitoring the effectiveness of the Group's internal control and risk systems; reviewing and supervising the regulatory requirements; advising on the risk of proposed strategic transactions; and advising the Remuneration Committee on any risk management or control issues.

Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee (the "**Nomination Committee**") is made up of five members, a majority of whom are independent Non-Executive Directors. Its membership is as follows:

Name	Committee Position
Glyn Jones	Chairman
Peter Cartwright[(1)]	Member
Danuta Gray	Member
Peter Shaw	Member
Cathy Turner	Member

(1) Neil Cochrane has been appointed as an alternate Director to Peter Cartwright.

The Nomination Committee will meet not less than twice during the annual reporting cycle.

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board Committees and the chairmanship of the Board Committees. It is also responsible for keeping the structure, size and composition of the Board under regular review and for making recommendations to the Board with regard to any changes necessary. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

The terms of reference of the Nomination Committee cover such issues as membership and frequency of meetings, as mentioned above, together with the requirements for the quorum for and the right to attend meetings. The duties of the Nomination Committee covered in the terms of reference relate to the following: monitoring corporate governance and the composition of the Board and committees of the Company and the Group, overseeing the Board's governance arrangements, monitoring and making recommendations to the Board on governance issues, reviewing the size and composition of the Board, and making recommendations for any changes necessary.

Remuneration Committee

The UK Corporate Governance Code provides that a remuneration committee should comprise at least three members who are independent Non-Executive Directors (other than the chairman who may be an additional member if independent on appointment). Its membership is as follows:

Name	Committee Position
Cathy Turner	Chairman
Danuta Gray	Member
Glyn Jones	Member
Peter Shaw	Member

The Remuneration Committee will meet not less than twice a year.

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, including setting the over-arching principles, parameters and governance framework of the Group's remuneration policy and determining the individual remuneration and benefits package of each of the Company's Chairman, Executive Directors and certain senior executives. The Remuneration Committee is also responsible for recommending and monitoring the structure and level of remuneration for Senior Management and the overall cost of incentive plans for other employees, including pension rights and any compensation payments. The Remuneration Committee has responsibility for setting the remuneration policy for all Executive Directors, members of the senior leadership team, any Code Staff and the Chairman of the Board, including pension rights and any compensation payments. The Remuneration Committee is also responsible for the operation of the Company's all-employee share plan arrangements. The Board itself shall determine the remuneration of the Non-Executive Directors within the limits set in the Articles. No Director or senior manager shall be involved in any decisions as to their own remuneration.

The terms of reference of the Remuneration Committee cover such issues as membership and frequency of meetings, as mentioned above, together with the requirements for the quorum for and the right to attend meetings. The duties of the Remuneration Committee covered in the terms of reference relate to the following: determining and monitoring policy on and setting level of remuneration, early termination, performance-related pay, pension arrangements, authorising claims for expenses from the members of the Board, reporting and disclosure, share schemes and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the Remuneration Committee to carry out its duties.

Disclosure Committee

The Disclosure Committee is made up of the CEO who is the Chairman of the Disclosure Committee, the CFO and the General Counsel and such other persons as the committee chairman shall determine from time to time.

The Disclosure Committee will normally meet at least once a year.

The Disclosure Committee is responsible for drafting and maintaining procedures, systems and controls for the identification and disclosure of inside information and for ensuring compliance with the relevant rules. It is also responsible for reviewing the operation, adequacy and effectiveness of such disclosure procedures.

The terms of reference of the Disclosure Committee cover such issues as membership and frequency of meetings, together with the requirements for the quorum for and the right to attend meetings. The duties of the Disclosure Committee covered in the terms of reference relate to the following: drawing up, maintaining and implementing disclosure procedures, monitoring compliance with the disclosure procedures, maintaining a record of matters considered for disclosure and ensuring creation of insider lists.

Share dealing

The Company has adopted, with effect from Admission, a code of securities dealings in relation to the Ordinary Shares which is based on, and is at least as rigorous as, the model code published in the Listing Rules. The code adopted will apply to the Directors and other relevant employees of the Group.

Relationship agreement with the Principal Shareholders

The Company has entered into the Relationship Agreement with the Principal Shareholders. The Relationship Agreement has been entered into to ensure that the Company will be able, at all times, to carry out its business independently of the Principal Shareholders and their associates and that all transactions and arrangements between the Company and the Principal Shareholders and/or any of their associates are at arm's length and on normal commercial terms. See paragraph 15.2 of Part XX: "*Additional Information—Material contracts—Relationship Agreement*" for a more detailed description of the Relationship Agreement.

Recent changes to corporate governance

Prior to the entry into the Relationship Agreement, in January 2014, the PRA issued a draft requirement notice under section 166 of the FSMA to appoint a "skilled person" to review and report whether (a) there were appropriate, independent Board and executive-level governance arrangements, policies and processes in place across Aldermore; (b) these arrangements were applied effectively by the Board, committees and executive management to deliver independent, effective and robust management and oversight of Aldermore; and (c) the relationship between all shareholders and the management of Aldermore was appropriate, and the influence exerted by all shareholders was proportionate to their declared control of Aldermore. The report, finalised in April 2014, was undertaken by EgonZehnder. The findings of the report in respect of the reviewed matters were generally supportive of Aldermore's governance arrangements, including the appropriateness of AnaCap's influence and the direction being pursued on board governance. The report also noted actions that had already been initiated by the then newly appointed Chairman, Glyn Jones, to further strengthen corporate governance, which were consistent with recommendations made in the report. Following discussions with the PRA concerning the recommendations of the report, an action plan was agreed with the PRA and Aldermore has implemented a number of changes, including the enhancement of the composition of the Board through the appointment of new Non-Executive Directors. As at the date of the Prospectus, the Board complies with and intends to continue to comply with the requirements of the UK Corporate Governance Code. For further information on Aldermore's governance structure, please see Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

SECTION B

REMUNERATION POLICY

1 Introduction

The following information sets out the key components of the Directors' remuneration arrangements which will form part of the Directors' Remuneration Policy to be subject to formal approval by shareholders at the first Annual General Meeting ("**AGM**") of the Company following Admission (to be held in 2016) in accordance with the regulations set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("**the DRR Regulations**"). It is the current intention of the Remuneration Committee that the Directors' Remuneration Policy will apply from Admission.

The key principles behind the Policy for Executive Directors can be summarised as follows:

- Remuneration to be designed to promote the long-term success of the Company.
- Total remuneration to be set by reference to a median position against a set of comparators of a similar market capitalisation with actual levels then reflecting the scope of the role, experience and performance of the individual and affordability for the Company.
- Remuneration to be consistent with the Company's agreed risk appetite and, in particular, being sensitive to best practice as regards the balance of fixed to variable remuneration, and in the use of broad based qualitative and quantitative measures.
- Variable remuneration to be performance aligned with emphasis on achieving sustainable business results.
- Simplicity and transparency in the design and communication of remuneration.
- Full compliance with all regulations to which the Company is subject and due regard to broader regulatory developments (including the wider remuneration elements of CRD IV). Such broader regulatory developments will be considered in light of their appropriateness for the Company's size and wider market experience.

2 Summary of Directors' Remuneration Policy

The formal Policy will comprise the following:

Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
Base salary This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect the Remuneration Committee's assessment of their experience and contribution.	Base salaries are periodically reviewed against companies of similar size and complexity and the Remuneration Committee primarily has reference to pan-sector companies of a similar market capitalisation rather than companies within the financial services sector. The Remuneration Committee does not strictly follow these data but uses them as a reference point in considering, in its judgment, the appropriate level of salary having regard to other relevant factors including its assessment of sector differences, corporate and individual performance and any changes in an individual's role and responsibilities. Base salary is typically paid monthly in cash.	While salaries may be reviewed annually (or otherwise as appropriate), the Remuneration Committee will not automatically award an increase to reflect in year salary inflation and may freeze salaries with consequently larger increases as and when an increase is awarded. Overall, in the normal course of events, the Executive Directors' salaries have regard to the average level of increase awarded to employees generally since the relevant Executive Director last received an increase. Given the need for a formal cap under the DRR Regulations, the Remuneration Committee has further limited the maximum salary increase which it may award to any Executive Director to ensure that the increase does not result in the base salary exceeding 110 per cent. of its assessment of the median base salary for an equivalent role within a comparator group of companies which when (or shortly prior to when) the increase is proposed are ranked the 20 companies above and the 20 below the Company by market capitalisation.	N/A
Implementation of Policy from Admission *For information and not part of the Directors' Remuneration Policy*	Base salaries for Executive Directors from Admission are as follows: • CEO—£500,000 p.a. • CFO—£350,000 p.a.		
Benefits To provide benefits valued by recipient.	Provide a market competitive level of benefits. The Remuneration Committee reserves discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice. Where appropriate, the Company will meet certain costs relating to Executive Director relocations.	It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will operate within an annual limit of 15 per cent. of an Executive Director's base salary (plus a further 100 per cent. in the case of a director who has been relocated). The Remuneration Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Remuneration Committee considers appropriate in all the circumstances.	N/A

Element and purpose	Policy and operation	Maximum	Performance measures
Implementation of Policy from Admission *For information and not part of the Directors' Remuneration Policy*	Executive Directors' benefits in kind comprise private medical insurance (family cover) and a car allowance. Group Life Assurance, Group Income Protection insurance and Group Critical Illness insurance are provided by virtue of participation in the Group plans for these items.		
Pension To provide retirement benefits.	Executive Directors may receive pension contributions on a basis broadly consistent with all other group employees. Pension contributions are to personal pension arrangements or, if an Executive Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the contributions or any balance may be paid as a cash supplement (reduced for the impact of employers' NICs).	Employer contribution limits are up to 8 per cent. of base salary p.a.	N/A
Implementation of Policy from Admission *For information and not part of the Directors' Remuneration Policy*	Currently a 6 per cent. of base salary contribution to a stakeholder pension for the CFO and a cash salary supplement of 5 per cent. (less employers' NICs) for the CEO. Consistent with staff generally, it is intended that this will increase to up to 8 per cent. (again less employers' NICs if taken as cash) from a date in 2015.		
Market Adjusted Allowance To ensure appropriate weighting of fixed and variable remuneration within an overall market competitive package.	This is a fixed monthly allowance paid in cash. It ensures that the gearing of the overall package remains appropriate. As a fixed pay item, it is paid on the same basis as salary but will not be regarded as salary for the purposes of incentive pay multiples, for pensions or insured benefits or for the shareholding guidelines. It will also not be regarded as salary for the purpose of termination or redundancy payments.	In the normal course of events, the Executive Directors' Market Adjusted Allowances will be increased only if there is a meaningful change in the appropriate market benchmarks. However, given the need for a formal cap for all pay elements under the DRR Regulations, the Remuneration Committee has limited the maximum level of Market Adjusted Allowances to 35 per cent. of base salary p.a. for the duration of this policy.	N/A
Implementation of Policy from Admission *For information and not part of the Directors' Remuneration Policy*	Levels of Market Adjusted Allowances for Executive Directors from Admission will be: • CEO—20 per cent. of base salary p.a. • CFO—15 per cent. of base salary p.a.		

Element and purpose	Policy and operation	Maximum	Performance measures
Annual Incentive Plan ("AIP") To motivate executives and incentivise delivery of performance over a one year operating cycle, focusing on the short- to medium-term elements of the Group's strategic aims. This outlook is extended by at least a further 3-years with the operation of deferral under the Company's Deferred Share Plan ("**DSP**").	For all senior executives, at least 40 per cent. of the AIP outcome is deferred into shares, with the award of deferred shares typically being contingent on employment in respect of at least one-third of the shares subject to the award for at least the first, second and third anniversaries of the award respectively. The Remuneration Committee reserves the right to lengthen these periods and/or to add such additional holding periods as it considers appropriate. Deferred awards will be capable of being settled in cash. The CEO and CFO will have 60 per cent. of their AIP outcomes deferred on the basis described if their total variable remuneration exceeds £500,000. Non-deferred elements of AIP outcomes are normally paid in cash following the year-end, although may be delivered in shares. The percentage deferred and the terms of deferral will be kept under review by the Remuneration Committee to ensure that levels are in line with regulatory requirements and best practice, and may be changed in future years but will not, in the view of the Remuneration Committee, be changed to be less onerous overall. Deferred awards are made as options or rights to receive shares for nil-cost under the Company's DSP. The number of shares subject to deferred awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the relevant dates of vesting (being when shares may be released to the participant) of each tranche of the deferred awards. Malus and clawback provisions apply to both the cash and deferred elements and are explained in more detail in the notes to this table.	The maximum level of AIP outcomes (combining deferred and non-deferred elements) is 125 per cent. of base salary p.a.	The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Remuneration Committee considers appropriate. A summary of the performance conditions which apply in respect of 2015 is set out in the notes to this table. Attaining the threshold level of performance for any measure produces a nil pay-out, with a sliding scale to on-target performance (at which point no more than two-thirds of maximum is payable) and then to full pay-out for the portion of the overall AIP attributable to each measure. However, notwithstanding the prescribed pay-out scale described above, the AIP remains a discretionary arrangement and the Remuneration Committee retains a standard power to apply its commercial judgment to adjust the outcome of the AIP for any performance measure (from zero to any cap) should it consider that to be appropriate. The Remuneration Committee retains discretion to adjust performance measures and targets during the year to take account of events outside of management control which were unforeseen when the measures and targets were originally set.
Implementation of Policy from Admission *For information and not part of the Directors' Remuneration Policy*	From Admission, the maximum AIP levels for Executive Directors will be as follows: • CEO—125 per cent. of base salary p.a. • CFO—120 per cent. of base salary p.a. As described above, in respect of the period post-Admission, 40 per cent. of any 2015 AIP outcomes for Executive Directors will be deferred (or 60 per cent. if their total variable pay exceeds £500,000). The deferral arrangements (being the DSP) will provide for release, subject to continued employment, of one-third of the deferred element on each of the first, second and third anniversaries of their award. For this purpose, total variable pay will be interpreted as the aggregate of any AIP award (whether or not subject to deferral under the DSP) and the market value of long term incentive awards at the date of grant. More details regarding the proposed performance conditions for the 2015 AIP are set out in the notes to this table. In respect of the part of 2015 which precedes Admission, the maximum AIP will be 100 per cent. of base salary for each of the Executive Directors and 15 per cent. of the amount earned will be deferred.		

Element and purpose	Policy and operation	Maximum	Performance measures
Long-Term Incentives To motivate and incentivise delivery of sustained performance over the long-term, and to promote alignment with shareholders' interests, the Group operates the Aldermore Performance Share Plan ("**PSP**").	Awards under the PSP may be granted as nil-cost options or conditional awards which are subject to performance conditions and continued employment over a period of at least three years. After the performance period, awards are subject to a holding period expiring not earlier than the fifth anniversary of grant. On expiry of any holding period, conditional awards vest or nil-cost options become exercisable. Under the PSP plan rules, awards may also be settled in cash. The number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the end of the holding period for awards. Malus and clawback provisions apply to PSP awards and are explained in more detail in the notes to this table. Pre-IPO Awards (including awards to replace those which lapse) will be subject to their own terms.	The PSP allows for awards over shares with an absolute maximum value of 200 per cent. of base salary per financial year. Where awards are not made in a financial year due to regulatory constraints, this limit will be carried forward. The Remuneration Committee expressly reserves discretion to make such awards as it considers appropriate within these limits. The initially proposed PSP award levels for Executive Directors are summarised in the notes to this table.	The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). A summary of the performance conditions to be applied to initial awards to be made under PSP is set out in the notes to this table. Once set for an award, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it appropriate to substitute or vary the performance conditions in such manner as the Remuneration Committee thinks fit. Performance periods may be over such periods as the Remuneration Committee selects at grant, which will not be less than (but may be longer than) three years. No more than 20 per cent. of awards vest for attaining the threshold level of performance.
Implementation of Policy from Admission *For information and not part of the Directors' Remuneration Policy*	The proposed normal annual level of PSP awards for Executive Directors will be awards over shares with a value (as at the time of award) of 135 per cent. of base salary for the CEO and 120 per cent. of base salary for the CFO. The first PSP awards have been made subject to the Company's Admission at these levels. These PSP awards will be subject to a two year holding period. More details regarding the performance conditions for these PSP awards are set out in the notes to this table. In addition, Pre-IPO Awards have been granted to Phillip Monks, James Mack, and certain senior managers in recognition of their contribution to date. These Pre-IPO Awards are subject to Admission, a TSR performance condition and continued employment over the period to 31 December 2016. No holding period applies. Such awards have also been granted on the basis that the participants bear employers' NICs up to the current rate of 13.8 per cent. In addition, such awards will lapse if the participant, or any connected person, sells, or otherwise disposes of, any Ordinary Shares held by them at Admission within 12 months thereof.		
Share Ownership Guidelines To further align the interests of Executive Directors with those of shareholders.	Executive Directors are expected to retain all of the ordinary shares vesting under any of the Employee Share Plans, after any disposals for the payment of applicable taxes, until they have achieved the required level of shareholding. Vested awards not subject to any performance condition or employment requirement (but subject to a holding period) count as ownership towards the guidelines after deducting the tax which would be due if the shares were released on that date. Other shares owned by Executive Directors and their spouse or civil partner also count towards the share ownership guidelines. There is a 5 year period for achievement of the guideline level.	The required level of shareholding is 200 per cent. of base salary for each of the CEO and the CFO. The Remuneration Committee reserves the discretion to amend these levels in future years, provided that the revised levels will not, in the view of the Remuneration Committee, be less onerous overall.	N/A

Element and purpose	Policy and operation	Maximum	Performance measures
Share Incentive Plan ("SIP")	The Company has established a tax favoured SIP. Under the SIP, awards of free shares can be granted to participants; participants can purchase partnership shares; additional free shares can be granted to participants to match the purchased shares; and/ or dividends can be awarded in shares. The Remuneration Committee reserves the right to operate the SIP in its full discretion.	The standard HMRC limits from time to time apply. At present these limits are as follows: Free shares—shares worth up to £3,600 p.a. may be awarded; Partnership shares—shares worth up to £1,800 p.a. may be purchased; Matching shares—shares worth up to £3,600 p.a. may be awarded to match purchased shares; Dividend shares—are limited by the amount of dividends paid on the other types of share awards held within the SIP.	The number or value of free shares awarded may or may not be determined by reference to performance.
Sharesave To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.	Sharesave is a standard HMRC qualified all-employee share plan and Executive Directors are able to participate in such plans on the same terms as other Group employees.	Sharesave operates within HMRC limits where currently up to £500 pcm may be saved for the purposes of the plan. At the end of the savings period, individuals may use their savings to buy shares in the Company at a discount of up to 20 per cent. (although, for the first offering, this will likely be set at 10 per cent.) of the market price of shares shortly prior to the launch of each scheme.	HMRC rules do not allow for the application of performance conditions to Sharesave.

Non-Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
Chairman and Non-Executive Director fees To enable the Company to recruit and retain Non-Executive Directors of the highest calibre, at an appropriate cost.	The Company has no fixed position regarding the benchmarking of Non-Executive Directors' and the Chairman's fees but will have regard to equivalent benchmarks to those for Executive Directors. These benchmarks will be adjusted to reflect the additional time associated with directorship of a regulated business, and consideration will also be given to fee levels at other financial services businesses of a broadly comparable size. Whilst there is no current intention to do so, the Company reserves the right to pay some or all of the Chairman's or Non-Executive Directors' fees in the Company's shares. Also, whilst at present there is no intention for the Chairman or Non-Executive Directors to participate in any benefits-in-kind, the Company reserves the right to permit this should it become in the view of the Remuneration Committee (the Board excluding the Non-Executive Directors in the case of the Non-Executive Directors) necessary and appropriate.	The aggregate fees (together with any shares and/ or benefits) of the Chairman and of Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association (currently £2,000,000 p.a.).	N/A

Element and purpose	Policy and operation	Maximum	Performance measures
Implementation of Policy from Admission *For information and not part of the Directors' Remuneration Policy*	From Admission the fees of the Chairman and the Non-Executive Directors are as follows: • Chairman—£180,000 p.a. • Non-Executive Directors—£65,000 p.a. basic fee • Additionally, Non-executive Directors may receive further fees as follows: • Senior Independent Director—£20,000 p.a. • Chair of Audit Committee—£20,000 p.a. • Chair of Remuneration Committee—£15,000 p.a. • Chair of Risk Committee—£20,000 p.a. • Membership (other than chairmanship) of the Audit, Remuneration and Risk committees—£5,000 p.a.		

It is the Company's policy to honour any commitment made to a Director before Admission, before the Policy takes effect or before he or she became a Director even if doing so may be inconsistent with the Policy in place at the time the commitment comes to be honoured. This would cover, for example, the vesting of a long-term incentive award granted before the Policy took effect or a person became a Director even if the award was not consistent with the Policy in place at the time of vesting.

Notes to Policy table

(1) AIP performance measures to apply in the 2015 Financial Year (*for information and not part of the Directors' Remuneration Policy*):

The performance measures and targets for the 2015 financial year comprise a balanced scorecard of measures based on:

- 50 per cent. financial measures;
- 30 per cent. non-financial measures;
- 20 per cent. personal measures.

(2) Proposed Award levels and performance conditions for PSP Awards (*for information and not part of the Directors' Remuneration Policy*)

The performance measures and targets for the first PSP awards granted subject to Admission are a 50:50 mix of absolute TSR growth and EPS growth measures, summarised as follows:

Target	Proportion payable
TSR: 15 per cent. p.a.	10 per cent.
TSR: 25 per cent. p.a.	50 per cent.
EPS: 26p	10 per cent.
EPS: 34p	50 per cent.
Intermediate	Straight-line

The TSR element will also be subject to an underpin that the Company's relative TSR over the TSR performance period is at least at the median versus the constituents, at the time of award, of the FTSE 350 (excluding investment trusts), and further that the Remuneration Committee must be satisfied that the TSR achieved is reflective of the Company's underlying financial performance over the performance period.

Both parts will be subject to a more general Remuneration Committee underpin under which the Remuneration Committee will consider whether the above measures appropriately reflect the performance of the Company and whether they have been achieved consistent with the Company's risk appetite. This is considered to provide an appropriate focus on the wider non-financial performance of the Company to ensure it operates as intended.

The measurement period for TSR will normally be based on three financial years and will normally compare a start point based on the Company's three month average TSR before the start of the financial year in which awards are made with the Company's two month average TSR over the final three months of the three year period. However, for the first annual PSP awards granted subject to Admission, the TSR performance condition will be measured by comparing the Offer Price to the Company's two month average TSR for final two months of 2017 with compounding applying to the mid-point of the averaging period.

For this purpose, EPS will be the reported adjusted EPS based on the weighted shares in issue for any financial year and the initial targets are based on EPS for the 2017 financial year. The Remuneration Committee selected these performance metrics as they provide a balance between delivery of earnings and external market performance, both of which are key measures of success for the Company. Actual vesting levels may be moderated through the underpins described above, having regard to a wider assessment of performance and to whether the performance was achieved consistent with the Company's risk appetite.

In addition, Pre-IPO Awards have been granted to Phillip Monks, James Mack, and certain senior managers and are subject to Admission, a TSR performance condition and continued employment over the period to 31 December 2016. No holding period applies. The TSR performance condition is on the same basis as set out above except that the TSR growth scale is 20 per cent. p.a. at threshold to 30 per cent. p.a. at maximum. Such awards have also been granted on the basis that the participants bear employers' NICs up to the current rate of 13.8 per cent. In addition, such awards will lapse if the participant, or any connected person, sells, or otherwise disposes of, any Ordinary Shares held by them at Admission within 12 months thereof.

(3) Malus and Clawback

Under the rules of the AIP, DSP and PSP, the Remuneration Committee may decide:

(i) at any time prior to the date on which an award vests that an unvested award shall be subject to malus (being the forfeiture of unvested awards); and/ or

(ii) within seven years of the grant date (which may be increased by up to a further 3 years if the Remuneration Committee considers that circumstances exist which may warrant this) that the individual to whom the award was granted (the "relevant individual") shall be subject to clawback,

if both:

(i) after due consideration, the Remuneration Committee forms the view that, in the case of malus, one or more of the circumstances envisaged in (a) to (f) below applies and/ or, in the case of clawback, one or more of the circumstances envisaged in (c) or (d) below applies; and

(ii) such malus and/or clawback is, in the Remuneration Committee's opinion, appropriate.

The Remuneration Committee shall not be obliged to prefer the application of malus over clawback or vice versa.

The circumstances which may give rise to the application of malus and/or clawback are:

(a) there has been a material misstatement of the Company's or a Group member's financial results for any period;

(b) in assessing the extent to which any performance condition which led to the award may be or was satisfied such assessment was based on an error, or on inaccurate or misleading information or assumptions and that such error, information or assumptions would have resulted or did in fact result either directly or indirectly in that award vesting (or being capable of vesting) to a greater degree than would have been the case had that error not been made;

(c) there are circumstances which would warrant or would have warranted the Company summarily dismissing that individual (whether or not the Company has chosen or chose to do so) or of employee misbehaviour or material error whether or not justifying such summary dismissal;

(d) there has been a material failure of risk management by the Company or a relevant business unit;

(e) the Company or a relevant business unit has suffered a material downturn in its financial performance; or

(f) there are circumstances which in the Remuneration Committee's opinion have (or would have if made public) a sufficiently significant impact on the reputation of the Company or of any Group member to justify the application of this clause, and for the avoidance of doubt, such circumstances need not relate to a financial year in which the relevant individual (to whom the award was granted) was a participant in the plan.

(4) Stating maximum amounts for the remuneration policy

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

(5) Travel and hospitality

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

(6) Loans and Staff discounts

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

(7) Differences between the Directors' Remuneration Policy and the policy on remuneration of other employees

Where the Directors' Remuneration Policy differs to its pay policies for groups of employees this reflects the appropriate market rate position for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the Executive Directors' pay levels.

Employees within control functions who participate in AIP will do so only on the basis of performance metrics which are non-financial and relate to their personal performance and the effectiveness of their functions.

Additionally, the Company also operates a Restricted Shares Plan ("**RSP**"). Executive Directors are excluded from participation in the RSP.

The RSP is used to make awards of options or rights to receive shares for nil-cost which can vest after the satisfaction of any continued employment requirements and the expiry of any holding period. The RSP will initially be used for selected employees who do not normally participate in the PSP. For completeness, some employees working in 'control functions' have received Pre-IPO Awards subject to Admission. This will include selected employees working in risk and other "control functions" where, in line with PRA guidance from Admission, these individuals will not participate in incentive pay plans dependent upon financial performance metrics.

3 Recruitment remuneration policy

In terms of the principles for setting a package for a new Executive Director, the starting point for the Remuneration Committee will be to apply the general policy for Executive Directors as set out above and structure a package in accordance with that policy. Consistent with the DRR Regulations, the caps contained within the policy for fixed pay do not apply to new recruits, although the Remuneration Committee does not currently envisage exceeding these caps in practice.

The AIP and PSP will operate (including the maximum award levels) as detailed in the general policy above in relation to any newly appointed Executive Director. In the year of appointment, the Remuneration Committee may vary the terms of that year's AIP and the performance measures to reflect the part year worked. No element of AIP will be guaranteed, unless in the year of joining a guaranteed element is used as part of a buy-out of awards forfeited on leaving the previous employer and, in the view of the Remuneration Committee, represents reasonable and not excessive compensation for such forfeiture.

For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Remuneration Committee may agree that the Company will meet certain relocation expenses as it considers appropriate and these may be paid over more than one financial year.

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy-out awards forfeited by the individual on leaving a previous employer.

For the avoidance of doubt, buy-out awards are not subject to a formal cap. Any recruitment-related awards which are not buy-outs will be subject to the limits for AIP and PSP as stated in the general policy. Details of any recruitment-related awards will be appropriately disclosed.

For such buy-out awards the Company will not pay more than is, in the view of the Remuneration Committee, necessary to fairly compensate for subsisting awards forfeited on leaving the previous employer to join the Company and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing AIP and PSP. It may, however, be necessary in some cases to make such buy-out awards on different terms to reflect better the structure of the awards being bought out.

All buy-outs, whether under the AIP, PSP or otherwise, will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving their previous employer. The Remuneration Committee will seek to make buy-outs subject to what are, in its opinion, comparable requirements in respect of, service and performance. However, the Remuneration Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Remuneration Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited) and where the Remuneration Committee considers it to be in the interests of shareholders.

A new Non-Executive Director would be recruited on the terms explained above in respect of the main policy for such Directors.

4 Service contracts

4.1 Executive Directors

The Remuneration Committee's policy is that each Executive Director's service agreement should be of indefinite duration, subject to termination by the Company or the individual on 12 months' notice. The service agreements of all Executive Directors comply with that policy. The service agreements reserve the right for the Company to make a payment in lieu of notice to an Executive Director for the amount of base salary for the notice period. Such sums may be paid in instalments and will cease or be reduced if the individual finds an alternative role. Contracts do not contain change of control provisions.

The date of each Executive Director's contract is:

James Mack	9 March 2015
Phillip Monks	9 March 2015

4.2 Chairman and Non-Executive Directors

The Chairman and each Non-Executive Director is engaged on terms terminable by either party on three months' notice and is subject to annual re-election.

The Non-Executive Directors cannot participate in the Company's share incentive plans, are not entitled to any pension benefits and are not entitled to any payment in compensation for early termination of their appointment beyond the three month notice period.

For each Non-Executive Director, the effective date of their latest letter of appointment is:

Peter Cartwright	13 March 2015
Neil Cochrane	13 March 2015
Danuta Gray	13 March 2015
John Hitchins	13 March 2015
Glyn Jones	13 March 2015
Peter Shaw	13 March 2015
Christopher Stamper	13 March 2015
Cathy Turner	13 March 2015

5 Termination policy summary

It is appropriate for the Remuneration Committee to consider treatments on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatments which the Remuneration Committee may choose to apply under the discretions available to it under the terms of the AIP, DSP and PSP. The potential treatments on termination under these plans are summarised below.

Incentives	If a leaver is deemed to be an 'approved leaver' (i.e. leaving by reason of death, injury or disability, redundancy, retirement, the participant's office or employment being with either a company which ceases to be a Group member or relating to a business or part of a business which is transferred to a person who is not a group member, or otherwise at the discretion of the Remuneration Committee)	If a leaver is deemed to be an 'unapproved leaver' (i.e. if they are not an 'approved leaver')	Other exceptional cases (e.g. change of control, winding up of the Company)
Annual Incentive Plan	Remuneration Committee has discretion to determine whether any AIP award will be paid for the year of leaving. These will usually be calculated on a pro-rata basis and paid at the same time as other awards.	No awards made for the year of leaving.	Remuneration Committee has discretion to determine AIP. Outcomes are usually calculated on a pro-rata basis.
Deferred Share Plan	If leaving before the employment requirement date, awards will vest at the original vesting dates. The Remuneration Committee retains a discretion to accelerate vesting to the date of cessation.	If leaving before the employment requirement date by reason of misconduct or resignation (except where termination is in approved leaver circumstances) all unvested awards will lapse. If leaving after the employment requirement date by reason of misconduct, unexercised options in respect of vested shares will lapse.	Deferred awards will normally vest. Awards can be exchanged on a change of control.

Performance Share Plan . .	If leaving before the employment requirement date, awards will vest at the end of the original vesting period on a pro-rated basis (for time employed relative to the employment requirement period) and subject to the application of the performance conditions, any other conditions imposed on vesting and the holding period. The Remuneration Committee retains discretion to either reduce or disapply time pro-rating and/or to accelerate vesting and disapply the holding period (but subject to satisfaction of the performance conditions at that time).	If leaving before the employment requirement date, awards will normally lapse. If leaving after the employment requirement date, unexercised options in respect of vested shares and unvested awards will only lapse if the reason for leaving is misconduct.	Awards will vest on a pro-rated basis subject to the application of the performance conditions at the date of the event and time pro-rating. The Remuneration Committee has discretion to dis-apply or reduce time pro-rating and for Pre-IPO Awards only it has discretion to also dis-apply the performance conditions. Awards can be exchanged on a change of control.

The Remuneration Committee may also approve payment of amounts in settlement of statutory or contractual claims based on legal advice and may make payment of an amount in respect of legal, tax and outplacement services as it considers appropriate.

6 External appointments

The Executive Directors are permitted to hold outside non-executive directorships with the prior written consent of the Company. Typically, an Executive Director would not be expected to hold more than one such position. The Remuneration Committee reserves the right to determine whether or not any fees should be paid on to the Company.

7 Statement of consideration of employment conditions elsewhere in the Group

Pay and employment conditions generally in the Group are taken into account when setting Executive Directors' remuneration. The Remuneration Committee receives regular updates on overall pay and conditions in the Group, including (but not limited to) changes in base pay and will approve any staff bonus pools. There is also oversight of the HMRC qualified all-employee share plans which Executive Directors and all other Group employees can participate in on the same terms and conditions.

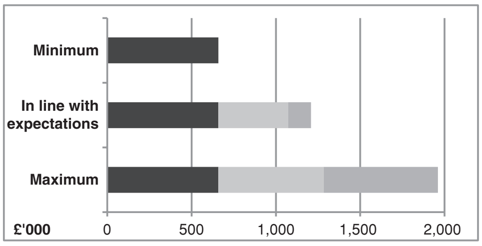
As is normal commercial practice, the Company does not intend to consult with its employees in preparing the Directors' Remuneration Report.

8 Statement of consideration of shareholder views

The Company's 2016 AGM will be the first occasion on which the Company will seek the support of its post Admission shareholders for matters relating to the remuneration of Directors. The Remuneration Committee will ensure that it considers all of the feedback which it receives from its shareholders during this process.

9 Illustrations of application of remuneration policy

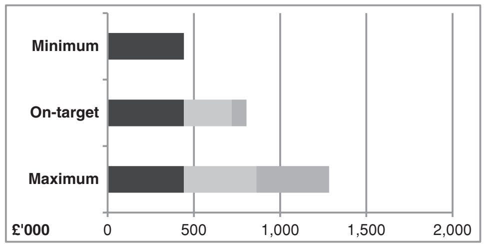
Phillip Monks



Composition of Package (%)	Fixed	Bonus	LTIP
Minimum	100%		
In line with expectations	55%	34%	11%
Maximum	34%	32%	34%

Value of Package (£'000)	Fixed	Bonus	LTIP	Total
Minimum	659			**659**
On-target	659	413	136	**1,208**
Maximum	659	625	676	**1,960**

James Mack



Composition of Package (%)	Fixed	Bonus	LTIP
Minimum	100%		
On-target	55%	34%	11%
Maximum	34%	33%	33%

Value of Package (£'000)	Fixed	Bonus	LTIP	Total
Minimum	443			**443**
On-target	443	277	85	**805**
Maximum	443	420	421	**1,284**

The chart above aims to show how the remuneration policy set out above for Executive Directors is applied using the following assumptions:

Minimum

Consists of base salary, benefits and pension.

Base salary is the salary level to be paid from Admission.

Benefits consist of an estimate of the total value of benefits on the P11D form plus the value of any car allowance.

Pension contributions of 8 per cent. of base salary for each director.

Market adjusted allowance consists of 20 per cent. of base salary for Phillip Monks and 15 per cent. of base salary for James Mack.

£'000	Base Salary	Benefits	Pension	Market Adjusted Allowance	Total Fixed Pay
Phillip Monks	£500	£19	£40	£100	£659
James Mack	£350	£12	£28	£53	£442

In line with expectations

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

AIP: consists of the on-target bonus of 66 per cent. of maximum opportunity.

LTI: consists of the threshold level of vesting for long-term incentives (20 per cent. vesting), plus the fair value of full investment in the Sharesave Plan (£1,200).

Maximum

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

AIP: consists of maximum bonus of 125 per cent. of base salary for Phillip Monks and 120 per cent. of base salary for James Mack even though the 2015 AIP will actually be pro-rated for the periods before and after IPO.

LTI: consists of the face value of awards to be made at Admission (being the policy levels of 135 per cent. of base salary for Phillip Monks and 120 per cent. of base salary for James Mack respectively), plus the fair value of full investment in the Sharesave scheme (£1,200). The Pre-IPO Awards are one-off awards so have not been included in the chart.

PART XI
SELECTED FINANCIAL INFORMATION AND KEY PERFORMANCE INDICATORS

The following tables present selected financial and other information of the Group as at the dates and for the periods indicated. Investors should read the whole of this Prospectus and not rely on the selected information in this Part XI: "*Selected Financial Information and Key Performance Indicators*".

The selected financial information in the tables below headed Income Statement Data and Financial Position Data has been extracted without material adjustment from the historical financial information as at and for the year ended 31 December 2014, the year ended 31 December 2013 and the year ended 31 December 2012, included in Part XV: "*Historical Financial Information*" of this Prospectus.

Certain of the key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in accordance with, applicable banking regulation, but that regulation often provides the Group with certain discretion in making its calculations. Because of the discretion that the Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. See paragraph 3 of Part III: "*Presentation of Information—Non-IFRS Financial Measures*".

Income Statement Data

	Year ended 31 December		
	2014	**2013**	**2012**
		(£'000)	
Interest income	227,833	156,441	99,277
Interest expense	(87,618)	(75,799)	(63,283)
Net fees and other income	24,802	27,703	21,921
Total operating income	**165,017**	**108,345**	**57,915**
Administrative expenses	(101,241)	(67,363)	(49,907)
Depreciation and amortisation	(3,901)	(3,822)	(2,319)
Impairment losses on loans and advances	(9,570)	(11,468)	(5,416)
Profit/(loss) before taxation	**50,305**	**25,692**	**273**
Taxation	(11,871)	14	941
Profit/(loss) after taxation	**38,434**	**25,706**	**1,214**

Certain key performance indicators

	31 December		
	2014	**2013**	**2012**
		(percentage)	
Gross interest margin(1)	5.6	5.8	6.2
Gross revenue margin(2)	6.2	6.8	7.5
Cost of funding(3)	2.1	2.8	3.9
Net interest margin(4)	3.4	3.0	2.2
Net revenue margin(5)	4.0	4.0	3.6
Cost/income ratio (excl. 2014 offer costs)(6)(10)	60	66	90
Cost of risk(7)	0.23	0.42	0.34
Return on assets (pre-tax) (excl. 2014 offer costs)(8)(10)	1.2	0.8	0.0
Return on assets (post-tax) (excl. 2014 offer costs)(9)(10)	0.9	0.8	0.1

Notes:

(1) Gross interest margin is calculated as interest income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(2) Gross revenue margin is calculated as interest income plus net fees and other income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(3) Cost of funding is calculated as interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(4) Net interest margin is calculated as interest income less interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(5) Net revenue margin is calculated as operating income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

Operating income is calculated as net interest income plus net fees and other income. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(6) Cost/income ratio is calculated as administrative expenses, depreciation and amortisation (excluding pre-tax 2014 offer costs), as a percentage of operating income. Operating income is calculated as net interest income plus net fees and other income.

(7) Cost of risk is calculated as impairment losses as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two.

(8) Return on assets (pre-tax) is calculated as profit before tax (excluding pre-tax 2014 offer costs) as a percentage of average assets. Average assets is calculated as total assets at the start of period plus total assets at the end of the period divided by two.

(9) Return on assets (post-tax) is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average assets. Average assets is calculated as total assets at the start of period plus total assets at the end of the period divided by two.

(10) Operating expenses for the year ended 31 December 2014 include pre-tax 2014 offer costs of £6.0 million.

Financial Position Data.

	31 December		
	2014	**2013**	**2012**
		(£'000)	
Gross loans	4,823,638	3,394,872	2,069,009
Provisions	(22,574)	(21,028)	(12,449)
Net loans	4,801,064	3,373,844	2,056,560
Other assets	764,179	829,148	487,065
Customers' accounts	(4,458,962)	(3,464,018)	(2,161,649)
Other liabilities	(727,431)	(473,617)	(203,086)
AT1 Securities	(73,657)	—	—
Shareholders' funds	**305,193**	**265,357**	**178,890**
Gross loan analysis			
Neither past due nor individually impaired	4,760,164	3,336,431	2,024,042
Past due but not individually impaired	42,633	33,676	26,802
Individually impaired	20,841	24,765	18,165
Gross loans	**4,823,638**	**3,394,872**	**2,069,009**

Certain key performance indicators

	31 December		
	2014	**2013**	**2012**
	(percentage unless otherwise indicated)		
Loan to deposits ratio(1)	108	97	95
ROE (post tax) (excl. 2014 offer costs)(2)	15.1	11.6	0.7
Tangible equity(3) (£'000)	282,622	242,700	156,463
Return on tangible equity (excl. 2014 offer costs)(4)	16.4	12.9	0.8
Basel II Risk Weighted Assets (£'000)	N/A	2,147,160	1,427,297
Basel II Core tier 1 ratio	N/A	11.3	10.7
Fully loaded CRD IV Risk Weighted Assets (£'000)	2,701,958	1,993,024	N/A
Fully loaded CRD IV CET1 ratio	10.4	12.1	N/A
Return on RWAs (post tax) (excl. 2014 offer costs)(5)	1.8	1.4	0.1
Leverage ratio	6.3	5.3	N/A
Net liquid assets / deposits (Liquidity ratio)	16	23	21

Notes:

(1) Loan to deposits ratio is calculated as net customer loans as a percentage of customer deposits. Net customer loans are gross loans net of allowance for impairment losses.

(2) ROE (post tax) is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average shareholders funds. Average shareholders funds are calculated as shareholders funds at the start of period plus shareholders funds at the end of period divided by two.

(3) Tangible equity is calculated as shareholders' funds less intangible assets. It excludes the AT1 Securities.

(4) Return on tangible equity is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average tangible equity. Average tangible equity is calculated as tangible equity at the start of period plus tangible equity at the end of period divided by two.

(5) Return on RWAs is calculated as profit after tax (excluding post-tax 2014 offer costs) as a percentage of average RWAs. Average RWAs are calculated as RWAs at the start of period plus RWAs at the end of the period divided by two.

PART XII
OPERATING AND FINANCIAL REVIEW

The following discussion summarises the significant factors and events affecting results of operations and the financial condition of Aldermore for the financial years ended 31 December 2014, 2013 and 2012 and should be read in conjunction with Part IX: "Information on the Group"*, the consolidated financial information of Aldermore reported in accordance with IFRS as adopted for use in the European Union set out under Part XV:* "Historical Financial Information" *and the other financial information contained elsewhere in this Prospectus, including under Part III:* "Presentation of Information" *and Part XI:* "Selected Financial Information and Key Performance Indicators"*.*

The following discussion of Aldermore's results of operations and financial condition contains forward-looking statements that reflect the current view of the Directors. Aldermore's actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this Prospectus, particularly under paragraph 9 of Part III: "*Presentation of Information—Information regarding forward-looking statements*" and Part II: "*Risk Factors*". Investors should carefully consider the following information, together with the other information contained in this Prospectus, before investing in the Ordinary Shares.

1 Overview

Aldermore focuses on specialist lending to SMEs and homeowners across four targeted lending segments: (i) Asset Finance; (ii) Invoice Finance; (iii) SME Commercial Mortgages; and (iv) Residential Mortgages. Aldermore principally generates income by earning interest income and fee and commissions income from SME and retail customers across its four lending divisions. Aldermore is predominantly funded through online retail and SME deposits, and, as at 31 December 2014, it had a loan-to-deposit ratio of 108 per cent. Additional wholesale funding is provided by an RMBS securitisation (from April 2014), Aldermore's participation in the Funding for Lending scheme and the Subordinated Notes.

Net interest income for the financial year ended 31 December 2014 was £140.2 million compared with £80.6 million and £36.0 million for the financial years ended 31 December 2013 and 2012 respectively. Profit before taxation for the financial year ended 31 December 2014 was £50.3 million compared with £25.7 million and £0.3m for the financial years ended 31 December 2013 and 2012, respectively. Return on equity for the financial years ended 31 December 2014 was 15.1 per cent, excluding 2014 offer costs, compared with 11.6 per cent. and 0.7 per cent. for the financial years ended 31 December 2013 and 2012, respectively.

2 Factors Affecting Results of Operations

Set forth below are certain key external and internal factors which have historically, directly and indirectly, affected Aldermore's balance sheet growth and results of operations, and which may affect its balance sheet growth and results of operations in the future. Over the period under review, Aldermore's loan portfolio grew from £2.1 billion as at 31 December 2012 to £4.8 billion as at 31 December 2014. Over the same period, profit before taxation increased from £0.3 million for the financial year ended 31 December 2012 to £50.3 million for the financial year ended 31 December 2014. This Part XII: "*Operating and Financial Review*" should be read in conjunction with the description of Aldermore's business contained in Part IX: "*Information on the Group*".

Macroeconomic and market conditions

Since Aldermore's establishment in 2009, the UK economy has experienced a significant degree of turbulence and a period of recession that commenced in 2008 with the start of the global financial crisis. However, economic indicators in the UK have recently exhibited signs of improvement including a gradual improvement in labour market conditions, increased consumer confidence, continued low interest rates and improved credit availability, and the Directors believe that these signs of economic recovery, combined with declining unemployment levels, will support the growth that Aldermore experienced despite challenging conditions during the periods under review and the continued, sustainable growth in the market segments in which Aldermore operates in the coming years. In addition, the Directors believe that business investment should improve in the coming years and, consequently, expect a greater demand by SMEs for Asset Finance and Invoice Finance, which the Directors believe are key SME working capital and business investment products. Furthermore, the Directors expect that improved economic conditions will support SMEs' general financial stability, and, as a result, the Directors do not expect Aldermore's levels of provisioning for SME lending to increase materially in the foreseeable future, with the exception of changes associated with a growing and maturing portfolio and the potential impact of IFRS 9.

Intermediaries/brokers

In line with market-wide use of intermediaries and broker distribution, and to achieve scale more quickly, Aldermore's initial lending distribution strategy was and remains to employ an intermediary-led model while building "direct" capabilities. This intermediary-led model has delivered significant growth in lending to date and provides Aldermore with a platform for future growth. Aldermore's SME customers often lack the internal resources to source appropriate financing solutions directly and, consequently, use intermediaries as an efficient way to compare a range of lending products, while its retail customers tend to seek lending advice from qualified brokers. During the financial year ended 31 December 2014, approximately 75 per cent. of Aldermore's Asset Finance, approximately 71 per cent. of Aldermore's Invoice Finance, approximately 91 per cent. of Aldermore's SME Commercial Mortgages and approximately 88 per cent. of Aldermore's Residential Mortgages origination came via an intermediary, (compared to 77 per cent. for Asset Finance, 77 per cent. Invoice Finance, 91 per cent. for SME Commercial and 91 per cent. Residential Mortgages, during the financial year ended 31 December 2013), showing Aldermore's strong foundation in its intermediary relationships and the continued growth of its direct capabilities.

Aldermore has access to a wide range of specialist lending intermediaries and brokers, and the Group's aim is to deliver a differentiated service proposition by positioning Aldermore as a lender which (i) is easy to do business with, (ii) delivers quick and consistent credit decisions and (iii) allows intermediaries direct access to sector expertise. As a result, Aldermore has established strong relationships and trading arrangements, which have allowed Aldermore to generate balance sheet growth during the periods under review.

Aldermore works with approximately 14,000 intermediaries and brokers using (i) a tailored approach to relationship management that enables efficient coverage of its intermediaries on a prioritised basis, (ii) its network of 12 regional offices, and (iii) its modern digital infrastructure. The Directors expect that Aldermore will continue to leverage its relationships with intermediaries in the coming years, as they believe that this will drive balance sheet growth and positively impact Aldermore's net interest income. See paragraph 8.1 of Part IX: "*Information on the Group—Distribution channels—Intermediaries*".

Demand for credit and balance sheet growth

Aldermore's ability to grow its balance sheet through new lending has had, and will continue to have, a direct impact on its net interest income and profitability. Balance sheet growth has also required (and will continue to require) Aldermore to leverage the scale of its operations. Aldermore's loan portfolio has grown from £2.1 billion as at 31 December 2012 to £3.4 billion as at 31 December 2013 and £4.8 billion as at 31 December 2014. The Directors' strategy is to identify growth opportunities in underserved segments of the market, and 98 per cent. of the gross loans into which Aldermore entered between 1 January 2012 and 31 December 2014 were organically originated (including through intermediaries and directly). Aldermore's growth in its total loan portfolio has contributed to net interest income increasing from £36.0 million in the financial year ended 31 December 2012 to £80.6 million and £140.2 million in the financial years ended 31 December 2013 and 2014, respectively.

IT infrastructure

Aldermore employs a modern IT infrastructure to support its operations. In the financial years ended 31 December 2014, 2013 and 2012, Aldermore invested (including both capital and IT operational expenditure) £11.5 million, £9.2 million and £9.1 million in business system and support structure upgrades, respectively. Aldermore's total investment of £11.5 million in the financial year ended 31 December 2014 excludes a £1.6 million write-off of the Group's investment in development of systems related to Asset Finance following a review of the business requirements. Aldermore's IT investment has improved, among other things: (i) data centre resilience and workload balancing; (ii) back-up and recovery facilities; (iii) core operating software and finance systems; and (iv) skills and human resources in the IT team and external support partners. Aldermore's scalable platform utilises industry-standard packages, which have been configured for use. Aldermore's IT infrastructure has no "legacy" issues and is able to expand to support future growth with moderate ongoing investment. Aldermore's core IT applications are also either unrestricted for future growth or structured in a manner that permits expansion through only the purchase of additional IT/software licences and data storage and processing capacity. The Directors believe that this has contributed to proportionally lower IT spend compared to certain of Aldermore's competitors. The Directors intend to continue investing in Aldermore's IT infrastructure as they believe that it has been a key driver of cost-efficient growth and has helped Aldermore effectively manage business risks. See paragraph 9 of Part IX: "*Information on the Group—Information technology*".

Net interest margin

Aldermore's ability to increase its net interest income for any given period of time depends on both balance sheet growth and the spread of asset and liability margins that it can achieve. The asset and liability margin spread is dependent on, among other things, the interest that Aldermore pays on its sources of funding (and other funding costs generally) and the interest that it earns on its loans and advances. For the financial year ended 31 December 2014, Aldermore's average cost of funds was 2.1 per cent. compared to 2.8 per cent. and 3.9 per cent. for the financial years ended 31 December 2013 and 2012, respectively, while, for the financial year ended 31 December 2014, the average (nominal) interest rate that Aldermore earned on its loans and advances to customers was 5.6 per cent. compared to 5.8 per cent. and 6.2 per cent. for the financial years ended 31 December 2013 and 2012, respectively. Aldermore is funded predominantly through online retail and SME deposits. Additional wholesale funding is provided by Aldermore's inaugural £333 million RMBS issued in April 2014, participation in the Funding for Lending Scheme and the £40 million principal amount subordinated 12.875 per cent. loan notes repayable in 2022 (but with an early redemption option in 2017) (the "**Subordinated Notes**"). This diversification of the mix of funding has positively impacted its liability margins and net interest margin. However, the competitive lending environment in which Aldermore operates can place and has placed downward pressure on the interest rates that Aldermore earns on its loans and advances to customers and, therefore, its asset margins.

Interest rate and credit management

Interest rate risk management

As fluctuations in interest rates can adversely impact Aldermore's net interest margins, derivative contracts are utilised (for hedging purposes only) and are executed with counterparties for whom volume and settlement limits have been approved. As at 31 December 2014, 99.5 per cent. of Aldermore's fixed rate assets and liabilities were economically hedged using swap agreements or natural offsets against balances with equivalent durations. In addition, Aldermore manages basis risk with interest rate swap contracts, which involve the exchange of two floating rate instruments that use two different reference rates. The basis swap functions as a floating-floating interest rate swap through which the two different base instruments reset to a common base. Under Aldermore's current treasury policy, derivative contracts are restricted to interest rate swaps and forward foreign exchange transactions. Under IFRS, all derivatives are carried in Aldermore's balance sheet at fair value. As at 31 December 2014, the net fair value of derivative swaps outstanding were £46.0 million in liabilities compared to £9.0 million in liabilities of derivatives outstanding as at 31 December 2013. In Aldermore's income statement, there were mark-to-market losses from derivatives of £17.3 million as at 31 December 2014. This is compared to a gain of £14.0 million as at 31 December 2013, where hedge accounting was not applied. Prior to 1 January 2014, under IFRS, Aldermore did not designate any of its derivatives into hedging accounting relationships to offset the income statement gains and losses from derivatives. From 1 January 2014, Aldermore designated specified derivatives as fair value hedges of a specified portfolio of loans to customers, customer deposits and debt securities. As a result of the fair value hedges, the Directors believe that the volatility of the net impact on the results of operations from derivatives will be substantially reduced through effective implementation of hedging accounting relationships. For the financial year ended 31 December 2014, net losses on derivatives were £17.3 million compared to a range of between net losses of £5 million and net gains of £14 million over the financial years ended 31 December 2012 and 2013, respectively.

Credit risk management and loan losses and impairment losses

Customers defaulting on their loan repayment obligations can adversely impact Aldermore's results of operations and balance sheet. The Directors believe that Aldermore has policies and processes in place to ensure that it carefully manages credit risks, which the Directors believe is reflected in the quality and performance of Aldermore's loan portfolio. As at 31 December 2014, loans three months or more in arrears and in "collect-out" status (the failure of a business in respect of Invoice Finance agreements) represented 0.4 per cent. of Aldermore's total gross loan portfolio by value compared to 0.7 per cent. and 0.9 per cent. as at 31 December 2013 and 2012, respectively.

The Directors consider Aldermore's Asset Finance and Invoice Finance assets to be reasonably seasoned given Asset Finance's weighted average maturity on a behavioural basis of 21 months (as at 31 December 2014) and the short term nature of the Invoice Finance products. Further, despite Aldermore's SME Commercial Mortgages and Residential Mortgages assets being comparatively less seasoned given their weighted average maturities on a behavioural basis of 51 months and 75 months, respectively, as at 31 December 2014, the Directors believe that each asset exhibits an acceptable credit risk due to: (i) the granular nature of the portfolio with low average balances; (ii) the quality and LTV of the security taken against each asset; (iii) historic data showing consistent trends; (iv) the range of affordability stress tests at origination (which required no significant adjustment to be compliant with the rules introduced following the FCA's Mortgage Market Review in April 2014); and (v) the ongoing monitoring of the portfolio undertaken by Aldermore's credit team, including re-grading the portfolio on a monthly basis using third party credit data, as well as regular stress testing of the portfolio against a range of scenarios including a severe economic downturn.

Aldermore has a limited operating history in the UK financial services market and faces risks associated with the implementation of its strategy, and, while the Directors have policies and procedures in place for Aldermore to mitigate any adverse consequences of impairments, they have not been subjected to an actual downturn or period of severe stress, and, therefore, may prove to be ineffective. Specific provision is made against non-performing exposures which have been identified as "bad or doubtful" (three or more months past the due date in respect of loan agreements and in "collect-out" status (the failure of a business) in respect of Invoice Finance agreements) as well as a collective (or general) provision.

Aldermore recorded total impairment losses on loans and advances to customers of £9.6 million, £11.5 million, £5.4 million in the financial years ended 31 December 2014, 2013 and 2012, (equal to 0.23 per cent. 0.42 per cent. and 0.34 per cent. of its net loans and advances to customers), respectively. During the financial year ended 31 December 2014, Aldermore benefitted from three large recoveries across the Asset Finance and SME Commercial Mortgages businesses, which amounted in total to £3.8 million. Excluding these three recoveries, impairment losses totalled £13.4 million, (equal to 0.33 per cent. of net loans and advances to customers). Of the reported impairment losses, £3.4 million or 35.6 per cent., £5.7 million or 49.3 per cent. and £2.5 million or 46.4 per cent. related to Invoice Finance advances in the financial years ended 31 December 2014, 2013 and 2012, respectively. The higher impairment losses relating to the Invoice Finance business in the financial year ended 31 December 2013 were primarily due to a small number of facilities which were subject to fraudulent activity by the borrower. The Directors believe that (i) Aldermore has since improved controls, processes and policies within its Invoice Finance business and (ii) the risks associated with the Invoice Finance business are product-specific and do not impact Aldermore's other lending businesses. See Part II: "*Risk Factors—Risks Related to Aldermore's Business—Aldermore's risk management systems and processes, and guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly assess or manage the risks which it faces could cause harm to Aldermore and its business prospects*", Part II: "*Risk Factors—Risks Related to Aldermore's Business—Aldermore is subject to risks concerning customer and counterparty credit quality*" and Part XIII: "*Risk Management*".

3 Financial Position

Assets

The following table sets out certain balance sheet information of Aldermore as at 31 December 2014, 2013 and 2012:

	As at 31 December		
	2014	2013	2012
		(£'000)	
Net loans and advances to customers[1]	4,801,064	3,373,844	2,056,560
Loans and advances to banks	117,401	237,544	105,019
Cash and balances at central banks	79,567	192,844	1,654
Debt securities	509,684	355,653	342,364
Derivatives held for risk management	8,168	8,872	10,262
Prepayments and accrued income	6,856	5,109	3,160
Deferred tax	6,598	3,299	—
Property, plant and equipment	2,815	2,858	1,612
Intangible assets	22,571	22,657	22,427
Other assets	3,344	312	567
Fair value adjustment for portfolio hedged risk	7,175	—	—
Total assets	**5,565,243**	**4,202,992**	**2,543,625**

Note:

(1) Loans and advances to customers is net of impairment losses of £22.6 million, £21.0 million and £12.4 million for the financial years ended 31 December 2014, 2013 and 2012 respectively.

Total assets as at 31 December 2014 were £5.6 billion, an increase of £1.4 billion or 32.4 per cent. compared with £4.2 billion as at 31 December 2013. The increase in total assets over the period was primarily due to an increase in loans to customers of £1.4 billion or 42.3 per cent. from £3.4 billion as at 31 December 2013 to £4.8 billion as at 31 December 2014.

Total assets as at 31 December 2013 were £4.2 billion, an increase of £1.7 billion or 65.2 per cent. compared with £2.5 billion as at 31 December 2012. The increase in total assets over the period was primarily due to increases in loans and advances to customers of £1.3 billion or 64.1 per cent. from £2.1 billion as at 31 December 2012 to £3.4 billion as at 31 December 2013, arising from growth in each of Aldermore's four lending market segments, as well as smaller increases in: (i) cash and balances at central banks; (ii) loans and advances to banks; and (iii) debt securities.

Loans and advances to customers

The following table sets out a breakdown of Aldermore's loans and advances to customers as at 31 December 2014, 2013 and 2012:

	As at 31 December		
	2014	2013	2012
	(£'000 unless otherwise indicated)		
Asset Finance			
Gross loans and advances	1,049,473	724,437	380,900
Less allowance for impairment losses	(5,175)	(4,239)	(2,575)
Net Asset Finance loans and advances	1,044,298	720,198	378,325
Percentage of total balances outstanding which have tangible security	88%	89%	86%
Invoice Finance			
Gross loans and advances	189,256	221,663	182,823
Less allowance for impairment losses	(8,680)	(9,701)	(4,114)
Net Invoice Finance loans and advances	180,576	211,962	178,709
Prepayment percentage	69%	73%	72%
SME Commercial Mortgages			
Gross loans and advances	1,016,763	767,099	550,044
Less allowance for impairment losses	(5,472)	(5,101)	(4,290)
Net SME Commercial Mortgages	1,011,291	761,998	545,754
Indexed LTV	52%	57%	59%
Residential Mortgages			
Gross loans and advances	2,568,146	1,681,673	955,242
Less allowance for impairment losses	(3,247)	(1,987)	(1,470)
Net Residential Mortgages	2,564,899	1,679,686	953,772
Indexed LTV	67%	67%	68%
Total			
Gross loans and advances	4,823,638	3,394,872	2,069,009
Less allowance for impairment losses	(22,574)	(21,028)	(12,449)
Net loans and advances to customers	**4,801,064**	**3,373,844**	**2,056,560**

Asset Finance

Aldermore's Asset Finance book as at 31 December 2014 was £1,044.3 million, a 45.0 per cent. increase from £720.2 million as at 31 December 2013. Asset Finance loans accounted for 21.8 per cent. of Aldermore's total net loans and advances to customers as at 31 December 2014. Aldermore's Asset Finance book as at 31 December 2013 was £720.2 million, an increase of £341.9 million or 90.4 per cent. compared with £378.3 million as at 31 December 2012. The increase in Aldermore's Asset Finance book over these periods was primarily driven by an increase in the number of customers (from approximately 10,000 customers as at 31 December 2012 to approximately 20,000 customers as at 31 December 2013 and approximately 33,000 customers as at 31 December 2014), as Aldermore took advantage of the opportunity created by the withdrawal of a major competitor from the market during the year ended 31 December 2013, and expanded its expertise in certain industry segments (such as by establishing an agricultural finance offering during the financial year ended 31 December 2013). In addition, the increase was supported by continued technological investment aimed at making it easier for customers and intermediaries to access Aldermore's Asset Finance lending capabilities.

Invoice Finance

Aldermore's Invoice Finance book as at 31 December 2014 was £180.6 million, a 14.8 per cent. decrease from £212.0 million as at 31 December 2013. As a result, Aldermore's Invoice Finance business's market share declined slightly to 1.0 per cent. as at 31 December 2014 compared to 1.2 per cent. as at 31 December 2013. The decrease in Aldermore's Invoice Finance book over the period was primarily due to actions taken by Aldermore to change its mix of business, with a move toward customers with smaller invoice finance facilities, and away from relationships with certain less attractive clients, together resulting in a reduction in customers from around 1,300 as at 31 December 2013 to around 1,200 as at 31 December 2014. Invoice Finance loans accounted for 3.8 per cent. of Aldermore's total net loans and advances to customers as at 31 December 2014. Aldermore's Invoice Finance book as at 31 December 2013 was £212.0 million, an increase of £33.3 million or 18.6 per cent. compared with £178.7 million as at 31 December 2012. The increase in Aldermore's Invoice Finance book over the period was primarily driven by an increase in the customer base (from approximately 1,200 customers as at 31 December 2012 to approximately 1,300 customers as at 31 December 2013).

SME Commercial Mortgages

Aldermore's SME Commercial Mortgages book as at 31 December 2014 was £1,011.3 million, a 32.7 per cent. increase from £762.0 million as at 31 December 2013. The increase in Aldermore's SME Commercial Mortgages book over the period was primarily due to an increase in SME Commercial Mortgages customers (increasing from approximately 2,400 as at 31 December 2013 to approximately 3,200 as at 31 December 2014). SME Commercial Mortgages accounted for 21.1 per cent. of Aldermore's total net loans and advances to customers as at 31 December 2014. Aldermore's SME Commercial Mortgages book as at 31 December 2013 was £762.0 million, an increase of £216.2 million or 39.6 per cent. compared with £545.8 million as at 31 December 2012. The increase in Aldermore's SME Commercial Mortgages book over the period was primarily driven by an increase in customers (from approximately 1,700 customers as at 31 December 2012 to approximately 2,400 customers as at 31 December 2013) as Aldermore increased the number of SME Commercial Mortgages brokers on its panel and developed its "direct" distribution capabilities. In addition, Aldermore increased its lending across both its residential and commercial investment property portfolios. In the financial year ended 31 December 2013, Aldermore also introduced a product in association with "Mortgages for Business" targeted at the private rental sector to support landlords in the buy-to-let market. Growth in lending was also supported by service enhancements driven by the implementation of a new mortgage processing system.

Residential Mortgages

Aldermore's Residential Mortgages book as at 31 December 2014 was £2.6 billion, a 52.7 per cent. increase from £1.7 billion as at 31 December 2013. The increase in Aldermore's Residential Mortgages book over the period was primarily due to an increase in Residential Mortgages customers from approximately 13,000 as at 31 December 2013 to approximately 19,000 as at 31 December 2014. Residential Mortgages accounted for 53.4 per cent. of Aldermore's total net loans and advances to customers as at 31 December 2014. Aldermore's Residential Mortgages book as at 31 December 2013 was £1.7 billion, an increase of £0.7 billion or 76.1 per cent. compared with £953.8 million as at 31 December 2012. The increase in Aldermore's Residential Mortgages book over the period was primarily driven by customer growth (from approximately 7,000 customers as at 31 December 2012 to approximately 13,000 customers as at 31 December 2013), supported by the expansion of Aldermore's intermediary network and the introduction of a direct-to-consumer proposition. Growth was particularly strong in Aldermore's buy-to-let portfolio.

Liabilities

The following table sets out certain balance sheet information of Aldermore as at 31 December 2014, 2013, and 2012:

	As at 31 December		
	2014	2013	2012
		(£'000)	
Amounts due to banks	305,907	385,951	115,079
Customers' accounts	4,458,962	3,464,018	2,161,649
Derivatives held for risk management	54,198	17,867	31,612
Accruals and deferred income	21,107	16,236	9,899
Current tax	8,148	2,492	—
Provisions	2,008	1,157	576
RMBS	279,143	—	—
Subordinated Notes	36,758	35,571	34,600
Other liabilities	18,634	14,343	11,320
Fair value adjustment for portfolio hedged risk	1,528	—	—
Total liabilities	**5,186,393**	**3,937,635**	**2,364,735**

Aldermore is an asset-led business, and funding is raised (as required) to support asset growth. Total liabilities as at 31 December 2014 were £5.2 billion, a £1.2 billion or 31.7 per cent. increase compared with £3.9 billion as at 31 December 2013. The increase in total liabilities over the period was primarily due to Aldermore's inaugural £333 million RMBS and further growth in the deposit franchise as reflected in the increase in the number and value of customers' deposits. Total liabilities as at 31 December 2013 were £3.9 billion, an increase of £1.6 billion or 66.5 per cent. compared with £2.4 billion as at 31 December 2012. The increase in total liabilities over the period was primarily due to increases in the number and value of customer deposits as well as smaller increases resulting from: (i) amounts due under repurchase agreements entered into in connection with Aldermore's participation in the Funding for Lending scheme (which are included in amounts due to banks); and (ii) the issuance of the Subordinated Notes.

Customers' accounts

The following table sets out a breakdown of Aldermore's liabilities in respect of customers' accounts as at 31 December 2014, 2013 and 2012:

	As at 31 December		
	2014	2013	2012
		(£'000)	
Retail customers	3,411,303	2,945,019	2,060,694
SME customers	1,024,400	518,999	100,955
Corporate customers	23,259	—	—
Total customers' accounts	**4,458,962**	**3,464,018**	**2,161,649**

Liabilities in respect of customers' accounts as at 31 December 2014 were £4.5 billion, a £1.0 billion or a 28.7 per cent. increase compared with £3.5 billion as at 31 December 2013. The increase in liabilities in respect of customers' accounts over the period was primarily due to an approximately 97 per cent. increase in SME customer deposits. Retail customers and SME customers accounted for approximately 77 per cent. and 23 per cent. of Aldermore's total customers' balances as at 31 December 2014, respectively including a small amount of Corporate deposits, following Aldermore's entry into this segment in December 2014. Liabilities in respect of customers' accounts as at 31 December 2013 were £3.5 billion, a £1.3 billion, or a 60 per cent. increase from £2.2 billion as at 31 December 2012. The increase in liabilities in respect of customers' accounts over the period was primarily due to an overall increase in customer deposits, including growth attributable to the launch of SME customer deposit accounts in the financial year ended 31 December 2012.

Amounts due to banks

The following table sets out a breakdown of Aldermore's amounts due to banks within 12 months as at 31 December 2014, 2013 and 2012:

	As at 31 December		
	2014	2013	2012
		(£'000)	
Repurchase agreements	304,207	383,071	114,579
Deposits	600	1,205	500
Cash collateral received on derivatives	1,100	1,675	—
Total amounts due to banks	**305,907**	**385,951**	**115,079**

Amounts due to banks as at 31 December 2014 was £305.9 million, a £80.0 million or a 20.7 per cent. decrease from £386.0 million as at 31 December 2013. The decrease in total amounts due to banks over the period was primarily due to a reduction in Funding for Lending repurchase transactions. Amounts due to banks as at 31 December 2013 were £386.0 million compared with £115.1 million as at 31 December 2012. The increase in amounts due to banks was primarily driven by an increase in amounts due under repurchase agreements entered into in connection with the Funding for Lending scheme from 2012.

Equity

Aldermore's total equity as at 31 December 2014 was £378.9 million, comprising £305.2 million of shareholders funds and £73.7 million of other equity following the AT1 Securities issuance, a £113.5 million or a 42.8 per cent. increase from total equity of £265.4 million as at 31 December 2013. The increase over the period was primarily due to an increase in retained earnings and the proceeds from the issuance of AT1 Securities in December 2014.

Aldermore's total shareholders' funds as at 31 December 2013 was £265.4 million, a £86.5 million or a 48.3 per cent. increase from £178.9 million as at 31 December 2012. The increase over the period was primarily due to an increase in retained earnings and new equity capital issued during the financial year ended 31 December 2013.

4 Recent Developments

Since 31 December 2014, Aldermore has continued to focus on providing straightforward banking products to UK SMEs, home-owners and savers. Aldermore has continued to generate organic growth and net loans increased to £4.9 billion as at 31 January 2015.

5 Description of Certain Line Items

Interest income

Interest income includes interest received and net fee and commissions income that are integral to the effective interest rate on: (i) loans and advances to Asset Finance customers; (ii) loans and advances to Invoice Finance customers; (iii) loans and advances to SME Commercial Mortgages customers; (iv) loans and advances to Residential Mortgages customers; (v) debt securities; (vi) amortisation of discounts and premiums on acquired portfolios; (vii) bank deposits and treasury bills; and (viii) derivative financial instruments.

Interest expense

Interest expense primarily includes interest due on customer deposit accounts, the Subordinated Notes and derivative financial instruments. It also includes interest payable to banks, which includes interest due in respect of the Funding for Lending Scheme from 2012. Interest expense also includes interest due on the inaugural £333 million RMBS from April 2014 and the amortisation of related costs.

Fee and commissions income

Fee and commissions income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income. Within the Invoice Finance business, customers are charged a factoring fee for managing their sales ledgers. This fee is recognised within fee and commission income over the period in which the ledger management service is provided. Other fee and commission income includes fees charged for valuations, documentation, mortgage services and arrears, and are recognised as the related services are performed within fee and commission income. Arrangement fees and others fees relating to loans and advances to customers are included within interest income as part of the EIR calculation (the EIR is the rate that, at the inception of the financial asset or liability, discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount).

Fee and commissions expense

Fee and commission expense predominantly consists of introducer commissions, legal and valuation fees and company search fees. Where these fees and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable they are recognised within fee and commission expense as the services are received.

Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss

Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement and financial assets designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest and foreign exchange differences, with the exception of interest income on financial assets designated at fair value and the matching interest component of the hedging derivatives. The assets designated at fair value are treated in this manner so as to avoid an accounting mismatch with derivatives held as an "economic" hedge.

Gains on disposal of debt securities

Gains on disposal of debt securities include gains from the sale of asset-backed securities and other debt securities.

Other operating income

Other operating income predominantly arises from the provision of invoice finance services, and includes disbursements and "collect out" income. This income is recognised within other operating income as the service has been provided.

Administrative expenses

Administrative expenses primarily includes provisions for liabilities and charges, staff costs, legal and professional and other services, IT and office costs.

Depreciation and amortisation

Depreciation and amortisation includes the depreciation of fixtures, fittings and equipment and computer hardware and the amortisation of intangible assets including computer systems.

Impairment losses on loans and advances to customers

Impairment losses on loans and advances to customers includes impairment charges and collective provisions taken due to customer defaults (in respect of customers who have (i) failed to keep up with their payment arrangements and (ii) subsequently cease to make payments (and the underlying asset must be sold to recover the money lent and the carrying amount of such asset or its income generating unit exceeds the recoverable amount)).

Taxation on profit on ordinary activities

Taxation on profit on ordinary activities includes current tax charges on profits for the period.

6 Key Operating Measures

Aldermore uses several key operating measures, including net interest margin, cost/income ratio and return on equity, to track the performance of its business. These terms are not a measure of financial performance under IFRS, nor have these measures been reviewed by an outside auditor, consultant or expert. These measures are derived from Aldermore's IFRS financial statements. As these terms are defined by the Directors, they may not be comparable to similar terms used by other companies.

Net interest margin

Net interest margin is a measure of the difference between interest income generated by loans and advances made by Aldermore to customers and the amount of interest that Aldermore has paid on funding liabilities (such as customer deposits) relative to the average amount of Aldermore's net customer loans. Aldermore defines net interest margin in each case its four lending segments as interest income less interest expense divided by average net loans, and overall net interest margin as net interest margin across the four lending segments and central functions divided by average net loans. The following table sets forth the net interest margin for each of Aldermore's four lending segments for the periods indicated:

	For the financial year ended 31 December		
	2014	2013	2012
	(percentages)		
Asset Finance	4.2	4.2	3.8
Invoice Finance	3.0	2.6	2.1
SME Commercial Mortgages	4.7	3.9	2.8
Residential Mortgages	3.0	2.4	1.5
Net interest margin (overall)	3.4	3.0	2.2

Aldermore's overall net interest margin increased from 3.0 per cent. in the financial year ended 31 December 2013 to 3.4 per cent. in the financial year ended 31 December 2014, primarily as a result of a decline in Aldermore's cost of funding due to the RMBS issuance and an increased proportion of SME customer deposits. Aldermore's overall net interest margin increased from 2.2 per cent. in the financial year ended 31 December 2012 to 3.0 per cent. in the financial year ended 31 December 2013. Over this period, the overall gross interest margins were 6.2 per cent., 5.8 per cent. and 5.6 per cent. in the financial years end 31 December 2012, 2013 and 2014 respectively, with the movement in net interest margin mainly driven by the evolution of Aldermore's funding mix, and Aldermore's cost of funding declining over the period from 3.9 per cent. in the year ending 31 December 2012 to 2.8 per cent. and 2.1 per cent. in the years ending 31 December 2013 and 2014, respectively. The diversification of Aldermore's funding mix began in 2012, with the broadening of the retail deposit offering and the launch of the SME deposit franchise, Aldermore's participation in the Funding for Lending Scheme and the issuance of the £40 million (nominal value) Subordinated Notes. However, during 2012, the market as a whole experienced funding cost pressure with the intensification of competition for deposits. This, in part, led to the Bank of England launching the Funding for Lending Scheme in July 2012. In the financial year ended 31 December 2013, Aldermore benefitted from both (i) the ongoing diversification of its funding mix, as retail variable deposits, SME deposits and its Funding for Lending Scheme participation grew to become a significant proportion of Aldermore's overall average funding balance and (ii) a decline in the costs related to retail fixed deposits, as competitive pressure across the market reduced following the Bank of England's actions to improve market liquidity. Additionally, in April 2014, Aldermore further diversified its funding mix through the issue of £333 million of Residential Mortgage Backed Securities with a coupon of 67 basis points over LIBOR, further reducing the cost of its funding base.

In addition, as net interest margin tends to be lower in Aldermore's Invoice Finance business, this is not a key performance measure for this business and the Directors evaluate the Invoice Finance business using net revenue margin (which is defined as operating income divided by average net loans) as this measure includes fee and commissions income as well as net interest income. The net revenue margin for Aldermore's Invoice Finance business was 12.0 per cent. for the financial year ended 31 December 2014, compared to 11.7 per cent., and 13.2 per cent. for the financial years ended 31 December 2013 and 2012, respectively. The decline in net revenue margin over the periods discussed was primarily due to a change in the mix of business, with Aldermore's invoice discounting product (which has a lower fee structure as Aldermore does not run the customer's debtor ledger) growing from 46 per cent. of net customer loans as at 31 December 2012 to 49 per cent. of net customer loans as at 31 December 2014 and Aldermore's factoring product (which has a higher fee structure) declining from 54 per cent. of net customer loans as at 31 December 2012 to 51 per cent. of net customer loans as at 31 December 2014.

Cost/income ratio

Cost/income ratio is the ratio of operating expenses to operating income and measures how Aldermore's costs change compared to its income (with lower ratios indicating increased efficiencies). The Directors are targeting a cost/income ratio of less than 40 per cent. by the end of 2017. The following table sets forth Aldermore's cost/income ratio for the periods indicated:

	For the financial year ended 31 December		
	2014	2013	2012
	(percentages)		
Cost/income ratio	60[(1)]	66	90

Note:

(1) Excluding costs associated with the 2014 offer of £6.0 million.

Aldermore's cost/income ratio decreased to 60 per cent. in the financial year ended 31 December 2014 (excluding the costs associated with the 2014 offer of £6.0 million) from 66 per cent. in the financial year ended 31 December 2013 and 90 per cent. in the financial year ended 31 December 2012. These decreases were primarily due to economies of scale and greater efficiencies being achieved as a result of asset growth and the scalability of Aldermore's business platform.

Return on equity

Return on equity is a measure of efficiency and presents the rate of return on ownership (core shareholders' funds, calculated as total shareholders' funds excluding the proceeds of the AT1 Securities) and is calculated by dividing profit after tax by average core shareholders' funds. The Directors are targeting a return on equity of approximately 20 per cent. by the end of the financial year ending 31 December 2016. The following table sets forth Aldermore's return on equity for the periods indicated:

	For the financial year ended 31 December		
	2014	2013	2012
	(percentages)		
Return on equity	15.1[(1)]	11.6	0.7

Note:

(1) Excluding costs associated with the 2014 offer of £6.0 million.

Aldermore's return on equity increased from 11.6 per cent. in the financial year ended 31 December 2013 to 13.5 per cent. as reported (15.1 per cent. excluding costs associated with the 2014 offer of £6.0 million) in the financial year ended 31 December 2014 as a result of increased profitability, partially offset by Aldermore making tax payments for the first time. If Aldermore's profit before tax in the financial year ended 31 December 2013 had been taxed at the effective rate for the financial year ended 31 December 2014, the equivalent return on equity for the financial year ended 31 December 2013 would have been 8.8 per cent. Aldermore's return on equity increased from 0.7 per cent. in the financial year ended 31 December 2012 to 11.6 per cent. in the financial year ended 31 December 2013. This increase was primarily due to an overall increase in profit before taxation.

7 Results of Operations

The following table sets forth Aldermore's results of operations for the financial years ended 31 December 2014, 2013 and 2012:

	For the financial year ended 31 December		
	2014	2013	2012
		(£'000)	
Interest income	227,833	156,441	99,277
Interest expense	(87,618)	(75,799)	(63,283)
Net interest income	**140,215**	**80,642**	**35,994**
Fee and commissions income	26,386	23,555	19,434
Fee and commissions expense	(7,819)	(7,529)	(5,393)
Net income from derivatives and other financial instruments at fair value through profit or loss	(4,066)	3,277	(1,934)
Gains on disposal of debt securities	2,944	1,869	3,231
Other operating income	7,357	6,531	6,583
Total operating income	**165,017**	**108,345**	**57,915**
Administrative expenses	(101,241)	(67,363)	(49,907)
Depreciation and amortisation	(3,901)	(3,822)	(2,319)
Operating profit before impairment losses	**59,875**	**37,160**	**5,689**
Impairment losses on loans and advances to customers	(9,570)	(11,468)	(5,416)
Profit/(loss) before taxation	**50,305**	**25,692**	**273**
Taxation	(11,871)	14	941
Profit/(loss) after taxation—attributable to holders of the Group	**38,434**	**25,706**	**1,214**

Net interest income

The following table sets out the breakdown of Aldermore's net interest income for the financial years ended 31 December 2014, 2013 and 2012:

	For the financial year ended 31 December		
	2014	2013	2012
		(£'000)	
Interest income			
Asset Finance	56,684	37,375	21,087
Invoice Finance	9,276	9,379	8,326
SME Commercial Mortgages	56,215	39,910	26,219
Residential Mortgages	106,924	66,670	36,237
Central functions	(1,266)	3,107	7,408
Total interest income	**227,833**	**156,441**	**99,277**
Interest expense			
Asset Finance	(19,749)	(14,360)	(10,324)
Invoice Finance	(3,327)	(4,318)	(4,958)
SME Commercial Mortgages	(14,663)	(14,562)	(13,420)
Residential Mortgages	(43,427)	(34,920)	(25,544)
Central functions	(6,452)	(7,639)	(9,037)
Total interest expense	**(87,618)**	**(75,799)**	**(63,283)**
Net interest income(1)	**140,215**	**80,642**	**35,994**
Asset Finance	36,935	23,015	10,763
Invoice Finance	5,949	5,061	3,368
SME Commercial Mortgages	41,552	25,348	12,799
Residential Mortgages	63,497	31,750	10,693

Note:

(1) Net interest income also includes charges of (£7.7) million, (£4.5) million and (£1.6) million from Aldermore's central functions for the financial years ended 31 December 2014, 2013 and 2012, respectively. Aldermore's central functions include Aldermore's treasury and savings functions which are responsible for raising finance on behalf of the four lending divisions. The costs of raising finance are all recharged by Aldermore's central functions to business segments predominantly on the basis of lending assets, apart from those costs relating to the Subordinated Notes.

Interest income

Aldermore's interest income for the financial year ended 31 December 2014 increased by £71.4 million, or 45.6 per cent., from £156.4 million for the financial year ended 31 December 2013 to £227.8 million for the financial year ended 31 December 2014. The increase in interest income was primarily due to growth in net lending, including growth of 45.0 per cent. in Asset Finance net loans and advances, 32.7 per cent. in SME Commercial Mortgages and 52.7 per cent. in Residential Mortgages net loans.

Aldermore's interest income for the financial year ended 31 December 2013 increased by £57.2 million, or 57.6 per cent., from £99.3 million for the financial year ended 31 December 2012 to £156.4 million for the financial year ended 31 December 2013. The increase in interest income was primarily due to an increase in loans and advances to (i) Residential Mortgages customers, (ii) Asset Finance customers; and (iii) SME Commercial Mortgages customers.

Interest expense

Aldermore's interest expense for the financial year ended 31 December 2014 increased by £11.8 million, or 15.6 per cent., from £75.8 million for the financial year ended 31 December 2013 to £87.6 million for the financial year ended 31 December 2014. The increase in interest expense was primarily due to growth in net deposits, partially offset by the benefit that Aldermore received in the period from its on-going funding mix diversification efforts, which was positively impacted by the RMBS issuance and an increase in SME customer deposits, as well as a general decline in Aldermore's cost of funding across all liability types in the year ended 31 December 2014.

Aldermore's interest expense for the financial year ended 31 December 2013 increased by £12.5 million, or 19.8 per cent., from £63.3 million for the financial year ended 31 December 2012 to £75.8 million for the financial year ended 31 December 2013. The increase in interest expense was primarily due to an increase in customer deposits, the issuance of the Subordinated Notes and Aldermore's participation in the Funding for Lending Scheme to fund increased lending.

Net interest income

Aldermore's net interest income for the financial year ended 31 December 2014 increased by £59.6 million, or 73.9 per cent., from £80.6 million for the financial year ended 31 December 2013 to £140.2 million for the financial year ended 31 December 2014. Aldermore's net interest income for the financial year ended 31 December 2013 increased by £44.6 million, or 124.0 per cent., from £36.0 million for the financial year ended 31 December 2012 to £80.6 million for the financial year ended 31 December 2013. The increases were primarily due to growth in Aldermore's loan portfolio as well as changes in Aldermore's funding mix which led to improvements in Aldermore's cost of funding, in particular as a result of the RMBS issuance in the financial year ended 31 December 2014, the Funding for Lending Scheme and decreases in the costs related to retail fixed deposits, as competitive pressures across the market reduced following the Bank of England's actions to improve market liquidity.

Fee and commissions income

Aldermore's fee and commissions income for the financial year ended 31 December 2014 increased by £2.8 million, or 12.0 per cent., from £23.6 million for the financial year ended 31 December 2013 to £26.4 million for the financial year ended 31 December 2014. Aldermore's fee and commissions income for the financial year ended 31 December 2013 increased by £4.1 million, or 21.2 per cent., from £19.4 million for the financial year ended 31 December 2012 to £23.6 million for the financial year ended 31 December 2013. While the majority of the fee and commissions income related to the Invoice Finance business, with £14.5 million, £14.9 million and £14.5 million for the financial years ended 31 December 2014, 2013 and 2012, respectively, the increases in other fee and commissions income were primarily due to an increase in mortgage arrangement fees resulting from Aldermore's expanded SME Commercial Mortgages and Residential Mortgages portfolio as well as fees associated with the growing Asset Finance portfolio.

Fee and commissions expense

Aldermore's fee and commissions expense for the financial year ended 31 December 2014 increased by £0.3 million, or 3.9 per cent., from £7.5 million for the financial year ended 31 December 2013 to £7.8 million for the financial year ended 31 December 2014 with increases in legal and valuation fees and credit protection and insurance charges offset by reductions in introducer commissions, company search and other fees and insurance commissions payable. Aldermore's fee and commissions expense for the financial year ended 31 December 2013 increased by £2.1 million, or 39.6 per cent., from £5.4 million for the financial year ended 31 December 2012 to £7.5 million for the financial year ended 31 December 2013, with the increase in fee and commissions expense during this period primarily due to an increase in company searches and other fees, introducer commissions and insurance commissions payable due to increased lending activity.

Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss

Aldermore's net income/(expense) from derivatives and other financial instruments at fair value through profit or loss for the financial year ended 31 December 2014 decreased by £7.3 million from an income of £3.3 million for the financial year ended 31 December 2013 to an expense of £4.1 million for the financial year ended 31 December 2014. The decrease was due to movements in fair value over the period.

Aldermore's net income/(expense) from derivatives and other financial instruments at fair value through profit or loss for the financial year ended 31 December 2013 increased by £5.2 million from an expense of £1.9 million for the financial year ended 31 December 2012 to income of £3.3 million for the financial year ended 31 December 2013. Net income from derivatives and other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement and financial assets designated at fair value through profit or loss. It includes all fair value changes in interest and forward foreign exchange contracts, apart from the interest income on financial assets designated at fair value (so as to avoid an accounting mismatch with derivatives held as an "economic" hedge) and the matching interest component of the derivative which are included within interest income.

Gains on disposal of debt securities

During the financial year ended 31 December 2014, Aldermore recognised a gain on disposal of debt securities of £2.9 million. During the year, Aldermore disposed of debt securities with a book value of £370.6 million, resulting in a gain of £5.6 million offset by a loss on associated hedging derivatives of £2.7 million. During the financial year ended 31 December 2013, Aldermore disposed of debt securities with a book value of £34.3 million, resulting in a gain of £1.9 million, and during the financial year ended 31 December 2012, Aldermore disposed of debt securities with a book value of £28.7 million, resulting in a gain of £3.2 million.

Other operating income

Aldermore's other operating income for the financial year ended 31 December 2014 increased by £0.8 million, or 12.6 per cent., from £6.5 million for the financial year ended 31 December 2013 to £7.4 million for the financial year ended 31 December 2014. The increase in other operating income was primarily due to an increase in disbursements, "collect out" fees and other Invoice Finance income.

Aldermore's other operating income for the financial year ended 31 December 2013 was £6.5 million, a decrease of £0.1 million from the financial year ended 31 December 2012. The decrease in other operating income was primarily due to a decrease in disbursements and other Invoice Finance income as a result of a decline in income earned from "collect-out" fees due to the changing mix and improving credit quality of Aldermore's business.

Administrative expenses

Aldermore's administrative expenses for the financial year ended 31 December 2014 increased by £33.9 million, or 50.3 per cent., from £67.4 million for the financial year ended 31 December 2013 to £101.2 million for the financial year ended 31 December 2014. Operating expenses for the financial year ended 31 December 2014 include £6.0 million of costs relating to the 2014 offer. Excluding these costs, other administrative expenses for the financial year ended 31 December 2014 increased by £27.9 million, or 41.4 per cent., from £67.4 million for the financial year ended 31 December 2013 to £95.2 million for the financial year ended 31 December 2014 and this underlying increase in other administrative expenses was primarily due to the Directors making an investment in certain Head Office functions, including risk, finance and compliance as well as increased headcount. As at 31 December 2014, Aldermore employed 876 employees and contractors (compared to 687 and 525 employees and contractors as at 31 December 2013 and 2012, respectively). Administrative expenses for the financial year ended 31 December 2014 also included £2.6 million in respect of the Financial Services Compensation Scheme levy, compared to £1.7

million for the financial year ended 31 December 2013. Administrative expenses includes £1.6 million in relation to a write-off of software related to Asset Finance which was previously capitalised.

Aldermore's administrative expenses for the financial year ended 31 December 2013 increased by £17.5 million, or 35.0 per cent., from £49.9 million for the financial year ended 31 December 2012 to £67.4 million for the financial year ended 31 December 2013. The increase in administrative expenses was primarily due to an increase in wages and salaries due to an increase in headcount. In addition, increased legal and professional fees, IT expenses and office costs contributed to the increase in administrative expenses.

Depreciation and amortisation

Aldermore's depreciation and amortisation for the financial year ended 31 December 2014 at £3.9 million was broadly in line with the £3.8 million charge for the financial year ended 31 December 2013. Aldermore's depreciation and amortisation for the financial year ended 31 December 2013 increased by £1.5 million, or 64.8 per cent., from £2.3 million for the financial year ended 31 December 2012 to £3.8 million for the financial year ended 31 December 2013. The increase in depreciation and amortisation in the financial year ended 31 December 2013 were primarily due to increased amortisation charges relating to intangible fixed assets, notably Aldermore's computer software.

Impairment losses on loans and advances to customers

Aldermore's impairment losses on loans and advances to customers for the financial year ended 31 December 2014 decreased by £1.9 million, or 16.6 per cent., from £11.5 million for the financial year ended 31 December 2013 to £9.6 million for the financial year ended 31 December 2014. The impairment losses reflect both specific and collective (or general) provisions, and equate to an overall cost of risk (calculated as impairment losses divided by average net loans) of 0.23 per cent. and 0.42 per cent. for the financial years ended 31 December 2014 and 2013, respectively. This decrease was primarily as a result of actions taken within Aldermore's Invoice Finance business following the increased provisions relating to a small number of fraudulent loans during the financial year ended 31 December 2013. The Directors believe that Aldermore has since improved controls, processes and policies within its Invoice Finance business, which can be evidenced by the 1.16 per cent. improvement in the cost of risk from 2.90 per cent. to 1.74 per cent. for the financial years ended 31 December 2013 and 2014, respectively. Another driver of the improvement in impairment losses was due to three large recoveries, one in Asset Finance and two in SME Commercial Mortgages. These recoveries are reflected in the reported cost of risk, resulting in Aldermore's Asset Finance business reporting a cost of risk of 0.47 per cent. and 0.30 per cent. and its SME Commercial Mortgages business reporting a cost of risk of 0.30 per cent. and 0.25 per cent. for the financial years ended 31 December 2013 and 2014, respectively. In addition, Residential Mortgages reported a cost of risk of 0.1 per cent. and 0.06 per cent. for the financial years ended 31 December 2013 and 2014, respectively. Aldermore's recoveries are managed in house, in the normal course of business. Adjusting for the large recoveries of £3.4 million and a further £0.4 million of related fees, management believe that the underlying cost of risk for the financial year ended 31 December 2014 was 0.33 per cent. for the Group, more in line with medium-term expectations of mid to high 0.30's per cent. Risk management remains a key focus, around a highly secured and deliberately constructed loan portfolio.

Aldermore's impairment losses on loans and advances to customers for the financial year ended 31 December 2013 increased by £6.1 million, or 111.7 per cent., from £5.4 million for the financial year ended 31 December 2012 to £11.5 million for the financial year ended 31 December 2013. The impairment losses reflect both specific and collective (or general) provisions, and equate to an overall cost of risk (i.e. impairment losses divided by average net loans) of 0.34 per cent. and 0.42 per cent. for the financial years ended 31 December 2012 and 2013, respectively. This increase was primarily due to increased provisions relating to a small number of fraudulent loans in Aldermore's Invoice Finance business where the cost of risk increased from 1.53 per cent. to 2.90 per cent. between the financial years ended 31 December 2012 and 2013, respectively. The remainder of the increase in impairment losses was due to increased customer lending in other lines of business and is reflected in the relatively stable cost of risk, with Aldermore's Asset Finance business reporting a cost of risk of 0.41 per cent. and 0.47 per cent.; SME Commercial Mortgages business reporting a cost of risk of 0.25 per cent. and 0.30 per cent. and Residential Mortgages business reporting a cost of risk of 0.09 per cent. and 0.10 per cent. for the financial years ended 31 December 2012 and 2013, respectively.

Taxation

Aldermore's taxation for the financial year ended 31 December 2014 increased by £11.9 million from nil for the financial year ended 31 December 2013 to a tax charge of £11.9 million for the financial year ended 31 December 2014. The increase in taxation was primarily due to increased profitability and Aldermore having utilised its tax loss carry-forwards in prior years.

Aldermore's tax credit for the financial year ended 31 December 2013 decreased by £0.9 million, or 98.5 per cent., from a credit of £0.9 million for the financial year ended 31 December 2012 to nil for the financial year ended 31 December 2013 as Aldermore utilised its tax losses brought forward from earlier periods. Aldermore's effective tax rate was close to nil in the financial years ended 31 December 2013 and 2012 compared to the statutory tax rates of 23.3 per cent. and 24.5 per cent. in the financial years ended 31 December 2013 and 2012, respectively, as it utilised tax losses brought forward from earlier periods.

8 Liquidity and Capital Resources

Liquidity

Aldermore's liquidity requirements arise primarily from the requirement to fund customer accounts and to service debt. The Directors manage liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of Aldermore and to enable the Group to meet its financial and regulatory obligations.

During the periods under review, Aldermore's principal sources of liquidity have consisted of cash generated from operations (including customer deposits) and borrowings. Aldermore had cash and cash equivalents of £95.4 million, loan receivables of £4,887.9 million and debt securities of £582.6 million including accrued interest as at 31 January 2015 (the latest practicable date of such information prior to the publication of this Prospectus). Aldermore had total debt of £642.8 million and total liabilities in respect of customers' accounts of £4,557.1 million as at 31 January 2015 (the latest practicable date of such information prior to the publication of this Prospectus).

Aldermore's ability to generate cash from operations depends on its future operating performance, which is, in turn, dependent to some extent on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond Aldermore's control, as well as other factors discussed in Part II: "*Risk Factors*".

Cash flows

The following table summarises Aldermore's cash flows for the periods indicated:

	For the financial year ended 31 December		
	2014	2013	2012
		(£'000)	
Net cash flows generated (used in)/from operating activities	(493,844)	294,769	7,387
Net cash used in investing activities	(131,715)	(21,263)	(5,730)
Net cash flows from financing activities	344,368	58,015	33,116
Net (decrease)/increase in cash and cash equivalents	**(281,191)**	**331,521**	**34,773**
Cash and cash equivalents at the start of the period	415,210	83,689	48,916
Movement during the period	(281,191)	331,521	34,773
Cash and cash equivalents at the end of the period	134,019	415,210	83,689

Financial year ended 31 December 2014

Net cash flows used in operating activities were £493.8 million for the financial year ended 31 December 2014. This was largely as a result of an increase of £1,428.8 million in loans and advances to customers, a decrease of £80.0 million in amounts due to banks, driven by a reduction in FLS repo and profit before tax of £50.3 million, partially offset by a £994.9 million increase in customer deposits.

Net cash flows used in investing activities were £131.7 million for the financial year ended 31 December 2014. This was largely driven by purchases of debt securities of £532.0 million partially offset by proceeds from the sale and maturity of debt securities of £346.2 million and capital repayments of debt securities of £48.2 million.

Net cash flows from financing activities were £344.4 million. This resulted from the issuance of Aldermore's inaugural RMBS in April 2014 of £333.3 million and the £75.1 million of proceeds from the issuance of AT1 Securities, partially offset by issuance costs of £2.1 million on the RMBS issuance and £1.5 million on the AT1 Securities issuance, as well as capital repayments of £52.8 million on issued debt securities and interest paid on subordinated notes of £5.2 million.

The above resulted in net cash and cash equivalents decreasing by £281.2 million, or 67.7 per cent., from £415.2 million at 31 December 2013 to £134.0 million at 31 December 2014.

Financial year ended 31 December 2013

Net cash flows generated from operating activities were £294.8 million for the financial year ended 31 December 2013. This was largely as a result of increases of £1,302.4 million in customer deposits, £270.9 million in amounts due to banks (driven by the Bank's participation in FLS), and a £25.7 million profit before tax partially offset by an increase of £1,325.9 million in loans and advances to customers.

Net cash flows used in investing activities were £21.3 million for the financial year ended 31 December 2013. This was largely driven by purchases of debt securities of £89.1 million partially offset by proceeds from the sale and maturity of debt securities of £41.3 million and capital repayments of debt securities of £23.9 million.

Net cash flows from financing activities were £58.0 million. This was the result of proceeds from the issue of ordinary share capital of £63.2 million partially offset by interest paid on subordinated notes of £5.2 million.

The above resulted in net cash and cash equivalents increasing by £331.5 million, or 396.1 per cent., from £83.7 million at 31 December 2012 to £415.2 million at 31 December 2013.

Financial year ended 31 December 2012

Net cash flows generated from operating activities were £7.4 million for the financial year ended 31 December 2012. This was largely as a result of an increase of £802.8 million in customer deposits and £115.1 million in amounts due to banks (driven by the Bank's participation in FLS), partially offset by increases of £900.1 million in loans and advances to customers and of £9.0 million in loans and advances to banks.

Net cash flows used in investing activities were £5.7 million for the financial year ended 31 December 2012. This was largely driven by purchases of debt securities of £150.5 million, partially offset by capital repayments of debt securities of £111.0 million and proceeds from the sale and maturity of debt securities of £32.0 million.

Net cash flows from financing activities were £33.1 million. This was largely the result of proceeds from the issue of subordinated notes and warrants of £36.0 million partially offset by interest paid on subordinated notes of £2.9 million.

The above resulted in net cash and cash equivalents increasing by £34.8 million, or 71.1 per cent., from £48.9 million at 31 December 2011 to £83.7 million at 31 December 2012.

Capital

Working capital

In the opinion of the Company, taking into account the net proceeds receivable by the Company from the Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this Prospectus.

Capital expenditure

Aldermore's capital expenditure largely relates to expenditure on fixtures and fittings, computer hardware and IT software (which is capitalised as an intangible asset). Ongoing maintenance that does not improve land, buildings and equipment is treated as an operating expense rather than as capital expenditure.

During the periods under review, Aldermore incurred capital expenditure primarily on IT systems (software licences, computer hardware and ongoing system enhancements).

In the financial year ended 31 December 2014, Aldermore's capital expenditure was £5.4 million and principally comprised expenditure in relation to computer hardware (£0.3 million) and software intangibles (£4.5 million).

In the financial year ended 31 December 2013, Aldermore's capital expenditure was £5.3 million and principally comprised expenditure in relation to computer hardware (£1.2 million) and software intangibles (£3.4 million).

In the financial year ended 31 December 2012, Aldermore's capital expenditure was £6.3 million and principally comprised expenditure in relation to computer hardware (£0.4 million) and software intangibles (£5.5 million).

Material indebtedness and other material liabilities

Subordinated Notes

On 10 May 2012, Aldermore Bank PLC issued £40 million aggregate principal amount subordinated 12.875 per cent. loan notes repayable in 2022 (but with an early redemption option in May 2017). The interest rate on the Subordinated Notes is fixed until May 2017. The Subordinated Notes were issued at a discount and are carried in the balance sheet at amortised cost using the effective interest rate of 18.597 per cent. In addition to the Subordinated Notes, two warrants (A Warrant and B Warrant) were issued by the Company (which are accounted for in the financial statements of the Company) valued at £2.2 million. See paragraph 15.6 of Part XX: "*Additional Information—Material contracts—Subordinated Notes and Warrants*".

Contractual obligations

The following table summarises Aldermore's undiscounted material non-derivative contractual obligations as at 31 December 2014. The following table includes both principal and future interest payments that Aldermore will be required to make:

	As at 31 December 2014				
	Payable on demand	Within 1 year	Between 1 and 5 years	More than 5 years	Total
			(£'000)		
Subordinated Notes	—	5,150	47,725	—	52,875
Amounts due to banks	1,142	304,695	—	—	305,837
Customer accounts	1,190,398	2,244,555	1,090,600	—	4,525,553
Debt securities in issue	—	55,421	240,033	—	295,454
Other	408,793	9,479	—	—	418,272
Total	1,600,333	2,619,300	1,378,358	—	5,597,991

Capital management

Overview

The Directors are required to consider all material risks which Aldermore faces and determine the capital required in order to meet regulatory capital requirements, provide additional protection to depositors and borrowers, and ensure that Aldermore is sufficiently well capitalised to withstand a severe economic downturn.

Aldermore must maintain a certain level of capital to meet several requirements, including:

- to meet minimum regulatory capital requirements;
- to ensure that Aldermore can meet its objectives, including its growth objectives;
- to ensure that Aldermore can withstand future uncertainty, such as a severe economic downturn; and
- to provide assurance to depositors, customers, shareholders and other third parties.

Management produces regular reports on the current and forecasted level of capital, as well as the results of stress testing and scenario analysis, to the Board and the Risk Committee. Aldermore complied with all externally imposed capital requirements throughout the financial year ended 31 December 2014.

Aldermore manages its internal capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the Internal Capital Adequacy Assessment Process (the "**ICAAP**"). The ICAAP represents the aggregated view on risk for Aldermore and is used by the Board and management to understand the levels of capital required to be held over the short and medium-term. Aldermore is required to carry out an ICAAP in accordance with the PRA's ICAAP rules. Following approval by the Board, Aldermore submitted its last ICAAP to the PRA in February 2014. The ICAAP is reviewed and refreshed at least on an annual basis or as required and is approved by the Board.

The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported, and any material deviation from the forecast and risk profile of Aldermore will necessitate the ICAAP being updated (for example, if there are changes in the business, strategy, nature and scale of Aldermore's activities or operational environment). The principal risks which are considered as part of the ICAAP are detailed in Note 41 to the Historical Financial Information set out in Part XV: "*Historical Financial Information*" of this Prospectus.

CRD IV

In June 2013, the European Commission published the final regulation and directive (known collectively as CRD IV) to give effect to the Basel III framework. The objective of CRD IV is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress and, therefore, reduce the risk of spill-over from the financial sector into the rest of the economy. CRD IV was implemented in the UK with effect from 1 January 2014.

The key changes introduced by CRD IV include:

- **Changes to the definition of capital resources**—between 2014 and 2018, there will be changes and additions to capital deductions from Common Equity Tier 1 and Tier 2 capital;
- **New limits and capital buffers**—changes to minimum ratios for all forms of capital with an increased focus on Common Equity Tier 1 and with a potential requirement to hold capital conservation, countercyclical and systemic risk buffers;
- **Introduction of the leverage ratio**—the Basel Committee is testing and considering a minimum Tier 1 leverage ratio of between 3.0 and 4.0 per cent.;
- **Counterparty credit risk—**introduction of a credit valuation adjustment to the mid-market valuation on OTC derivatives;
- **Liquidity coverage ratio ("LCR")**—to ensure that banks hold sufficient liquid assets to cover net cash outflows under stressed conditions over a period of 30 days; and
- **Net stable funding ratio ("NSFR")**—to ensure that banks have stable funding in place to support long term obligations under both normal and stressed conditions over a period of one year.

Aldermore's capital position as at 31 December 2014 calculated on current regulatory rules and also estimated on a pro forma basis, applying the CRD IV rules, is shown in the table below. The pro forma CRD IV capital resources and risk weighted assets shown reflect estimates of the impact of the CRD IV rules on both a transitional basis (applying the rules applicable as at 1 January 2014) which made changes to components to be recognised as regulatory capital and on a fully loaded basis (referred to as the CRD IV end-point definition in the PRA documentation) which applies the rules without applying any of the transitional provisions.

Capital position

The Group's regulatory capital position as at 31 December 2014 was as follows:

	As at 31 December 2014
	(£'000)
Tier 1	
Share capital	23.7
Share premium	—
Warrant reserve	2.2
Retained earnings	277.9
less intangibles	(22.6)
Total Common Equity Tier 1 capital	**281.2**
Additional Tier 1 Capital	73.7
Total Tier 1 capital	**354.9**
Tier 2	
Subordinated Notes	36.8
Collective impairment allowance	8.5
Total Tier 2 capital	**45.3**
Total regulatory capital	**400.2**
Total risk weighted assets	**2,702.0**
Key capital ratios	
Fully loaded CET1 ratio (per cent.)	10.4
Total Tier 1 Capital ratio (per cent.)	13.1
Total capital ratio (per cent.)	14.8

Leverage ratio on a CRD IV basis

The Basel III reforms include the introduction of a capital leverage measure defined as the ratio of Tier 1 capital to total exposures measured on a solo basis and on a consolidated basis. The purpose of the proposed measure is as a non-risk based backstop limit to supplement the risk based capital requirements, which acts as a constraint on the build-up of excess leverage within the banking sector.

The Basel Committee proposed that final adjustments to the definition and calibration of the leverage ratio be carried out in 2017, with a view to migrating to a Pillar 1 requirement from 1 January 2018. In the interim, the PRA has asked banks to report an estimated leverage ratio on a fully loaded CRD IV basis to indicate the approximate leverage ratio that such bank would have now if the CRD IV rules were fully implemented. As required, the numerator of the leverage ratio has been calculated using the definition of Tier 1 capital set out in the text of the June 2013 regulation, and the exposure measure has been calculated on the basis of the January 2014 Basel III proposals, as interpreted through guidance issued in 2014.

Aldermore's estimate of its leverage ratio as at 31 December 2014 are shown in the table below on a transitional and "CRD IV fully loaded" basis (with Tier 1 capital calculated by applying the CRD IV rules without applying any transitional provisions).

	As at 31 December 2014
	Transitional and fully loaded estimate
	(£'000)
Total Tier 1 capital for the leverage ratio	
Total Common Equity Tier 1 capital	281.2
Additional Tier 1 capital	73.7
Total Tier 1 capital	**354.9**
Exposures for the leverage ratio	
Total statutory balance sheet assets	5,565.2
Off-balance sheet (including unconditionally cancellable commitments)	67.0
Other regulatory adjustments	(17.7)
Total exposures	**5,614.5**
Leverage ratio (fully loaded)	**6.3%**

9 Financial Commitments

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2014	2013	2012
	(£'000)		
Land and buildings			
In less than one year	1,545	1,201	1,183
Between one and five years	2,942	3,319	3,270
More than five years	544	1,123	1,696
Total	**5,031**	**5,643**	**6,149**
Equipment			
In less than one year	180	140	334
Between one and five years	267	14	150
More than five years	—	—	—
Total	**447**	**154**	**484**

Undrawn commitments to lend

At 31 December 2014, Aldermore had undrawn commitments to lend of £404.6 million (31 December 2013: £343.7 million, 31 December 2012: £213.6 million). These relate mostly to irrevocable lines of credit granted to customers.

10 Off-balance Sheet Activities

The Group uses derivatives to manage interest rate, basis and market risk. All derivatives are held either as fair value hedges qualifying for hedge accounting (from January 2014) or are held for the purpose of managing risk exposures arising on the Group's other financial instruments (all periods). Please see Note 22 in Part XV: "*Historical Financial Information*".

11 Related-party Transactions

For a description of Aldermore's related-party transactions, see Note 39 (*Related Parties*) to the Historical Financial Information set out in Part XV: "*Historical Financial Information*" of this Prospectus.

12 Quantitative and Qualitative Disclosure about Market Risks

For a discussion of the quantitative and qualitative risks facing Aldermore, see Note 41 (*Risk Management*) to the Historical Financial Information set out in Part XV: "*Historical Financial Information*" of this Prospectus.

13 Critical Accounting Policies

The discussion and analysis of Aldermore's financial condition and results of operations are based upon Aldermore's financial information, which has been prepared in accordance with IFRS. The preparation of this financial information requires management to make estimates and judgements that affect the reported amounts of income, expenses, assets and liabilities and the related disclosure of contingent assets and liabilities. Estimates are based on available information and experience. Actual results could differ from these estimates. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the Historical Financial Information are described in Note 3 (*Use of Estimates and Judgements*) to the Historical Financial Information set out in Part XV: "*Historical Financial Information*" of this Prospectus. For a detailed description of Aldermore's significant accounting policies, see Note 2 (*Significant Accounting Policies*) to the Historical Financial Information set out in Part XV: "*Historical Financial Information*" of this Prospectus.

PART XIII
RISK MANAGEMENT

1 The Group's approach to risk

A key component of the Group's business strategy is the effective management of risk in order to ensure that Aldermore maintains sufficient capital, liquidity and controls at all times, and acts in a reputable way, taking into account the interests of customers, regulators and shareholders.

Given the nature of the activities undertaken, the principal risks that the Group faces are strategic risk, credit risk, capital risk, liquidity risk, interest rate risk, market risk, operational risk and conduct risk. The Group has not defined regulatory risk as a single category of risk, owing to the broad nature of regulation. Prudential regulatory risks are covered as part of capital risk, liquidity risk and operational risk. Conduct regulatory risks are covered under conduct risk.

The Group's risk management framework, policies and procedures are subject to on-going improvement, and are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities. In addition, the Group continues to invest in and develop its risk management systems and resources to ensure that the risk management function, governance and infrastructure are appropriate for the nature, scale and complexity of the business, which has and continues to experience growth.

2 Risk management framework

The risk management framework is designed to ensure that each risk is managed, monitored and overseen through a dedicated risk-specific committee. Each risk has a defined risk appetite which is controlled through documented policies and frequent reporting, and is overseen by one or more committees as part of Aldermore's governance process.

The Group's risk management framework is outlined below, indicating the relevant governance and control structure for each principal risk.

	Group risk oversight							
	Business model risk	Prudential risks						Conduct risk
Principal risk	Strategic risk	Credit risk	Capital risk	Liquidity risk	Market & interest rate risk	Operational risk	Conduct risk
Control documents	Business plan (strategic objectives/ financial forecast)	Credit policy	ICAAP	ILAA & liquidity policy	Interest rate policy	Operational risk policy and key risk registers	Conduct risk policy
Risk reporting	Strategic risk register & financial reporting	Credit pack	ALCO & capital forecast	ALCO & treasury reports	ALCO & treasury reports	OPCO & operational risk reporting	Conduct risk reporting
Stress testing	Strategic risk stress-testing pack (also ICAAP)	ICAAP	ICAAP	ILAA	ICAAP	ICAAP	ICAAP
Second line monitoring committee	EXCO (report to Board)	Management Credit Committee (report to EXCO)	ALCO (report to EXCO)	ALCO (report to EXCO)	ALCO (report to EXCO)	Operating Committee (report to EXCO)	Product Committees (report to ALCO/ EXCO)
Additional oversight	Board / EXCO / Internal audit oversight							

The Group's risk management framework includes the following components:

- Policy and control documents—the overarching document which sets out the overall risk appetite and how each principal risk is managed;
- Risk reporting—the primary reporting document relating to the risk;
- Stress testing—the primary means to understand how the principal risk behaves under stressed conditions, and considers the implications for capital and liquidity resources; and
- Monitoring Committees—the principal committee responsible for monitoring risk is the Risk Committee. This is supported by further oversight by the Group Risk function, other board level governance committees and internal audit.

Escalation procedures exist to ensure that issues are reported and addressed at the right level.

A detailed analysis of all key risks has been considered as part of the capital adequacy assessment and is documented in the Internal Capital Adequacy Assessment Process ("**ICAAP**") report, which is approved by the Board. Liquidity risk is specifically assessed through the Individual Liquidity Adequacy Assessment ("**ILAA**"), also approved by the Board. Operational risk is managed through the Operational Risk Policy and key risks register.

To support the risk management framework, the Group operates a "three lines of defence" model:

- The first line of defence comes through operational management, who manage risk by implementing and maintaining appropriate systems and controls that need to be effective on a daily basis;

- The second line of defence comprises governance and oversight which include the monitoring committees and the Group Risk function. These functions cover all principal risk areas, such as credit risk, interest rate risk, operational risk and liquidity risk; and
- The third line of defence is independent assurance checking. This is provided by internal audit function. Assurance reporting is provided to the Audit Committee.

3 Risk Oversight, Monitoring and Reporting

Aldermore has a Chief Risk Officer ("**CRO**") who is responsible for ensuring that each risk is adequately monitored, managed and mitigated. Through the Group Risk function, the CRO is responsible for providing assurance to the Board that the principal risks are adequately managed and that Aldermore is operating within its predetermined risk appetites.

Group Risk

Prudential risk management covers liquidity, market and capital risk. Strategic risk is managed collectively by the Board and the Executive Risk Committee.

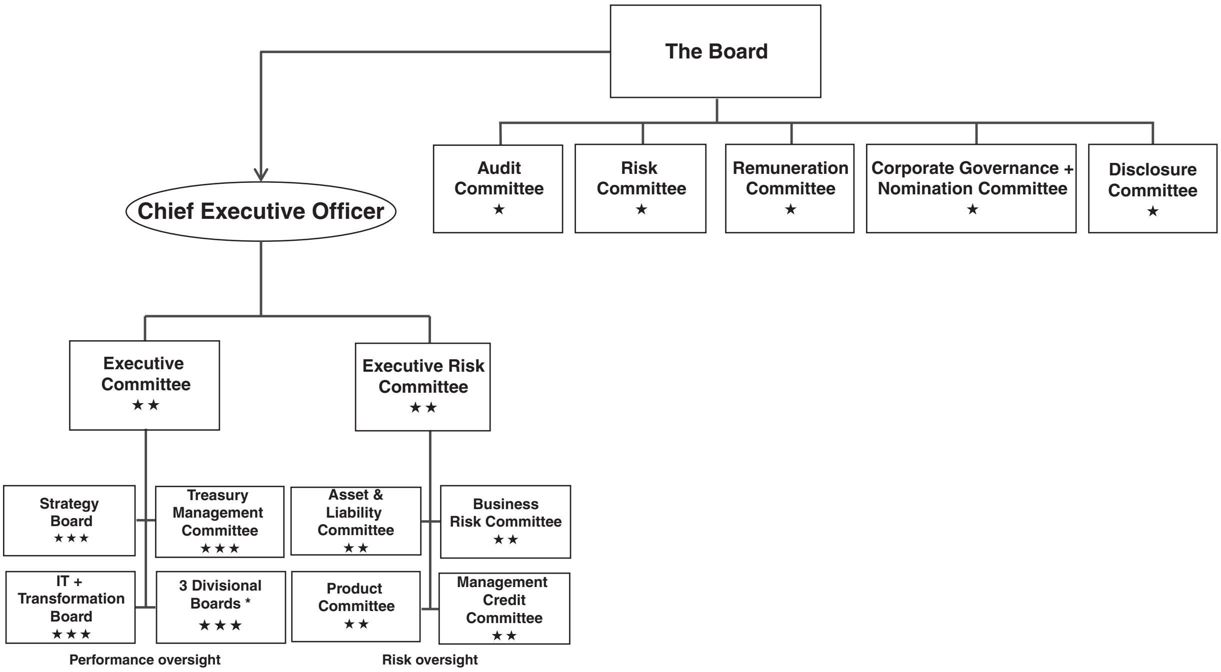
Group Risk is an independent risk management function, and is separate from the operational and sales functions of the Group. Group Risk is responsible for ensuring that appropriate risk management processes, techniques and controls are in place, and that they are sufficiently robust.

The Group Risk function provides periodic independent reports on risk positions, risk management and performance against the risk appetite statements for all principal risks faced by the Group. Risk reports are provided to the Management Credit Committee, Business Risk Committee, the Executive Risk Committee, the Risk Committee, the Audit Committee and the Board.

The reporting and oversight process is designed to ensure the committees, which form the governance structure, are informed and aware of the key risks and that there are adequate controls in place for these risks. Reports are produced on each key risk and the frequency ranges from daily to monthly, according to what is appropriate for the risk.

4 Risk Governance Structure

The responsibility for managing principal risks ultimately rests with the Board. Aldermore's governance structure is outlined below.



* Mortgages/Commercial Finance (Asset Finance + Invoice Finance)/Savings

Note:

★ Non-Executive oversight

★★ Executive / Second line oversight

★★★ First line oversight

4.1 Committee Structure

The Board and principal committees enable high-level controls to be exercised over Aldermore's activities.

4.1.1 The Board

The Board is the primary governing body and has ultimate responsibility for setting the Group's strategy, corporate objectives and risk appetite. The strategy and risk appetites take into consideration the interests of depositors, borrowers and shareholders.

The Board defines and approves the level of risk which the Group is willing to accept and is responsible for maintaining a sufficient control environment to manage the principal risks. The Board is also responsible for ensuring the capital and liquidity resources are adequate to achieve the Group's objectives without taking undue risk. The Board also maintains a close oversight of current and future activities, through a combination of monthly board reports including financial results, operational reports, budgets and forecasts and reviews of the main risks set out in the ICAAP and ILAA reports.

For further information on the Board, please see Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

4.1.2 Risk Committee

The Board has delegated responsibility for oversight of Aldermore's principal risks to the Risk Committee, which includes reviewing the performance against risk appetites and the effectiveness of Aldermore's internal controls and risk management processes. This committee oversees the development, implementation and maintenance of Aldermore's risk management framework, ensuring that its strategy, principles, policies and resources are aligned to Aldermore's risk appetite, as well as to regulatory and industry best practices.

For further information on the Risk Committee, please see Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

4.1.3 Audit Committee

The Audit Committee is responsible for reviewing the Group's internal control environment and monitors the financial integrity of the financial statements, and involves internal and external auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained.

For further information on the Audit Committee, please see Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

4.1.4 Remuneration Committee

The Remuneration Committee reviews remuneration matters, employee benefits and performance related pay structures for Aldermore. It is also responsible for considering and determining Aldermore's remuneration policy and reviewing its adequacy and effectiveness. For further information on the Remuneration Committee, please see Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

4.1.5 Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee reviews the structure and composition of the Board, succession planning and material appointments, in particular Board appointments. For further information on the Corporate Governance and Nomination Committee, please see Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

4.1.6 Disclosure Committee

The Disclosure Committee is responsible for drafting and maintaining procedures, systems and controls for the identification and disclosure of inside information and for ensuring compliance with the relevant rules. It is also responsible for reviewing the operation, adequacy and effectiveness of such disclosure procedures. For further information on the Disclosure Committee, please see Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

4.1.7 Executive Committee

The Executive Committee takes day-to-day responsibility for the running of the business. The Executive Committee implements the strategy and financial plan which is approved at the Board and ensures the performance of the business is conducted in accordance with the Board's instructions. The Executive Committee interacts with the Board via the CEO.

4.1.8 Executive Risk Committee

The Executive Risk Committee is responsible for monitoring Aldermore's risk management framework and adherence to risk appetite statements and the identification, assessment and control of principal risks. It meets at least once a month and interacts with the Board via the CEO.

4.1.9 Management Credit Committee ("MCC")

This committee meets monthly and is responsible for monitoring portfolio performance and reviewing and maintaining credit and lending policies. It is also responsible for approving credit proposals that have been presented to it by the business lines pursuant to its delegated authority.

Detailed credit reports are produced covering each specific business line. These reports are reviewed in detail by the Management Credit Committee and Group Risk. The credit packs report on the quality of new lending, credit performance, arrears and non-performing loans and also provides detail on the composition of the credit portfolios.

4.1.10 Asset and Liability Committee ("ALCO")

The Executive Risk Committee has delegated responsibility for managing Aldermore's exposure to capital, liquidity, interest rate and market risk to the ALCO.

The ALCO meets monthly and ensures that the firm adheres to the market risk, 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 prudential and regulatory targets. The committee is also responsible for the effective management of Aldermore's assets and liabilities and the impact on capital and liquidity of future business activity and management actions.

4.1.11 Product Committee

The committee meets as required to review, approve and set the pricing for new products proposals, and reviews product performance as well as on-going pricing initiatives and strategic directions on product launch. The committee is also responsible for the effective oversight of Aldermore's conduct risk processes for new products.

4.1.12 Divisional Boards (Mortgages, Commercial Finance and Savings)

The Divisional Boards meet on a monthly basis and provide a forum for open discussion and decisions on key issues affecting the relevant business segment. Specific responsibilities include the delivery of strategic objectives, budget formulation and financial delivery, recruitment, training, implementing and maintaining effective controls, product review and performance and management of conduct risk.

4.1.13 Treasury Management Committee

This committee meets monthly and assists the Executive Committee in the oversight of day to day management of Aldermore's liquidity, funding, capital adequacy, interest rate, market and credit risks.

4.1.14 IT and transformation Board

This board meets monthly and is responsible for the implementation of Aldermore's IT strategy and ensuring the availability of robust IT and operational services.

4.1.15 Business Risk Committee

This committee meets monthly and is responsible for maintaining a risk and control framework commensurate with Aldermore's agreed operational risk and conduct risk appetite and oversee the operational and conduct risk profile.

4.1.16 Strategy Board

This Board shall meet once a quarter and is responsible for the initiation, implementation and review of strategic initiatives.

5 Risk appetite

A key component of Aldermore's business strategy is the effective management of risk in order to protect depositors, borrowers, shareholders and to ensure that Aldermore has adequate capital and liquidity at all times. The risk appetite framework is the approach through which risk appetites are established, communicated, and monitored.

Aldermore has a defined risk appetite for each of the principal risks and performance against the risk appetite statements is monitored and reported on a regular basis. The risk appetites are set by the Board and implemented by the Executive Risk Committee. Group Risk is responsible for ensuring Aldermore operates within the stated risk appetites.

The risk appetite framework has the following components:

- **Risk appetite statement:** The articulation of the level and types of risk that Aldermore is willing to accept in order to achieve its business objectives.

- **Risk capacity:** The maximum level of risk Aldermore can assume before breaching constraints determined by regulatory capital and liquidity needs and its obligations including from a conduct perspective to customers.
- **Risk limits:** Quantitative measures that define Aldermore's risk appetite statement to specific activities, providing limits and early warning indicators relevant to the risk appetite statements.
- **Risk profile:** the point in time assessment of Aldermore's net risk exposure.

6 Principal Risks

Aldermore believes the following areas of risk and risk management to be most significant to its overall risk management activities.

6.1 Strategic Risk

6.1.1 Definition

Strategic risk is the risk which can affect Aldermore's ability to achieve its corporate and strategic objectives.

6.1.2 Strategic risk appetite

The strategic risk appetite is measured in terms of the deviation against key performance indicators which form part of Aldermore's business plan. Performance against the strategic risk appetite is measured every quarter and reported to the Risk Committee.

6.1.3 Principal risks

The principal strategic risks arise from margin compression on assets, increased cost of deposits, increased credit losses due to economic volatility and inability to support Aldermore's business plan due to operational capacity and capability.

6.1.4 Mitigation

The management of strategic risks is taken into account as part of corporate planning. The current status against the strategic risks are reviewed by Executive Risk Committee each month to ensure proactive or reactive measures are in place to deal with such risks.

6.2 Credit Risk

6.2.1 Definition

Credit Risk is the risk of financial loss arising from a borrower or counterparty failing to meet its financial obligations to Aldermore in accordance with agreed terms.

6.2.2 Credit risk appetite

Aldermore operates a business line specific credit risk appetite, as well as an overall credit risk appetite for its lending activities. Expected losses are factored into the budgeting and forecast process. These reflect Aldermore's expected view of lending performance and take into account recent performance data and the prevailing economic environment.

6.2.3 Principal risks

This risk arises from Aldermore's lending activities as a result of defaulting mortgage, lease and loan contracts and is the most significant risk incurred by Aldermore.

Although credit risk arises from Aldermore's loan book, it can also arise from other off balance sheet activities. Aldermore does not actively trade in financial instruments, other than for liquidity management purposes.

6.2.4 Mitigation

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms.

Aldermore maintains a dynamic approach to credit management. Its lending policies and performance against risk appetites are regularly reviewed. Aldermore will take necessary steps if specific issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to economic or sector-specific weaknesses.

Aldermore also seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans or certain sectors which can represent higher risk. Aldermore also seeks to obtain security cover and where appropriate personal guarantees from borrowers.

External rating agency ratings for borrowers are not typically available in the specialist segments in the retail and SME markets in which Aldermore operates. Credit risk is, however, assessed through a combination of due diligence, reviewing credit reference agency reports, reviewing financial information, credit scores and the use of experienced underwriters.

Each business area has its own lending policy and dedicated credit team which assesses credit risk, supported by senior credit risk management who have oversight of lending activities.

Group Risk, the Management Credit Committee and the Executive Risk Committee have oversight responsibility for credit risk.

6.2.5 Non-performing Loans and Provisioning

Aldermore maintains a provisioning policy which covers all lending activities. A collective provision is raised against performing balances and specific provisions are raised against agreements showing signs of impairment, are non-performing or in default.

Defaulted agreements are considered to be loans three or more months in arrears, where there is an event of agreement default or where the debtor is insolvent. Invoice Finance facilities will attract a full specific provision for any balance remaining outstanding on expiry of six months following commencement of a "collect-out" or termination event. A specific provision will be raised earlier if there is an immediate anticipation of loss.

When specific provisions are made for defaulted agreements a loan-by-loan analysis is undertaken to understand the probability of recovery, whether the agreement can be restored to order or, if not, what the recovery is likely to be. The majority of loans have good security, such as property, and this will lead in most cases to a full or high level of recovery. Any potential shortfall is calculated and this value forms the basis of the specific provision, taking into account the costs of recovery and expected timing.

There is regular monitoring of the performance of loan assets, especially where there is any sign of potential or actual impairment. Late payments and arrears cases are reported in detail and reviewed on a regular basis and detailed credit reports are submitted for review to the monthly Management Credit Committee and to the Risk Committee on a quarterly basis.

6.3 Capital Risk

6.3.1 Definition

Capital risk is the risk that Aldermore has insufficient capital to cover regulatory requirements and/or growth plans.

6.3.2 Capital risk appetite

Aldermore aims to maintain sufficient capital to cover regulatory requirements, including any capital planning buffers, and to maintain an operational capital buffer.

6.3.3 Principal risks

The risk arises from Aldermore's banking activities and will be affected by any unexpected increase in regulatory requirements or poor financial performance, losses being higher than expected and any downturn in market conditions.

6.3.4 Mitigation

Aldermore undertakes certain activities to manage and mitigate capital risk. The primary mechanism to ensure that sufficient capital is held is through regulating the volume of asset origination. In addition, capital risk management activities include monthly capital forecasting over a period of 12-18 months designed to provide a forward view on capital allocation and excess regulatory capital. Furthermore, stress-testing and sensitivity analysis is performed to provide information on Aldermore's capital position. Capital requirements under stressed conditions are considered as part of an ICAAP.

6.4 Liquidity Risk

6.4.1 Definition

Liquidity Risk is the risk that Aldermore is not able to meet its financial obligations as they fall due, or can do so only at excessive cost.

6.4.2 Liquidity risk appetite

The Board has set a liquidity risk appetite which ensures that a prudent level of liquidity is held to cover an unexpected liquidity outflow such that Aldermore will be able to meet its financial commitments during an extended period of stress. Additionally, reputational risks are kept low through honouring pipeline commitments reasonably expected to complete during a three-month period.

6.4.3 Principal risks

Aldermore's current funding is primarily obtained through SME and retail deposits. Aldermore faces the risk that it has insufficient liquid resources to meet its financial obligations or support Aldermore's growth or there is an event which triggers an unexpected material outflow of SME and/or retail deposits.

6.4.4 Mitigation

To protect Aldermore and its depositors against liquidity risks, Aldermore maintains a liquidity buffer, which is based on its liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding and to enable Aldermore to meet all financial obligations and to support anticipated asset growth. Liquidity requirements under stressed conditions are considered as part of the ILAA process.

Through the ILAA process, Aldermore has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks and the ILAA process determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base.

The ILAA requires Aldermore to consider all material liquidity risks in detail and the ILAA has documented Aldermore's analysis of each key liquidity risk driver and set a liquidity risk appetite against each key liquidity risk driver. Liquidity risks are specifically considered by the ALCO each month.

Based on the business model of funding via retail and SME deposits, the liquidity risk appetite as set by Aldermore is considered appropriate, and provides assurance to the Board that the relevant liquidity risk drivers have been considered and appropriately stressed and that Aldermore is able to meet liabilities beyond the targeted survival period.

6.5 Interest Rate Risk

6.5.1 Definition

Interest Rate Risk is the risk of loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates.

6.5.2 Interest rate risk appetite

Aldermore aims to minimise interest rate risk and has a policy to ensure at least 95 per cent. of its assets are matched with liabilities of a comparable interest rate.

6.5.3 Principal risks

The risk arises from interest rate levels, the related volatility and/or material movement in the structure and level of interest rates where Aldermore has insufficient hedging arrangements in place to counteract these movements which leads to a reduction in net interest margin income.

6.5.4 Mitigation

Where possible Aldermore seeks to match the interest rate structure of assets with liabilities, or deposits, creating a natural hedge. Where this is not possible Aldermore will enter into swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets. Interest rate risk is monitored by the Asset and Liability Management function and reported to ALCO on a monthly basis.

6.6 Market Risk

6.6.1 Definition

Market Risk is the financial impact from movements in market prices on the value of assets and liabilities.

6.6.2 Market risk appetite

Aldermore does not seek to take or expose itself to market risk, and does not carry out proprietary trading, although certain liquid asset investments which form part of the liquid asset buffer may carry a limited amount of mark-to-market risk which is regularly monitored.

6.6.3 Principal risks

These securities are exposed to market price movements should any of the securities be sold.

6.6.4 Mitigation

Monthly prices are obtained to ensure that Aldermore is aware of any material diminution in value. Aldermore has repo facilities in place which will be used in the first instance to obtain liquidity when necessary, which will avoid the need to sell the liquidity buffer assets and so avoiding crystallisation of any price gain or loss due to market price movements.

6.7 Operational Risk

6.7.1 Definition

Operational Risk is the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events.

6.7.2 Operational risk appetite

Aldermore aims to maintain robust operational systems and controls and seeks to operate within a defined level of operational risk. The operational risk appetite considers risk events, the assessment of internal controls as well as holding additional capital for certain operational risks.

6.7.3 Principal risks

Operational risk can arise from the failure or inadequacy of IT systems, data security, project management, outsourcing arrangements and from internal and third party fraud and compliance failings.

6.7.4 Mitigation

Through the establishment of and investment in sound systems, controls and audit functions, Aldermore seeks to minimise operational failures. As part of the operational risk management process, Aldermore has an Operational Risk Policy, maintains a key risks register, performs business assurance and has business continuity plans in place. Aldermore uses an Enterprise Risk Management system to support the recording of risks and controls as well as monitors operational risks and risk events.

The IT and Transformation Board meets monthly to ensure that robust IT, operations and compliance services are delivered at all times and that the systems are capable of supporting growth and changing business requirements.

The Business Risk Committee has responsibility for monitoring all the key operational risks facing the organisation, including compliance, conduct and operational risks. Key Risk Indicators are used to provide an overview of the control environment and acts as a means to practically assess performance against Aldermore's operational risk appetite.

6.7.5 Key risks register

Each business area is required to maintain a risk register which identifies and analyses the core risks facing their business segments. These are maintained in conjunction with support from the second line operational risk function, which provides oversight of the registers.

6.7.6 Business Continuity Plans ("BCP") and Disaster Recovery ("DR") Plans

BCP and DR plans are in place for all operational locations and core systems and are regularly updated. These plans are tested to ensure that they are robust and fit for purpose and Aldermore uses external continuity and disaster recovery sites as back-up locations for both IT servers and staff. The integrated IT system has enhanced Aldermore's ability to operate from various locations utilising the network of offices and contingency sites across the country should the need arise.

6.8 Conduct risk

6.8.1 Definition

Conduct risk is the risk of detriment caused to Aldermore's customers due to the inappropriate execution of its business activities and processes. Aldermore extends the definition of "customer" to include both retail and SME commercial customers (excluding intermediaries/third parties) across all business segments, including both regulated and non-regulated activities, thereby applying its conduct risk policies to all lending and deposit-taking activities.

6.8.2 Conduct risk appetite

Aldermore has a zero appetite for systemic unfair outcomes, which may result in significant detriment to Aldermore's customers. Systemic unfair outcomes may arise from poor product design, poor sale processes or unacceptable operational practices which risk repeated or continual outcomes which are detrimental to customers.

However, occasional failures in operational processes may occur, for example administration and processing errors or interruptions to IT systems. These occasional events may have an impact on customers, leading to customer detriment. Aldermore has set a tolerance around the detriment caused through such non-systemic process failings.

6.8.3 Principal risks

The risk is that customers can suffer detriment due to actions, processes or products which originate from within Aldermore. Conduct risk can arise through the design of products that do not meet customers' needs, mishandling complaints where Aldermore has behaved inappropriately towards its customers, inappropriate sale processes and exhibiting behaviour that does not meet market or regulatory standards. Customer detriment could affect Aldermore's reputation, lead to loss of market share due to damage to Aldermore's brand, may lead to customer redress payments and could lead to regulatory action and censure.

6.8.4 Mitigation

Aldermore mitigates conduct risk by monitoring various operational metrics and by tracking activities which affect customers, monitoring customer complaints, implementing process improvements and adhering to service standards. The conduct risk metrics (which include among others, staff performance levels, training, customer feedback and complaints, product retention rates and cancellations, arrears levels and customer service standards) vary across the business lines and consist of individual business line conduct risk KPIs, the sum of which is measured against the risk appetite.

Conduct risk metrics and KPIs are in place to evidence fair outcomes, identify any emerging issues and document remedial actions. Each customer-facing area is responsible for implementing controls designed to manage and report on conduct risk, which includes understanding how customer detriment may occur, how it is identified and how it is prevented going forward. Conduct risk is monitored by the Business Risk Committee.

PART XIV
CAPITALISATION AND INDEBTEDNESS STATEMENT

The following table sets out the Group's capitalisation at 31 January 2015. The capitalisation of the Group has been extracted without material adjustment from unaudited internal management reporting.

	As at 31 January 2015
	(£'000)
Shareholders' equity	
Share capital	23,737
Share premium	—
Contingent convertible securities	73,657
Other reserves	4,641
Retained earnings	282,574
Total capitalisation	**384,609**

There has been no material change in the Group's capitalisation since 31 January 2015.

The following table sets out the Group's net indebtedness as at 31 January 2015, which has been extracted without material adjustment from unaudited internal management reporting.

	As at 31 January 2015
	(£'000)
Issued debt securities	279,482
Bank debt(1)	1,100
Subordinated liabilities	37,306
Total indebtedness	**317,888**

Note:

(1) Bank debt represents cash collateral posted by swap counterparties

Indirect and contingent indebtedness

	As at 31 January 2015
	(£'000)
Guarantees and assets pledged as collateral security:	
Securities pledged in the FLS	324,350
Securitised mortgages	286,718
Other contingent liabilities	—
Total indirect and contingent indebtedness	**611,068**

PART XV
HISTORICAL FINANCIAL INFORMATION

Section A—Accountant's report on Historical Financial Information

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The Directors
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10 March 2015

Dear Sirs

Aldermore Group PLC

We report on the financial information set out on pages 148 to 228 for the three years ended 31 December 2014. This financial information has been prepared for inclusion in the prospectus dated 10 March 2015 of Aldermore Group PLC on the basis of the accounting policies set out in note 2. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Aldermore Group PLC are responsible for preparing the financial information on the basis of preparation set out in note 1(a) to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the prospectus dated 10 March 2015, a true and fair view of the state of affairs of Aldermore Group PLC as at 31 December 2012, 31 December 2013 and 31 December 2014 and of its consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the three years ended 31 December 2012, 31 December 2013 and 31 December 2014 in accordance with the basis of preparation set out in note 1(a) and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1(a).

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

Section B—Historical Financial Information

Aldermore Group PLC
Consolidated financial statements for the year ended 31 December 2014

Consolidated income statement for the years ended 31 December 2014, 2013, and 2012

	Note	Year ended 31 December 2014	2013	2012
			(£'000)	
Interest income	5	227,833	156,441	99,277
Interest expense	6	(87,618)	(75,799)	(63,283)
Net interest income		**140,215**	**80,642**	**35,994**
Fee and commission income	7	26,386	23,555	19,434
Fee and commission expense	8	(7,819)	(7,529)	(5,393)
Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss	9	(4,066)	3,277	(1,934)
Gains on disposal of debt securities		2,944	1,869	3,231
Other operating income	10	7,357	6,531	6,583
Total operating income		**165,017**	**108,345**	**57,915**
Provisions	32	(3,605)	(2,111)	(483)
Costs in preparation for an initial public offering		(6,014)	—	—
Other administrative expenses		(91,622)	(65,252)	(49,424)
Administrative expenses	14	(101,241)	(67,363)	(49,907)
Depreciation and amortisation	15	(3,901)	(3,822)	(2,319)
Operating profit before impairment losses		**59,875**	**37,160**	**5,689**
Impairment losses on loans and advances to customers	20	(9,570)	(11,468)	(5,416)
Profit before taxation		**50,305**	**25,692**	**273**
Taxation (charge)/credit	17	(11,871)	14	941
Profit after taxation—attributable to equity holders of the Group		**38,434**	**25,706**	**1,214**
Basic earnings per share	18	16.4p	12.7p	0.6p
Diluted earnings per share	18	16.3p	12.6p	0.6p

The notes and information on pages 152 to 228 form part of these financial statements.

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

Consolidated statement of comprehensive income for the years ended 31 December 2014, 2013 and 2012

	Year ended 31 December 2014	2013	2012
		(£'000)	
Profit after taxation	**38,434**	**25,706**	**1,214**
Other comprehensive income/(expense):			
Items that may subsequently be transferred to the income statement:			
Available for sale debt securities:	793	(2,566)	3,374
Fair value movements	3,456	(1,490)	7,546
Amounts transferred to the income statement	(2,465)	(1,869)	(3,231)
Taxation	(198)	793	(941)
Total other comprehensive income/(expense)	**793**	**(2,566)**	**3,374**
Total comprehensive income attributable to equity holders of the Group	**39,227**	**23,140**	**4,588**

Consolidated statement of financial position as at 31 December 2014, 2013 and 2012

	Note	31 December 2014	31 December 2013	31 December 2012
			(£'000)	
Assets				
Cash and balances at central banks		79,567	192,844	1,654
Loans and advances to banks	19	117,401	237,544	105,019
Debt securities	21	509,684	355,653	342,364
Derivatives held for risk management	22	8,168	8,872	10,262
Loans and advances to customers	20	4,801,064	3,373,844	2,056,560
Fair value adjustment for portfolio hedged risk	5	7,175	—	—
Other assets	26	3,344	312	567
Prepayments and accrued income	27	6,856	5,109	3,160
Deferred taxation	17	6,598	3,299	—
Property, plant and equipment	25	2,815	2,858	1,612
Intangible assets	24	22,571	22,657	22,427
Total assets		**5,565,243**	**4,202,992**	**2,543,625**
Liabilities				
Amounts due to banks	28	305,907	385,951	115,079
Customers' accounts	29	4,458,962	3,464,018	2,161,649
Derivatives held for risk management	22	54,198	17,867	31,612
Fair value adjustment for portfolio hedged risk	6	1,528	—	—
Other liabilities	30	18,634	14,343	11,320
Accruals and deferred income	31	21,107	16,236	9,899
Current taxation		8,148	2,492	—
Provisions	32	2,008	1,157	576
Debt securities in issue	33	279,143	—	—
Subordinated notes	34	36,758	35,571	34,600
Total liabilities		**5,186,393**	**3,937,635**	**2,364,735**
Share capital	35	23,737	23,737	19,918
Share premium account	35	—	237,305	177,959
Contingent convertible securities	36	73,657	—	—
Capital contribution reserve		2	2	2
Warrant reserve		2,200	2,200	2,200
Available for sale reserve		1,375	582	3,148
Retained earnings		277,879	1,531	(24,337)
Equity		**378,850**	**265,357**	**178,890**
Total liabilities and equity		**5,565,243**	**4,202,992**	**2,543,625**

Consolidated statement of cash flows

	Note	Year ended 31 December 2014	2013	2012
			(£'000)	
Cash flows from operating activities				
Profit before taxation		50,305	25,692	273
Adjustments for non-cash items and other adjustments included within the income statement	37	(9,422)	18,002	(11,118)
Increase in operating assets	37	(1,487,787)	(1,320,852)	(912,719)
Increase in operating liabilities	37	962,772	1,571,927	930,951
Income tax paid		(9,712)	—	—
Net cash flows (used in)/generated from operating activities		**(493,844)**	**294,769**	**7,387**
Cash flows from investing activities				
Purchase of debt securities		(531,953)	(89,071)	(150,496)
Proceeds from sale and maturity of debt securities		346,183	41,265	31,951
Capital repayments of debt securities		48,226	23,893	111,045
Interest received on debt securities		11,229	7,948	8,108
Purchase of property, plant and equipment and intangible assets		(5,400)	(5,298)	(6,338)
Net cash used in investing activities		**(131,715)**	**(21,263)**	**(5,730)**
Cash flows from financing activities				
Proceeds from issue of shares		—	63,165	179
Capital repayments on debt securities issued		(52,840)	—	2
Debt securities issuance costs		(2,086)	—	—
Proceeds from issue of debt securities		333,300	—	36,000
Issuance costs of contingent convertible securities		(1,454)	—	(209)
Proceeds from issue of contingent convertible securities		75,111	—	—
Interest paid on debt securities		(2,513)	—	—
Interest paid on subordinated notes		(5,150)	(5,150)	(2,856)
Net cash from financing activities		**344,368**	**58,015**	**33,116**
Net (decrease) / increase in cash and cash equivalents		**(281,191)**	**331,521**	**34,773**
Cash and cash equivalents at start of the year	37	415,210	83,689	48,916
Movement during the year		(281,191)	331,521	34,773
Cash and cash equivalents at end of the year	37	**134,019**	**415,210**	**83,689**

Consolidated statement of changes in equity

	Share capital	Share premium account	Contingent convertible securities	Capital contribution reserve	Warrant reserve	Available for sale reserve	Retained earnings	Total
				(£'000)				
Year ended 31 December 2014								
As at 1 January	**23,737**	**237,305**	**—**	**2**	**2,200**	**582**	**1,531**	**265,357**
Total comprehensive income	—	—	—	—	—	793	38,434	39,227
Transactions with equity holders:								
—Reduction in share premium (Note 35)	—	(237,305)	—	—	—	—	237,305	—
—Issuance of contingent convertible securities (Note 36)[1]	—	—	75,111	—	—	—	—	75,111
—Issuance costs	—	—	(1,454)	—	—	—	—	(1,454)
—Share based payments (Note 35)	—	—	—	—	—	—	609	609
As at 31 December	**23,737**	**—**	**73,657**	**2**	**2,200**	**1,375**	**277,879**	**378,850**
Year ended 31 December 2013								
As at 1 January	**19,918**	**177,959**	**—**	**2**	**2,200**	**3,148**	**(24,337)**	**178,890**
Total comprehensive income	—	—	—	—	—	(2,566)	25,706	23,140
Transactions with equity holders:	—	—	—	—	—	—	—	—
—Shares issued, net of expenses	3,819	59,346	—	—	—	—	—	63,165
—Share based payments (Note 35)	—	—	—	—	—	—	162	162
As at 31 December	**23,737**	**237,305**	**—**	**2**	**2,200**	**582**	**1,531**	**265,357**
Year ended 31 December 2012								
As at 1 January	**19,807**	**177,891**	**—**	**—**	**—**	**(226)**	**(25,691)**	**171,781**
Total comprehensive income	—	—	—	—	—	3,374	1,214	4,588
Transactions with equity holders:								
—Shares issued, net of expenses	111	68	—	—	—	—	—	179
—Capital contribution	—	—	—	2	—	—	—	2
—Warrant reserve	—	—	—	—	2,200	—	—	2,200
—Share based payments (Note 35)	—	—	—	—	—	—	140	140
As at 31 December	**19,918**	**177,959**	**—**	**2**	**2,200**	**3,148**	**(24,337)**	**178,890**

(1) On 9 December 2014, Aldermore Group PLC ("the Company") raised £75.1m from the issue of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities. Further detail is provided in Note 36.

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

(a) Accounting basis

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

Both the Group consolidated financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("**IFRSs**") as issued by the International Accounting Standards Board ("**IASB**"), and as adopted by the European Union.

The Group prepared its annual consolidated financial statements under United Kingdom Generally Accepted Accounting Practice ("**UK GAAP**") until 31 December 2013. UK GAAP differs in certain respects from IFRSs, hence when preparing these financial statements, management has amended certain accounting and valuation methods and accounts disclosures to comply with IFRSs. The significant accounting policies adopted are set out in Note 2.

The Group's first set of IFRS financial statements for the 6 months ended 30 June 2014 was included in the information memorandum for the contingent convertible securities issued in December 2014 (see Note 36). The Group's date of transition to IFRSs was 1 January 2011. The Group's first set of IFRS financial statements, including the reconciliations required by IFRS 1, are available on the Group's website www.investors.aldermore.co.uk

By including the Company financial statements here together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The principal activity of the Company is that of an investment holding company.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company (jointly referred to as the "**Group**") made up to 31 December each year.

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation.

Securitisation vehicles

The Group has securitised certain loans and advances to customers by the transfer of the beneficial interest in such loans to securitisation vehicles (see Note 20). The securitisation enabled the subsequent issue of debt securities by a securitisation vehicle to investors who have the security of the underlying assets as collateral. The securitisation vehicles are fully consolidated into the Group's accounts as the Group has control as defined above.

The transfer of the beneficial interest in these loans to the securitisation are not treated as sales by the Group. The Group continues to recognise these assets within its own Statement of Financial Position after the transfer as it continues to retain substantially all the risks and rewards from the assets.

1 Basis of preparation (Continued)

(c) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios, taking management actions into account as appropriate if the additional capital needed to continue the forecast growth strategy is not forthcoming. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority ("**PRA**").

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the financial statements:

- derivative financial instruments are measured at fair value through profit or loss;
- debt securities designated at fair value through profit or loss;
- available for sale debt securities are valued at fair value through other comprehensive income; and
- fair value adjustments for portfolios of financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships, which reflect changes in fair value attributable to the risk being hedged.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Note 3.

(f) Future accounting developments

All standards or amendments to existing standards which have been endorsed by the European Union ("**EU**") and which are available for early adoption for annual periods commencing on or after 1 January 2014 have been adopted by the Group.

There are also a number of standards, amendments and interpretations which have been issued by the IASB but which have not yet been endorsed by the EU. The most significant of these is IFRS 9: "*Financial Instruments*", the planned replacement for IAS 39: "*Financial Instruments: Recognition and Measurement*".

IFRS 9 introduces new requirements for the classification and measurement of financial assets, hedge accounting and the impairment of financial assets. Under IFRS 9 financial assets are classified and measured based on the business model under which they are held and the characteristic of their contractual cash flows. In addition, IFRS 9 is replacing the incurred loss approach to impairment of IAS 39

1 Basis of preparation (Continued)

with one based on expected losses, and is replacing the rules based hedging requirements of IAS 39 with new requirements that align hedge accounting more closely with risk management activities.

IFRS 9, including the final version of the requirements in respect of impairment, was issued on 24 July 2014. The IASB has decided to apply IFRS 9 for annual periods beginning on or after 1 January 2018. IFRS 9 is required to be applied retrospectively, but prior periods need not be restated. IFRS 9, including its commencement date, will be subject to endorsement by the EU.

In addition, the IASB has commenced a separate project for macro hedging, which is exploring a new way to account for the dynamic risk management of open portfolios and is likely to be of future relevance to the Group. That project is still at the Discussion Paper stage and as yet the likely final form of any amendments to IFRS 9, or their required implementation date, is not clear. The adoption of IFRS 9 is expected to have a material impact on the Group's financial statements. Work is ongoing to quantify the impact.

The changes in the approach to impairment would not be likely to have a significant impact on the Group's impairment provisions in respect of specifically impaired loans or those loans where there has been a credit deterioration although the loans are not considered to be yet impaired, as the current impairment provisions on such loans are based on estimates of expected losses. In respect of other loans against which collective provisions are raised our current approach as explained in Note 3 is to estimate probabilities of defaults, and hence expected losses, for the next 12 months. This approach is similar to that which will be required under IFRS 9 except that in order to measure incurred losses, as required by IAS 39, we then adjust the calculated 12 month expected loss for an emergence period reflective of the underlying asset so as to reflect only the impairment which is considered to have been incurred at the reporting date.

The IASB has also issued IFRS 15: "*Revenue from contracts with customers".* The impact for the Group is currently being assessed. The Standard will be effective for annual reporting periods beginning on or after 1 January 2017 with retrospective application subject to EU endorsement.

2 Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognised in the income statement on an effective interest rate ("**EIR**") basis. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider the assets' future credit losses.

At each reporting date, management makes an assessment of the expected remaining life of its financial assets, including any acquired loan portfolios and where there is a change in those assessments the remaining amount of any unamortised discount or premiums is adjusted so that the interest income continues to be recognised prospectively on the amortised cost of the financial asset at the original EIR. The adjustment arising is recognised within interest income in the income statement for the current period.

The calculation of the EIR includes all transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premium arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis;
- Interest on available for sale debt securities calculated on an EIR basis;
- Interest income recognised on finance leases where the Group acts as the lessor (see Note 2(o));

2 Significant accounting policies (Continued)

- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk, together with changes in the fair value of the hedged item attributable to the hedged risk; and
- Interest income on financial assets designated at fair value so as to avoid an accounting mismatch with derivatives held as an "economic" hedge and the matching interest component of the derivative.

Interest income includes amounts the Group charges its invoice finance clients as interest each day on the balance of their outstanding loans. This interest income is recognised in the income statement on an EIR basis.

(b) Fee and commissions and other operating income

Fee and commission income

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

Within the Invoice Finance division of the Group, customers are charged a factoring fee for managing their sales ledgers. This fee is recognised within fee and commissions income over the period in which the ledger management service is provided. Other fee and commission income includes fees charged for valuations, documentation, mortgage services and arrears, and are recognised as the related services are performed.

Arrangement fees and others fees relating to loans and advances to customers are included within interest income as part of the EIR calculation.

Fee and commission expense

Fee and commission expense predominantly consists of introducer commissions, legal and valuation fees and company search fees. Where these fee and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable they are recognised within fee and commission expense as the services are received.

Other operating income

Other operating income predominantly arises from the provision of invoice finance services and includes disbursements and collect out income. This income is recognised within other operating income when the service is provided.

(c) Net income from derivatives and other financial instruments at fair value through profit or loss

Net income from derivatives and other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement and financial assets designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest and foreign exchange differences, with the exception of interest income on financial assets designated at fair value and the matching interest component of the hedging derivatives. The assets designated at fair value are treated in this manner so as to avoid an accounting mismatch with derivatives held as an "economic" hedge.

(d) Financial instruments—recognition and derecognition

(i) Recognition

The Group initially recognises loans and advances, amounts due to banks, customer accounts and subordinated notes issued on the date that they are originated.

Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially

2 Significant accounting policies (Continued)

recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

Financial assets are derecognised when they are qualifying transfers and:

- the rights to receive cash flows from the assets have ceased; or
- the Group has transferred substantially all the risks and rewards of ownership of the assets.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

When available for sale financial assets are derecognised, the cumulative gain or loss, including that previously recognised in reserves, is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through the income statement.

*(iii) Funding for Lending Scheme ("**FLS**")*

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the FLS are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership, including all cashflows arising from the loans and advances and exposure to credit risk. The treasury bills that the Group borrows against the transferred assets are not recognised in the statement of financial position, but where they are sold to third parties by the Group under agreements to repurchase, the cash received is recognised as an asset within the statement of financial position together with the corresponding obligation to return it which is recognised as a liability at amortised cost within 'Due to banks'. Interest is accrued over the life of the agreement on an EIR basis.

(e) Financial assets

(i) Overview

The Group classifies its financial assets (excluding derivatives) as either:

- loans and receivables;
- available for sale; or
- financial assets designated at fair value through profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to banks and customers.

2 Significant accounting policies (Continued)

(iii) Available for sale

Available for sale financial assets are debt securities that are not held for trading and are intended to be held for an indefinite period of time. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current quoted bid prices in active markets for identical assets that the Group can assess at the reporting date. Where there is no active market or the debt securities are unlisted the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment losses are recognised in the income statement. Other fair value changes are recognised in other comprehensive income and presented in the available for sale reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

(iv) Fair value assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss are assets which have been designated as such to eliminate or significantly reduce a measurement and recognition inconsistency or where management specifically manages an asset or liability on that basis. These assets are measured at fair value based on current quoted bid prices in active markets for identical assets that the Group can assess at the reporting date. Gains and losses arising from changes in the fair value are brought into the income statement within "Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss" as they arise.

(f) Financial liabilities

(i) Overview

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs for financial liabilities other than derivatives. Financial liabilities, other than derivatives, are subsequently measured at amortised cost.

(ii) Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(iii) Subordinated notes

Subordinated notes issued by the Group are assessed as to whether they should be treated as equity or financial liabilities. Where there is a contractual obligation to deliver cash or other financial assets, they are treated as a financial liability and measured at amortised cost using the EIR after taking account of any discount or premium on the issue and directly attributable costs that are an integral part of the EIR. The amount of any discount or premium is amortised over the period to the expected call date of the instrument. All subordinated notes issued by the Group are classified as financial liabilities; however, the warrants attached to the subordinated notes, which give the holders the right to subscribe for shares in Aldermore Group PLC (the "**Parent Company**"), have been included in equity as a warrant reserve at the residual value attributable to the warrants after deducting from the face value of the instrument as a whole the amounts determined separately as the fair value of the subordinated notes at the date of issue.

2 Significant accounting policies (Continued)

(g) Impairment—financial assets

(i) Assessment

At each reporting date the Group assesses its financial assets not at fair value through profit or loss as to whether there is objective evidence that the assets are impaired. Objective evidence that financial assets are impaired can include:

- significant financial difficulty of the borrower;
- a breach of contract such as default or delinquency in interest or principal repayments;
- the granting of a concession for economic or legal reasons relating to the borrower's financial condition that the Group would not otherwise grant;
- indications that a borrower or issuer will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a debt security because of the issuer's financial difficulties; or
- national or local economic conditions that correlate with defaults within groups of financial assets e.g. increases in unemployment rates or decreases in property prices relating to the collateral held.

The Group considers evidence for the impairment of loans and advances at both the individual asset and collective level. In certain cases where a borrower is experiencing significant financial distress, the Group may use forbearance measures to assist them and militate against default. Any forbearance measures agreed are assessed on a case by case basis.

(ii) Scope

The Group considers evidence of impairment of financial assets at both an individual asset and collective level.

Individual impairment

All individually significant financial assets are assessed for individual impairment using a range of risk criteria. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets are considered to be individually impaired where they meet one or more of the following criteria:

- A default position equivalent to 3 or more missed monthly repayments (or a quarterly payment which is over 30 days past due);
- Litigation proceedings have commenced;
- Act of insolvency, e.g. bankruptcy, administration or liquidation, or appointment of an LPA Receiver;
- Invoice finance accounts are classified as in default when there is cessation of additional advances and/or when the facility is in collect-out; or
- Where there is evidence of fraud.

Collective impairment

All financial assets that are not found to be individually impaired are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

2 Significant accounting policies (Continued)

(iii) Measurement

Impairment provisions on financial assets individually identified as impaired are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR.

When assessing collective impairment, the Group estimates incurred losses using a statistical model which multiplies the probability of default ("**PD**") for each class of customer (using external credit rating information) by the loss given default ("**LGD**") multiplied by the estimated exposure at default ("**EaD**") to arrive at the projected expected loss. An emergence period is subsequently applied to the projected expected loss to determine the estimated level of incurred losses at each reporting date. In addition an adjustment is made to discount the imputed cash flows from the model at the assets' original EIR to arrive at the recorded collective provisions. The model's results are adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to differ from those suggested by historical modelling.

In assessing the level of collective impairment provisions, the Group uses statistical modeling of historical trends of probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes to ensure they remain appropriate.

Impairment losses are recognised immediately in the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write off is made when all or part of a financial asset is deemed uncollectible or forgiven after all collection procedures have been completed and the amount of the loss has been determined. Write offs are charged against amounts previously reflected in the allowance account or directly to the income statement. Any additional amounts recovered after a financial asset has been previously written off are offset against the write off charge in the income statement once they are received. Allowances for impairment losses are released at the point when it is deemed that, following a subsequent event, the risk has reduced such that an allowance is no longer required.

Interest on impaired financial assets is recognised at the same EIR as applied at the initial recognition of the financial asset but applied to the book value of the financial asset net of any individual impairment allowances that have been raised.

(iv) Impairment of financial assets classified as available for sale

Impairment losses on available for sale debt securities are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to the income statement. The cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in the income statement. Changes in impairment provisions attributable to the effective interest method are reflected as a component of interest income.

If in a subsequent period the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed.

(h) Financial instruments—fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the

2 Significant accounting policies (Continued)

most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimises the use of unobservable inputs. The chosen valuation techniques incorporate all the factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price—i.e. the fair value of the consideration received or given.

If an asset measured at fair value has a bid and an offer price, the Group measures assets and long positions at a bid price and liabilities at an offer price.

(i) Derivative financial instruments

The Group enters into derivative transactions only for the purpose of reducing exposures to fluctuations in interest rates, exchange rates and market indices; they are not used for proprietary trading purposes.

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties. As the Group's derivatives are covered by master netting agreements with the Group's counterparties, with any net exposures then being further covered by the payment or receipt of periodic cash margins, the Group has used a risk free discount rate for the determination of their fair values.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the current legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within Amounts due to banks. Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in Loans and advances to banks.

(j) Hedge accounting

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective, the strategy in undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated.

Fair value hedge accounting for a portfolio hedge of interest rate risk

The Group has applied fair value hedge accounting for a portfolio hedge of interest rate risk for the first time, starting on 1 January 2014. As part of its risk management process the Group identifies portfolios whose interest rate risk it wishes to hedge. The portfolios comprise either only assets or only liabilities. The Group analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates as the hedged item an amount of assets or liabilities from each portfolio that it wishes to hedge.

The Group measures monthly the change in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair

2 Significant accounting policies (Continued)

value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as a separate item, 'Fair value adjustment for portfolio hedged risk', either within assets or liabilities as appropriate. This amount is amortised on a straight line basis to the income statement over the remaining average useful life of the original hedge relationship, from the month in which it is first recognised.

The Group measures the fair value of each hedging instrument monthly. The value is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

(k) Embedded derivatives

A derivative may be embedded in another instrument, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on the statement of financial position with derivatives held for risk management at fair value. Movements in fair value are posted to the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular asset or liability.

Embedded derivatives within equity instruments are considered separately. The embedded derivative on the contingent convertible securities is not separated as the Group has an accounting policy not to separate a feature that has already been considered in determining that the entire issue is non-derivative equity instrument.

(l) Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost at transition to IFRSs, less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset or costs incurred in bringing the asset to use. Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost of each asset to realisable values on a straight-line basis over its expected useful life, as follows:

- Fixtures, fittings and equipment 5 years
- Computer hardware 1 to 5 years

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. 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.

(m) Intangible assets

Goodwill

Goodwill is stated at cost or deemed cost at transition to IFRSs, less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment on an annual basis. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

Computer systems

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

2 Significant accounting policies (Continued)

Software is amortised on a straight line basis in the income statement over its useful life, from the date that it is available for use. The estimated useful life of software is one to five years.

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

Goodwill

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to divisions. An impairment loss is recognised if the carrying amount of a division exceeds its recoverable amount. The recoverable amount of a division is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of post-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

Intangible assets

If impairment is indicated, the assets recoverable amount (being the greater of fair value less costs to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows from continuing use of the asset. If the carrying value of the asset is less than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement.

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

(o) Assets leased to customers

All leases of assets to customers are finance leases as defined by IAS 17. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised, within interest income in the income statement, over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

(p) Assets leased from third parties

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within administrative expenses or staff costs (in the case of company cars), on a straight line basis over the period of the lease. The Group holds no assets under finance leases.

(q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Group has an obligation to contribute to the Financial Services Compensation Scheme ("**FSCS**") to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Group has an obligation in accordance with IAS 37. The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits.

2 Significant accounting policies (Continued)

(r) Foreign currencies

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

(s) Taxation

Taxation comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Pension costs

The cost of providing retirement benefits is charged to the income statement at the amount of the defined contributions payable for each year. Differences between contributions payable and those actually paid are shown as accruals or prepayments. The Group has no defined benefit pension scheme.

(u) Shareholders' funds

(i) Capital instruments

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, or where the instrument will or may be settled in the Company's own equity instruments but includes no obligation to deliver a variable number of the Company's own equity instruments then it is treated as an equity instrument. Accordingly, the Company's share capital, contingent convertible securities and warrants represented by the warrant reserve are presented as components of equity within shareholders' funds. Any dividends, interest or other distributions on capital instruments are recognised in equity. Related income tax is accounted for in accordance with IAS 12.

2 Significant accounting policies (Continued)

(ii) Share premium

Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of the shares issued.

(v) Capital raising costs

Costs directly incremental to the raising of share capital are netted against the share premium account. Costs directly incremental to the raising of convertible securities included in equity are offset against the proceeds from the issue within equity.

(w) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(x) Investment in Group Undertakings

Investments in group undertakings are initially recognised at cost. At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired. If such an indication exists, the Company estimates the investment's recoverable amount. The investment is written down to the recoverable amount if this is lower than its carrying value. The impairment loss is recognised in the income statement.

(y) Warrants

The Company's subsidiary, Aldermore Bank PLC, has issued subordinated notes with an attached warrant. The warrant gives the holders the right to subscribe for shares in the Company. The value attributable to these warrants has been reflected in an increase in the investment in Group undertakings and has been included in equity as a warrant reserve.

(z) Share based payment transactions

Employees (including senior executives) of the Group may receive remuneration in the form of share based payment transactions, whereby employees can purchase equity instruments in Aldermore Group PLC, the Group's Parent Company ("**equity-settled transactions**"). The consideration paid for the equity instruments was in some cases below the fair value at the transaction date. The fair value of these transactions is determined at the grant date and is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

The expense recognised in the income statement for the period represents the movement in cumulative expense recognised at the beginning and end of that period. Where the Group's parent grants equity instruments to the Group's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group accounts for these share-based payments as equity-settled. Further details of share based payments are provided in Note 35.

The share based payment transactions are recognised as an investment in group undertakings with an associated credit to the share based payment reserve within the parent company standalone financial statements.

3 Use of estimates and judgements

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

3 Use of estimates and judgements (Continued)

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to loan impairment provisions, EIRs, contingent liabilities, the classification of contingent convertible securities and intangible assets.

(a) Loan impairment provisions

Loan portfolios across all divisions of the Group are reviewed on at least a monthly basis to assess for impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and by the reporting date. The calculation of impairment loss is management's best estimate of losses incurred in the portfolio at the balance sheet date and reflects expected future cash flows based on both the likelihood of a loan or advance being written off and the estimated loss on such a write off.

At 31 December 2014 gross loans and advances to customers totalled £4,824 million (31 December 2013: £3,395 million, 31 December 2012: £2,069 million), against which impairment allowances of £23 million (31 December 2013: £21 million, 31 December 2012: £12 million) had been made (see Note 20). The Group's accounting policy for loan impairment provisions on financial assets classified as loans and receivables is described in Note 2g. Impairment allowances are made up of two components, those determined individually against specific assets and those determined collectively. Of the impairment allowance of £23 million at 31 December 2014, £14 million relates to individual provisions and £9 million relates to collective provisions. The section below provides details of the critical elements of judgement within the loan impairment calculations. Less significant judgements are not disclosed.

Individual

Individual impairment allowances are established against the Group's individually significant financial assets that are deemed by management to be impaired. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions, the financial status of the customer and the realisable value of the security held. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Collective

The collective impairment allowance is also subject to estimation uncertainty and in particular is sensitive to changes in economic and credit conditions, including the interdependency of house prices, unemployment rates, interest rates, borrowers' behaviour and consumer bankruptcy trends. All of these factors can influence the key assumptions detailed below. It is, however, inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance.

The key assumptions used in the collective model are: probability of default ("**PD**"), the loss given default ("**LGD**") and the loss emergence period ("**EP**") (the time between a trigger event occurring and the loans being identified as individually impaired). An additional element is included within the collective provision to reflect fraud losses that are incurred as at the reporting date but are yet to be individually impaired. Further details in respect of assumptions and details of the sensitivity of the estimate of the impairment allowance to changes in significant assumptions are as follows:

Probability of default:

The PD is based on external individual customer credit rating information updated for each reporting date. This external credit rating information gives a PD in the next 12 months where 'default' is defined as loans which are 2 months or more in arrears ("**2 MIA**") and incorporates credit information from a broad range of financial services products for each customer.

3 Use of estimates and judgements (Continued)

Management make an estimate so as to adjust the external data to reflect both the individual nature of the Group's lending and the Group's policy of classifying loans which are 3 months or more in arrears ("**3 MIA**") as 'impaired'. This adjustment is achieved by using two management assumptions: firstly a "roll rate" that reflects how many of the loans which fall into 2 MIA will also fall into 3 MIA; and secondly a scalar that adjusts the external PDs to reflect the individual nature of the Group's lending.

- A 10 per cent. absolute increase in the "roll rate" assumed by management between 2 MIA and 3 MIA (e.g. a PD increasing from 50 per cent. to 60 per cent.), when the loans are considered to be individually impaired would increase the impairment allowance by £0.4 million.
- A 10 per cent. relative reduction in the scaling factors applied to external data in order to arise at PDs appropriate to the individual nature of lending being undertaken would increase the impairment allowance by £0.5 million.

Loss given default

The model calculates the LGD from the point of repossession. Not all cases that are 3 MIA will reach repossession. Management therefore adjust the model by applying an assumption of the percentage of accounts 3 MIA that will reach repossession.

- A 10 per cent. absolute reduction in this assumption would decrease the impairment allowance by £0.8 million.

The LGD is also sensitive to the application of the House Price Index ("**HPI**") and Forced Sale Discount ("**FSD**") which affect the underlying value of the collateral which is expected to be received.

- A 10 per cent. relative reduction in the HPI would increase the overall impairment allowance by £1.2 million.
- A 5 per cent. absolute increase in the FSD would increase the overall impairment provision by £0.9 million.

Emergence period

Management make a judgement, according to the line of business for the underlying loans, on the length of emergence period to apply to the estimated losses expected to be recognised in the next 12 months in order to determine those which are considered as incurred as at the reporting date.

- A three month increase in all emergence periods would increase the overall impairment allowance by £3.3 million.

(b) Effective interest rate

IAS 39 requires interest earned from mortgages to be measured under the EIR method, as described in Note 2a. Management must therefore use judgement to estimate the expected life of each type of instrument and hence the expected cash flows relating to it. The accuracy of the EIR would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

A critical estimate in determining EIRs is the expected lives to maturity of the Group's commercial and residential mortgage portfolios, as a change in the estimates will have an impact on the period over which the directly attributable costs and fees, and any discount received on the acquisition of the mortgage loan portfolios, are recognised. An extension of the estimated expected lives for a period of six months would have the effect of reducing the cumulative profit before tax recognised as at 31 December 2014 by £2.4 million (31 December 2013: £2.4 million, 31 December 2012: £0.8 million).

3 Use of estimates and judgements (Continued)

(c) Contingent liabilities

As outlined in Note 32 and 38, the Group has made certain judgements and estimates about the extent of any customer redress for aspects of non-compliance with certain areas of detailed laws and regulations including the Customer Credit Act. The judgements and estimates made represent the best estimate of the directors based on information available including legal advice. Further details are outlined in Note 32 and 38.

(d) Classification of contingent convertible securities

The Group issued £75 million of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("the Securities") during the year (see Note 36 for further detail).

The Securities (net of the associated issuance costs) have been classified as equity within the statement of financial position. The decision to classify the Securities as equity (as opposed to debt) required management to consider the individual terms attached to the Securities, including the conversion clauses. This involved obtaining external legal and professional advice.

The Group is not required to make payments under any circumstances, other than on a winding up. The Securities are convertible into ordinary shares of the Company in the event of the Group's Common Equity Tier 1 ratio falling below 7 per cent. Subject to circumstances which are within the Company's control, conversion can only be for a fixed number of the Company's ordinary shares. The Securities impose no obligation on the Group to deliver cash or other financial benefit to security holders because they are perpetual, with no fixed redemption or maturity date and interest is due and payable only at the sole and absolute discretion of the Company. Furthermore, interest is non-cumulative.

After consideration of all of the terms and the external advice received, management concluded that the securities should be classified as equity in accordance with IAS 32: *"Financial instruments"*.

(e) Intangible assets

The Group assesses its intangible assets at least annually for evidence of impairment. Where the asset is under development, the Group considers whether it is reasonably likely to complete the asset and bring it into use. The Group also considers if the asset will generate sufficient economic benefit over and above the current carrying value of the asset. These considerations have resulted in a write off of £1.6 million during the year.

4 Segmental information

The Group has four reportable operating segments as described below which are based on the Group's four lending divisions plus Central Functions. Each segment offers groups of similar products and services and are managed separately based on the Group's internal reporting structure. Residential and SME Commercial Mortgages are operated under a single management team and supported by a single IT platform. However, the characteristics of the two businesses are sufficiently different and accordingly the segments are reported separately to the Board. Therefore, the two businesses represent separate operating segments in accordance with IFRS 8.

For each of the reportable segments the Board, which is the Group's Chief Operating Decision Maker, reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Residential Mortgages—Prime residential mortgages targeting underserved segments of creditworthy borrowers that provide attractive and sustainable margins and residential buy-to-let mortgages.
- SME Commercial Mortgages—Property finance needs of professional, residential/commercial property investors, and owner-occupier Small and Medium Sized Enterprises ('SMEs'). Targets prime and specialist prime segments with loan sizes below £5 million.
- Asset Finance—Lease and hire purchase financing for SMEs, focusing on sectors with strong returns and liquid secondary asset markets.

4 Segmental information (Continued)

- Invoice Finance—Simple factoring/discounting facility and credit control for SMEs, targeting owner managed businesses.

Central Functions represent the reconciling items between the total of the four reportable operating segments and the consolidated income statement. As well as common costs, Central Functions includes the Group's Treasury and Savings functions which are responsible for raising finance on behalf of the operating segments. The costs of raising finance are all recharged by Central Functions to operating segments, apart from those costs relating to the subordinated notes (Note 6) and net expense/income from derivatives held at fair value.

Common costs are incurred on behalf of the operating segments and typically represent savings administration costs, back office costs and support function costs such as Finance, Risk and Human Resources. The costs are not directly attributable to the operating segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group are included below. Performance is measured based on the segmental result as included in the internal management reports.

Segmental information for the year ended 31 December 2014

	Residential Mortgages	SME Commercial Mortgages	Asset Finance(1)	Invoice Finance	Central Functions(1)	Total
			(£'000)			
Interest income—external customers	106,924	56,215	56,684	9,276	(1,266)	227,833
Interest expense—external customers	—	—	—	—	(87,618)	(87,618)
Interest (expense)/income—internal	(43,427)	(14,663)	(19,749)	(3,327)	81,166	—
Net fees and other income—external customers	4,109	1,518	3,064	17,543	(1,432)	24,802
Total operating income/(expense)	**67,606**	**43,070**	**39,999**	**23,492**	**(9,150)**	**165,017**
Administrative expenses including depreciation and amortisation	(9,551)	(6,865)	(11,878)	(14,712)	(62,136)	(105,142)
Impairment losses on loans and advances to customers	(1,252)	(2,246)	(2,661)	(3,411)	—	(9,570)
Segmental result	**56,803**	**33,959**	**25,460**	**5,369**	**(71,286)**	**50,305**
Tax						(11,871)
Profit after tax						**38,434**
Assets	2,564,899	1,011,291	1,044,298	180,576	764,179	5,565,243
Liabilities	—	—	—	—	(5,186,393)	(5,186,393)
Net assets / (liabilities)	**2,564,899**	**1,011,291**	**1,044,298**	**180,576**	**(4,422,214)**	**378,850**

(1) A £1,628,000 write off in relation to an Asset Finance intangible asset has been recorded within Central Functions as the asset was under construction at the time of write off.

4 Segmental information (Continued)

Segmental information for the year ended 31 December 2013

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	Total
			(£'000)			
Interest income—external customers	66,670	39,910	37,375	9,379	3,107	156,441
Interest expense—external customers	—	—	—	—	(75,799)	(75,799)
Interest (expense)/income—internal	(34,920)	(14,562)	(14,360)	(4,318)	68,160	—
Net fees and other income—external customers	2,875	89	1,992	17,861	4,886	27,703
Total operating income/(expense)	**34,625**	**25,437**	**25,007**	**22,922**	**354**	**108,345**
Administrative expenses including depreciation and amortisation	(6,944)	(4,792)	(9,501)	(13,993)	(35,955)	(71,185)
Impairment losses on loans and advances to customers	(1,261)	(1,965)	(2,585)	(5,657)	—	(11,468)
Segmental result	**26,420**	**18,680**	**12,921**	**3,272**	**(35,601)**	**25,692**
Tax						14
Profit after tax						**25,706**
Assets	1,679,686	761,998	720,198	211,962	829,148	4,202,992
Liabilities	—	—	—	—	(3,937,635)	(3,937,635)
Net assets / (liabilities)	**1,679,686**	**761,998**	**720,198**	**211,962**	**(3,108,487)**	**265,357**

Segmental information for the year ended 31 December 2012

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	Total
			(£'000)			
Interest income—external customers	36,237	26,219	21,087	8,326	7,408	99,277
Interest expense—external customers	—	—	—	—	(63,283)	(63,283)
Interest (expense)/income—internal	(25,544)	(13,420)	(10,324)	(4,958)	54,246	—
Net fees and other income—external customers	1,283	81	1,076	18,242	1,239	21,921
Total operating income/(expense)	**11,976**	**12,880**	**11,839**	**21,610**	**(390)**	**57,915**
Administrative expenses including depreciation and amortisation	(4,688)	(3,863)	(5,092)	(13,114)	(25,469)	(52,226)
Impairment losses on loans and advances to customers	(633)	(1,110)	(1,160)	(2,513)	—	(5,416)
Segmental result	**6,655**	**7,907**	**5,587**	**5,983**	**(25,859)**	**273**
Tax						941
Profit after tax						**1,214**
Assets	953,772	545,754	378,325	178,709	487,065	2,543,625
Liabilities	—	—	—	—	(2,364,735)	(2,364,735)
Net assets / (liabilities)	**953,772**	**545,754**	**378,325**	**178,709**	**(1,877,670)**	**178,890**

5 Interest income

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
On financial assets not at fair value through profit or loss:			
On loans and advances to customers	227,758	153,676	92,550
On loans and advances to banks	1,548	1,206	631
On debt securities	5,105	3,818	5,584
	234,411	**158,700**	**98,765**
On financial assets at fair value through profit or loss:			
Net interest expense on financial instruments hedging assets	(12,128)	(7,970)	(5,155)
Net interest income on debt securities designated at fair value and related derivatives	5,550	5,711	5,667
	227,833	**156,441**	**99,277**

Included within interest income on loans and advances to customers for the year ended 31 December 2014 is a total of £2,029,000 (31 December 2013: £957,000, 31 December 2012: £920,000) relating to impaired financial advances.

Included within net interest income on financial instruments hedging assets are fair value losses of £8,758,000 (31 December 2013: £nil, 31 December 2012: £nil) on derivatives held in qualifying fair value hedging arrangements, together with gains of £7,175,000 (31 December 2013: £nil, 31 December 2012: £nil) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on loans and advances to customers.

6 Interest expense

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
On financial liabilities not at fair value through profit or loss:			
On customers' accounts	80,035	70,411	61,966
On due to banks	1,522	1,822	296
On debt securities in issue	3,281	—	—
On subordinated notes	6,338	6,121	3,875
	91,176	**78,354**	**66,137**
On financial liabilities at fair value through profit or loss:			
Net interest income on financial instruments hedging liabilities	(4,785)	(3,678)	(2,893)
Other	1,227	1,123	39
	87,618	**75,799**	**63,283**

Included within net interest expense on financial instruments hedging assets are fair value gains of £1,649,000, (31 December 2013: £nil, 31 December 2012: £nil) on derivatives held in qualifying fair value hedging arrangements together with losses of £1,528,000 (31 December 2013: £nil, 31 December 2012: £nil) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on customers' accounts.

7 Fee and commission income

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Invoice finance fees	14,546	14,949	14,533
Insurance commissions receivable	601	1,221	767
Other	11,239	7,385	4,134
	26,386	**23,555**	**19,434**

Details of 'other' fee and commission income are provided in Note 2(b).

8 Fee and commission expense

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Introducer commissions	1,932	1,962	1,460
Legal and valuation fees	2,467	1,688	1,524
Company searches and other fees	1,815	2,296	1,598
Credit protection and insurance charges	1,154	762	469
Insurance commissions payable	451	821	342
	7,819	**7,529**	**5,393**

9 Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Net (losses)/gains on derivatives	(17,278)	13,993	(5,032)
Net gains/(losses) on assets designated at fair value through profit or loss	9,537	(10,716)	3,098
Net gains on available for sale assets held in fair value hedges	4,068	—	—
Less: realised gains transferred to gains on disposal of debt securities	(393)	—	—
	(4,066)	**3,277**	**(1,934)**

10 Other operating income

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Disbursements, collect out and other invoice finance income	7,066	6,344	6,559
Other	291	187	24
	7,357	**6,531**	**6,583**

11 Staff costs

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Wages and salaries	43,248	33,684	25,985
Social security costs	5,009	3,905	3,071
Other pension costs	1,157	835	705
	49,414	**38,424**	**29,761**

The average number of persons employed by the Group during the year, including Non-Executive Directors, was 764 (31 December 2013: 621, 31 December 2012: 492).

12 Remuneration of directors

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Directors' emoluments	2,797	2,747	2,072
Compensation for loss of office	20	195	348
Contributions to money purchase scheme	61	60	61
	2,878	**3,002**	**2,481**

Compensation for loss of office in 2014 of £20,000 (2013: £195,000, 2012: £348,000) relates to two directors (2013: two directors, 2012: one director) and includes £nil (2013: £nil, 2012: £75,000) pension plan contribution. In addition, in the prior year, the Group's controlling party repurchased those directors' shares in the Company an amount which was £94,000 in excess of the initial purchase price.

The Group made payments of £24,000 to two directors' individual personal pension plans during the year (2013: £25,000, two directors, 2012: £22,000, two directors).

During 2014 one director was given the option to purchase B ordinary shares of £0.10 and two directors were given the option to purchase C ordinary shares of £0.0001 in the ultimate parent company, Aldermore Group PLC, at a discount to market value. 455,021 discounted B ordinary shares were purchased and 17,985,919 discounted C ordinary shares were purchased (2013: one director, 303,347 B ordinary shares, 2012: five directors, 1,104,568 B ordinary shares). The shares issued in the year give rise to a benefit of £408,000 (2013: £61,000, 2012: £174,000). A charge of £555,000 has been recognised in the year in relation to the total share based payments amount.

Highest paid director

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

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Emoluments	703	653	418
Contributions to money purchase scheme	20	10	13
Share based payments	4	61	128
	727	**724**	**559**

13 Pension and other post-retirement benefit commitments

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £1,157,000 (31 December 2013: £835,000, 31 December 2012: £705,000) were charged to the income statement during the year in respect of these schemes. The Group made payments amounting to £24,000 (31 December 2013: £25,000, 31 December 2012: £22,000) in aggregate in respect of certain employees' individual personal pension plans during the year. There were outstanding contributions of £209,000 at the year end (31 December 2013: £128,000, 31 December 2012: £114,000).

14 Administrative expenses

	Note	Year ended 31 December 2014	2013	2012
			(£'000)	
Staff costs	11	49,414	38,424	29,761
Legal and professional and other services		23,527	12,095	8,952
Information technology costs		8,289	4,683	3,283
Office costs		4,017	3,191	2,956
Provisions	32	3,605	2,111	483
Other		12,389	6,859	4,472
		101,241	**67,363**	**49,907**

Included in administrative expenses are £6,014,000 of costs incurred in preparation for an initial public offering.

Information technology costs include £1,628,000 (31 December 2013: £nil, 31 December 2012: £nil) in relation to a write-off of intangible assets.

Included in other administrative expenses are costs relating to temporary staff of £4,534,000 (31 December 2013: £2,322,000), travel and subsistence of £2,825,000 (31 December 2013: £2,382,000) and staff recruitment of £2,050,000 (31 December 2013: £1,197,000).

15 Depreciation and amortisation

	Note	Year ended 31 December 2014	2013	2012
			(£'000)	
Depreciation	25	950	697	480
Amortisation of intangible assets	24	2,951	3,125	1,839
		3,901	**3,822**	**2,319**

16 Profit on ordinary activities before taxation

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

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Operating lease rentals (including service charges)			
—land and buildings	1,898	1,174	1,248
—plant and equipment	522	436	451
Foreign exchange loss/(gain)	29	33	(3)
The remuneration of the Group's external auditors, KPMG LLP, and their associates is as follows:			
Fees payable to the Group's auditor for the audit of the annual accounts (excluding VAT)	50	—	—
Fees payable to the Group's auditor for the audit of the accounts of subsidiaries (excluding VAT)	347	245	185
Audit fees	397	245	185
Fees payable to the Group's auditor and its associates for other services (excluding VAT):			
Audit related assurance services[(1)]	568	43	—
Taxation compliance services	14	29	22
Other taxation advisory services[(2)]	232	94	4
Corporate finance services[(3)]	827	—	—
Other assurance services[(4)]	582	94	52
All other services	21	58	39
Non-audit fees	2,244	318	117
	2,641	**563**	**302**

(1) Audit related assurance services comprise services provided in relation to the IFRS conversion audit and interim profit verifications during the year. Also included is work in relation to the Group's issuance of Additional Tier 1 contingent convertible securities.

(2) Other taxation advisory services relate to advice provided on a number of specific tax areas arising in the normal course of business. The advice provided also included tax advice relating to the Group's initial public offering.

(3) Fees payable for corporate finance services for year ended 31 December 2014 include £827,000 for the Reporting Accountants' reports in relation to the Group's intended initial public offering.

(4) Other assurance services relate to services provided in relation to the audit of the Group's results in preparation for its intended initial public offering.

17 Taxation

(a) Tax change/(credit)

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Current tax on profits for the year	15,510	2,492	—
Over provision in previous periods	(157)	—	—
Total current tax charge	**15,353**	**2,492**	**—**
Deferred tax	(3,731)	(2,506)	(941)
Under provision in previous periods	249	—	—
	11,871	**(14)**	**(941)**

17 Taxation (Continued)

A current tax charge of £16,000 and a deferred tax charge of £182,000 was recognised in other comprehensive income during the year ended 31 December 2014 (31 December 2013: £793,000 deferred tax credit, 31 December 2012: £941,000 deferred tax charge) in respect of available for sale debt securities.

(b) Factors affecting tax charge/(credit) for the period

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax in the UK of 21.5 per cent. (31 December 2013: 23.25 per cent., 31 December 2012: 24.5 per cent.). The differences are explained below:

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Profit before tax	**50,305**	**25,692**	**273**
Tax at 21.5 per cent. (2013: 23.25 per cent., 2012: 24.5 per cent.) thereon	10,816	5,973	67
Effects of:			
Expenses not deductible for tax purposes	689	(26)	42
Prior year deductible temporary differences utilised in the period	—	(3,455)	(109)
Recognition / (release) of deferred tax asset	—	(2,506)	(941)
Over provision in previous period	92	—	—
Deferred tax rate adjustment	274	—	—
	11,871	**(14)**	**(941)**

(c) Deferred tax asset

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable future taxable profits against which the unwinding of the asset can be offset.

17 Taxation (Continued)

Analysis of recognised deferred tax asset:

	Balance at start of the year	Recognised in income statement	Recognised in other comprehensive income	Balance at end of the year
			(£'000)	
Year ended 31 December 2014				
Capital allowances less than depreciation	3,392	3,163	—	6,555
Gains on available for sale debt securities recognised through other comprehensive income	(148)	—	(182)	(330)
Other temporary differences	55	318	—	373
	3,299	3,481	(182)	6,598
Year ended 31 December 2013				
Tax losses carried forward	941	(941)	—	—
Capital allowances less than depreciation	—	3,392	—	3,392
Gains on available for sale debt securities recognised through other comprehensive income	(941)	—	793	(148)
Other temporary differences	—	55	—	55
	—	2,506	793	3,299
Year ended 31 December 2012				
Tax losses carried forward	—	941	—	941
Gains on available for sale debt securities recognised through other comprehensive income	—	—	(941)	(941)
	—	941	(941)	—

Reductions in the UK corporation tax rate from 24 per cent. to 23 per cent. (effective 1 April 2013) and to 21 per cent. (effective from 1 April 2014) were substantively enacted on 3 July 2012 and 2 July 2013 respectively. A further reduction to 20 per cent. (effective from 1 April 2015) was also substantively enacted on 2 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax assets at 31 December 2014 and 31 December 2013 have been calculated based on the rate of 20 per cent. substantively enacted at those balance sheet dates.

There were £nil unrecognised deferred tax balances at 31 December 2014 (31 December 2013: £nil, 31 December 2012: £6,564,000).

	31 December 2014	31 December 2012	31 December 2012
		(£'000)	
Analysis of unrecognised deferred tax balances:			
Capital allowances less than depreciation	—	—	1,147
Losses carried forward	—	—	4,705
Other temporary differences	—	—	712
	—	—	6,564

18 Earning per share

Basic earnings per share is calculated by dividing the net profit / (loss) attributable to equity shareholders of the Group by the weighted average number of ordinary shares in issue during the year.

	Year ended		
	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Profit attributable to equity shareholders of the Group	38,434	25,706	1,214
Weighted average number of ordinary shares in issue (thousand)	233,658	203,019	195,461
Basic earnings per share (pence)	16.4	12.7	0.6

The ordinary shares in issue used in the denominator in the calculation of basic earnings per share are the A1, A2, D and E ordinary shares. The B and C ordinary shares are excluded from the calculation on the basis that prior to any initial public offering they have no entitlement to dividends or other distributions of the Parent Company.

The calculation of diluted earnings per share has been based on the same profit attributable to equity shareholders of the group as for basic earnings and the weighted average number of ordinary shares outstanding after the potential dilutive effect of outstanding share warrants. The share warrants give the holders the right to subscribe for 2,905,779 E ordinary shares at a price of £1.12 per share and a further 1,452,889 E ordinary shares at a price of £1.55 per ordinary share, and are exercisable until 31 May 2022.

	Year ended		
	31 December 2014	31 December 2013	31 December 2012
Weighted average number of ordinary shares in issue (thousand) (basic)	233,658	203,019	195,461
Effect of share warrants in issue	1,967	357	—
Weighted average number of ordinary shares in issue (thousand) (diluted)	235,625	203,376	195,461
Diluted earnings per share (pence)	16.3	12.6	0.6

19 Loans and advances to banks

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Included in cash and cash equivalents: balances with less than three months maturity at inception	60,371	226,194	83,189
Cash collateral on derivatives placed with banks	46,162	11,350	21,830
Other loans and advances to banks	10,868	—	—
	117,401	**237,544**	**105,019**

There were no individual or collective provisions for impairment against loans and advances to banks. £10,868,000 is recoverable more than 12 months after the reporting date (2013: £nil, 2012: £nil) and relates to cash held by the Group's securitisation vehicle, Oak No.1 PLC.

20 Loans and advances to customers

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Gross loans and advances	4,823,638	3,394,872	2,069,009
less: allowance for impairment losses	(22,574)	(21,028)	(12,449)
	4,801,064	**3,373,844**	**2,056,560**
Amounts include:			
Expected to be recovered more than 12 months after the reporting date	4,205,825	2,880,879	1,704,531

At 31 December 2014, loans and advances to customers of £719.9 million (31 December 2013: £822.9 million, 31 December 2012: £647.6 million) were pre-positioned with the Bank of England and HM Treasury Funding for Lending Scheme. These loans and advances were available for use as collateral with the Scheme, against which £485.0 million of UK Treasury Bills had been drawn as at the reporting date (31 December 2013: £485.0 million, 31 December 2012: £205.0 million).

At 31 December 2014, loans and advances to customers include £293.1 million (31 December 2013: £nil, 31 December 2012: £nil) which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to Oak No. 1 PLC which is a securitisation vehicle consolidated into these financial statements. The carrying value of these loans on 10 April 2014 when the beneficial interest was transferred was £362.3 million. These loans secured £333.3 million (2013: £nil, 2012: £nil) of funding for the Group (see Note 33). All the assets pledged are retained within the statement of financial position as the Group retains substantially all the risks and rewards relating to the loans.

Allowance for impairment losses

	Individual	Collective	Total
		(£'000)	
Year ended 31 December 2014			
Balance as at 1 January	14,714	6,314	21,028
Impairment loss for the year:			
Charge to the income statement	6,373	3,197	9,570
Unwind of discounting	(1,025)	(984)	(2,009)
Write-offs net of recoveries	(6,015)	—	(6,015)
Balance as at 31 December 2014	**14,047**	**8,527**	**22,574**

20 Loans and advances to customers (Continued)

	Individual	Collective (£'000)	Total
Year ended 31 December 2013			
Balance as at 1 January	9,318	3,131	12,449
Impairment loss for the year:			
Charge to the income statement	7,689	3,779	11,468
Unwind of discounting	(361)	(596)	(957)
Write-offs net of recoveries	(1,932)	—	(1,932)
Balance as at 31 December 2013	**14,714**	**6,314**	**21,028**
Year ended 31 December 2012			
Balance as at 1 January	9,877	2,444	12,321
Impairment loss for the year:			
Charge to the income statement	4,286	1,130	5,416
Unwind of discounting	(477)	(443)	(920)
Write-offs net of recoveries	(4,368)	—	(4,368)
Balance as at 31 December 2012	**9,318**	**3,131**	**12,449**

The charge to the Group's income statement shown in the table above is presented net of releases of provisions previously recorded against individual customers. The following table provides a further breakdown of the impairment loss:

	2014	2013
	(£'000)	
Provisions established	12,758	12,262
Less:		
Significant provision releases prior to write off(1)	(2,091)	(793)
Recoveries of amounts previously written off	(1,097)	(1)
Charge to the income statement	**9,570**	**11,468**

(1) Significant provision releases comprise individual cases where a change in circumstances has resulted in a release of an individually assessed impairment provision in excess of £300,000.

Finance lease receivables

Loans and advances to customers include the following finance leases of equipment where the Group is the lessor:

	31 December 2014	31 December 2013 (£'000)	31 December 2012
Gross investment in finance leases, receivable:			
Less than one year	469,841	279,078	155,253
Between one and five years	690,359	512,398	250,714
More than five years	16,672	19,574	21,932
	1,176,872	**811,050**	**427,899**
Unearned finance income	(130,686)	(90,852)	(49,574)
Net investment in finance leases	**1,046,186**	**720,198**	**378,325**
Net investment in finance leases, receivable:			
Less than one year	376,079	235,781	137,266
Between one and five years	653,902	465,403	221,668
More than five years	16,205	19,014	19,391
	1,046,186	**720,198**	**378,325**

20 Loans and advances to customers (Continued)

The Group enters into finance lease and hire purchase arrangements with customers in a wide range of sectors including plant and machinery, cars and commercial vehicles. The accumulated allowance for uncollectible minimum lease payments receivable is £2,213,000 (31 December 2013: £2,328,000, 31 December 2012: £1,750,000).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2014, 31 December 2013 and 31 December 2012.

Included in the above disclosure is approximately £70 million in relation to block discounting facilities (31 December 2013: approximately £52 million) and approximately £17 million in relation to unsecured lending at 31 December 2014 (31 December 2013: approximately £17 million).

21 Debt Securities

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Debt securities designated at fair value through profit or loss:			
UK Government Gilts	116,405	108,399	115,329
Supranational Bonds	37,951	54,499	58,287
	154,356	**162,898**	**173,616**
Available for sale debt securities:			
UK Government Gilts and Treasury Bills	21,519	24,647	30,358
Supranational Bonds	292,965	90,264	69,692
Corporate Bonds	24,516	—	—
Asset-backed securities	16,328	77,844	68,698
	355,328	**192,755**	**168,748**
	509,684	**355,653**	**342,364**

At 31 December 2014, £459.1 million (31 December 2013: £301.6 million, 31 December 2012: £316.0 million) of debt securities are expected to be recovered more than 12 months after the reporting date. There were no impairment losses in respect of available for sale debt securities.

22 Derivatives held for risk management

Amounts included in the statement of financial position are analysed as follows:

	31 December 2014	31 December 2014	31 December 2013	31 December 2013	31 December 2012	31 December 2012
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
			(£'000)			
Instrument type						
Interest rate (not in hedging relationships)	1,075	23,218	8,484	17,511	10,022	31,372
Interest rate (fair value hedges)	6,632	30,546	—	—	—	—
Equity	408	408	354	354	240	240
Foreign exchange	53	26	34	2	—	—
	8,168	**54,198**	**8,872**	**17,867**	**10,262**	**31,612**

All derivatives are held either as fair value hedges qualifying for hedge accounting (from January 2014) or are held for the purpose of managing risk exposures arising on the Group's other financial instruments (all periods).

22 Derivatives held for risk management (Continued)

Fair value hedges of interest rate risk

From January 2014, the Group has used interest rate swaps within qualifying hedge accounting relationships to manage its exposure to changes in the fair values of certain fixed rate lending and savings products and debt securities held, attributable to changes in market interest rates.

Further details regarding the Group's approach to hedge accounting, including a description of the Group's exposure to volatility are provided in Note 41.

Other derivatives held for risk management

The Group uses other derivatives, not designated in qualifying hedge accounting relationships, to manage its exposure to the following:

- interest rate risk on certain debt securities held which are designated at fair value through profit or loss;
- interest rate basis risk on certain mortgage loans;
- equity market risk on equity linked products offered to depositors; and
- foreign exchange risk on currency loans provided to invoice finance customers.

23 Investment in subsidiaries

On 25 September 2014, the 99.9 per cent. majority interest in Aldermore Holdings Limited was transferred to Aldermore Group PLC, leaving the Bank as a wholly owned subsidiary of Aldermore Group PLC. Subsidiary undertakings, all of which are registered in England and operate in the United Kingdom, are listed below. All subsidiaries are included in the consolidated financial statements.

Subsidiary undertakings	Principal activity	Shareholding (%)
Aldermore Bank PLC	Banking and related services	100
Securitisation vehicles		
Oak No.1 Mortgages Holdings Limited	Holding company for securitisation vehicle	*
Oak No.1 PLC	Securitisation vehicle	*

* The share capital of these securitisation vehicles is not owned by the Group, but these vehicles are included in the consolidated financial statements as they are controlled by the Group.

Dormant subsidiary undertakings		
Aldermore Invoice Finance (Holdings) Limited	Dormant	100
Aldermore Invoice Finance Limited	Dormant	100
Aldermore Invoice Finance (Oxford) Limited	Dormant	100
Subsidiary undertakings struck-off		
Aldermore Holdings Limited	Holding Company	100
Aldermore Bank Nominees Limited	Dormant	100
Base Commercial Mortgages Holdings Limited	Dormant	100
Base Commercial Mortgages Limited	Dormant	100
Base Commercial Mortgages Funding Limited	Dormant	100
Lynchwood Commercial Funding No.1 Limited	Dormant	100
Lynchwood Commercial Funding No.2 Limited	Dormant	100

An application to strike companies from the register of companies was filed with Companies House on 29 September 2014. Formal strike-off was completed 3 February 2015.

24 Intangible assets

	Computer systems	Goodwill	Total
		(£'000)	
Cost/deemed cost at transition to IFRS			
1 January 2014	16,253	12,653	28,906
Additions	4,493	—	4,493
Write off	(1,628)	—	(1,628)
31 December 2014	19,118	12,653	31,771
1 January 2013	12,898	12,653	25,551
Additions	3,355	—	3,355
31 December 2013	16,253	12,653	28,906
1 January 2012	7,433	12,653	20,086
Additions	5,465	—	5,465
31 December 2012	12,898	12,653	25,551
Amortisation			
1 January 2014	6,249	—	6,249
Disposals	—	—	—
Charge for the year	2,951	—	2,951
31 December 2014	9,200	—	9,200
1 January 2013	3,124	—	3,124
Charge for the year	3,125	—	3,125
31 December 2013	6,249	—	6,249
1 January 2012	1,285	—	1,285
Charge for the year	1,839	—	1,839
31 December 2012	3,124	—	3,124
Net book value			
31 December 2014	**9,918**	**12,653**	**22,571**
31 December 2013	**10,004**	**12,653**	**22,657**
31 December 2012	**9,774**	**12,653**	**22,427**

Goodwill arose on the acquisitions of Base Commercial Mortgages Holdings Limited and Absolute Invoice Finance Holdings Limited. For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions. The aggregate amount allocated to each division is as follows:

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
SME Commercial Mortgages	8,547	8,547	8,547
Invoice Finance	4,106	4,106	4,106
	12,653	**12,653**	**12,653**

No impairment losses on goodwill were recognised during the year ended 31 December 2014 (31 December 2013: £nil, 31 December 2012: £nil).

The recoverable amounts for SME Commercial Mortgages and Invoice Finance divisions have been calculated based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the division. Value in use at 31 December 2014 and 31 December 2013 has been determined in a similar manner as at 31 December 2012.

24 Intangible assets (Continued)

- Key assumptions used in the calculation of value in use were the following: Cash flows were projected based on past experience, actual operating results and the five year business plan (31 December 2013, 31 December 2012: the four year business plan). Cash flows for a further 10 year period were extrapolated using a constant growth rate of 3 per cent. (31 December 2013: 3 per cent., 31 December 2012: 2 per cent.). The forecast period is based on the Group's long term perspective with respect to the operation of these divisions.
- Pre-tax discount rates of 13 per cent. and 15 per cent. (31 December 2013, 31 December 2012, 13 per cent. and 15 per cent) respectively were applied in determining the recoverable amounts for the SME Commercial Mortgages and Invoice Finance operating divisions. These discount rates were based on the weighted average cost of funding for the divisions based on the Group's regulatory capital requirement and expected market returns for debt and equity funding, adjusted for risk premiums to reflect the systemic risk of the individual divisions.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either division to reduce below the carrying amount.

25 Property, plant and equipment

	Fixtures, fittings and equipment	Computer hardware	Motor vehicles	Total
		(£'000)		
Cost/deemed cost at transition to IFRS				
1 January 2014	2,661	3,078	—	5,739
Additions	568	339	—	907
31 December 2014	3,229	3,417	—	6,646
1 January 2013	1,888	1,908	—	3,796
Additions	773	1,170	—	1,943
31 December 2013	2,661	3,078	—	5,739
1 January 2012	1,384	1,539	23	2,946
Additions	504	369	—	873
Disposals	—	—	(23)	(23)
31 December 2012	1,888	1,908	—	3,796
Depreciation				
1 January 2014	1,357	1,524	—	2,881
Charge for the period	396	554	—	950
31 December 2014	1,753	2,078	—	3,831
1 January 2013	1,040	1,144	—	2,184
Charge for the year	317	380	—	697
31 December 2013	1,357	1,524	—	2,881
1 January 2012	851	853	23	1,727
Disposals	—	—	(23)	(23)
Charge for the year	189	291	—	480
31 December 2012	1,040	1,144	—	2,184
Net book value				
31 December 2014	**1,476**	**1,339**	**—**	**2,815**
31 December 2013	**1,304**	**1,554**	**—**	**2,858**
31 December 2012	**848**	**764**	**—**	**1,612**

26 Other assets

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Amounts recoverable within one year	3,124	197	454
Amounts recoverable after one year	220	115	113
	3,344	**312**	**567**

27 Prepayments and accrued income

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Amounts recoverable within 12 months:			
Accrued income	2,683	1,810	1,541
Other prepayments	4,173	3,299	1,619
	6,856	**5,109**	**3,160**

28 Amounts due to banks

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Amounts repayable within 12 months:			
Due to banks—repurchase agreements	304,207	383,071	114,579
Due to banks—deposits	600	1,205	500
Cash collateral received on derivatives	1,100	1,675	—
	305,907	**385,951**	**115,079**

Collateral given under repurchase agreements

The face value of securities sold under agreements to repurchase at 31 December 2014 was £305 million (31 December 2013: £385 million, 31 December 2012: £115 million) all of which were drawn down from the Bank of England under the terms of the Funding for Lending Scheme. The Group conducts these repurchase transactions under the terms of applicable General Master Repurchase Agreement guidelines. Consideration received in return for the collateral is recorded as 'Amounts due to banks' and is accounted for as a financial liability at amortised cost.

29 Customers' accounts

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Amounts repayable within one year	3,438,472	2,728,364	1,886,669
Amounts repayable after one year	1,020,490	735,654	274,980
	4,458,962	**3,464,018**	**2,161,649**

30 Other liabilities

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Amounts payable within 12 months:			
Other taxation and social security costs	3,813	3,967	4,508
Amounts payable to Invoice Finance customers	10,091	7,146	6,032
Trade creditors	2,870	848	211
Other payables	1,860	2,382	569
	18,634	**14,343**	**11,320**

31 Accruals and deferred income

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Amounts payable within 12 months:			
Accruals	18,424	13,787	8,151
Deferred income	1,971	1,805	1,225
Fee accruals	712	644	523
	21,107	**16,236**	**9,899**

32 Provisions

	Financial Services Compensation Scheme	Customer redress	Total
		(£'000)	
1 January 2014	707	450	1,157
Utilised during the year	(2,083)	(671)	(2,754)
Provided during the year	2,606	999	3,605
31 December 2014	**1,230**	**778**	**2,008**
1 January 2013	576	—	576
Utilised during the year	(1,530)	—	(1,530)
Provided during the year	1,661	450	2,111
31 December 2013	**707**	**450**	**1,157**
1 January 2012	350	—	350
Utilised during the year	(257)	—	(257)
Provided during the year	483	—	483
31 December 2012	**576**	**—**	**576**

Financial Services Compensation Scheme ("FSCS")

In common with all regulated UK deposit takers, the Group's principal subsidiary, Aldermore Bank PLC, pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy, which includes capital and interest levies. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc., Kaupthing Singer & Friedlander Ltd, Heritable Bank plc., Landsbanki Islands hf, London Scottish Bank plc. and Dunfermline Building Society. In order to fund the compensation costs of the defaults, the FSCS borrowed £20.4 billion from HM Treasury which is repayable by 31 March 2016.

32 Provisions (Continued)

The FSCS provision at 31 December 2014 of £1,230,000 represents interest levies for scheme years 2014/2015.

The interest levy provisions represent the interest costs on the loans borrowed for HM Treasury for the 12 months ending 31 March 2015. The funding rate used is the higher of the 12 month LIBOR plus 100 basis points, and the relevant gilt rate published by the Debt Management Office.

The capital levy provision of £nil (31 December 2013: £nil) includes the Group's estimate of its share of the capital shortfalls on loans made to failed institutions by the FSCS. The shortfalls are expected to be recovered by 31 March 2016 when the loans from HM Treasury are due for repayment. The capital levy is paid in the same financial year in which it is levied.

Customer redress

A provision of £999,000 (31 December 2013: £450,000, 31 December 2012: £nil) in relation to Consumer Credit Act ("**CCA**") non-compliance have been reflected in the financial statements. The Group has a small number of loans which are regulated under the CCA and has identified that, following changes to the CCA in 2008, certain letters and statements have been sent to customers that do not fully comply with the requirements prescribed by the CCA. Accordingly, these customers are entitled to redress for interest and fees charged on the relevant loans as a result of this technical non-compliance, notwithstanding there is unlikely to have been any customer detriment.

33 Debt securities in issue

Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
In more than one year	279,143	—	—
	279,143	**—**	**—**

Debt securities in issue with a principal value of £280.5 million are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicle, Oak No. 1 PLC. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage customers in respect of the underlying assets. There is no obligation for the Group to make good any shortfall. Further disclosure relating to the underlying assets is contained in Note 20.

34 Subordinated notes

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Subordinated notes	36,758	35,571	34,600

During 2012 the Group issued £40 million subordinated 12.875 per cent. loan notes, repayable in 2022, with an option for the Group to redeem early after five years. The interest rate is fixed until May 2017. The loan notes were issued at a discount, and are carried in the balance sheet at amortised cost using the EIR of 18.597 per cent. In addition to the loan notes, a warrant was issued by the Group's parent company, Aldermore Group PLC. The warrant was valued at £2,200,000, and this was treated as a warrant reserve within shareholders' funds in accordance with the accounting policy in Note 2 f(iii).

35 Share capital

	31 December 2014	31 December 2013	31 December 2012
		(£)	
Type			
A1 ordinary shares of £0.10 each	3,569,400	3,569,400	3,569,400
A2 ordinary shares of £0.10 each	5,870,427	5,870,427	5,870,427
B ordinary shares of £0.10 each	385,463	385,463	385,463
C ordinary shares of £0.0001 each	13,200	12,845	12,981
D ordinary shares of £0.10 each	5,440,522	5,440,522	5,440,522
E ordinary shares of £0.10 each	8,458,428	8,458,428	4,638,772
	23,737,440	**23,737,085**	**19,917,565**

Rights of class of share:

Type	Full voting rights	Dividend rights	Distribution rights in the event of a sale or windup
A1 ordinary shares of £0.10 each	✓	✓	✓
A2 ordinary shares of £0.10 each	✓	✓	✓
B ordinary shares of £0.10 each	×	×	✓
C ordinary shares of £0.0001 each	×	×	✓
D ordinary shares of £0.10 each	×	✓	✓
E ordinary shares of £0.10 each	×	✓	✓

During the year ended 31 December 2014, 7,815,867 C ordinary shares with a nominal value of £781 were issued for £781.

During the year ended 31 December 2014, 4,260,960 (31 December 2013: 1,361,031, 31 December 2012: £4,277,200) C ordinary shares with a nominal value of £426 (31 December 2013: £136, 31 December 2012: £1,332) were repurchased. These shares were subsequently cancelled creating a capital contribution reserve.

During the year ended 31 December 2013, 38,196,551 E ordinary shares with a nominal value of £3,819,656 were issued for £64,138,380. A total of £59,344,711 share premium was recognised on these issues, net of capital raising costs.

During the year ended 31 December 2012, the following shares were issued and a total of £80,176 share premium was recognised on these issues:

- 1,104,568 B ordinary shares with a nominal value of £110,457 were issued for £190,633
- 5,526,987 C ordinary shares with a nominal value of £552.70 were issued for £553

Share premium

On 21 September 2014, AC Acquisitions Limited reduced its share premium by special resolution from £237,305,000 to £nil. This amount has been transferred to retained earnings. AC Acquisitions Limited was re-registered on 30 September 2014 as Aldermore Group PLC.

Share based payments

The Employee Share Programme allows employees (including senior executives) of the Group to receive remuneration in the form of share based payment transactions, whereby employees can purchase equity instruments in Aldermore Group PLC. The consideration paid for the equity instruments was in some cases below the fair value of the transaction date. The grant date fair value of share based payment awards granted is recognised as an employee expense in the Group with a corresponding increase in equity over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the employees become fully entitled to the award.

35 Share capital (Continued)

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The consolidated charge reflects that recognised at a subsidiary level with the corresponding credit going to equity.

The following classes of shares have been granted to employees and Directors of the Group. For shares issued below fair value, the difference between fair value and price paid is charged to the income statement by the employing entity over the relevant service period up to which the benefits of the awards are received.

	Number of shares granted	Weighted average fair value at grant date
Year ended 31 December 2014		
B ordinary shares of £0.10 each	455,021	£1.21
C ordinary shares of £0.0001 each	36,182,667	£0.0018
Year ended 31 December 2013		
B ordinary shares of £0.10 each	303,347	£0.52
C ordinary shares of £0.0001 each	—	—
E ordinary shares of £0.10 each	171,027	£1.31
Year ended 31 December 2012		
B ordinary shares of £0.10 each	391,167	£0.33
C ordinary shares of £0.0001 each	5,526,987	£0.0001
E ordinary shares of £0.10 each	—	—

The value from the shares is expected to be derived on a form of exit. However, the Articles of Association stipulate that in the event of an employee leaving the Group, the shares are immediately transferred back to the Company's custody with an amount paid back to the leaver depending on the conditions of leaving.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted during 2014 and 2013 was based on contemporaneous transactions between unconnected parties in the same, or similar, shares, with adjustments made to take account of the different rights, including dividend rights. The charge in the Group's income statement for the year ended 31 December 2014 in relation to all share based payment transactions was £609,000 (31 December 2013: £162,000, 31 December 2012: £140,000).

36 Contingent convertible securities

On 9 December 2014, the Company issued £75 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the "Securities"). Net proceeds arising from the issuance, after deducting issuance costs totalled £73,657,000.

The Securities are perpetual and have no fixed redemption date. Redemption of the Securities is at the option of the Company on 30 April 2020 and annually thereafter. The Securities bear interest at an initial rate of 11.875 per cent. per annum until 30 April 2020 and thereafter at the relevant Reset Interest Rate as provided in the Information Memorandum. Interest is payable on the loan annually in arrears on each interest payment date commencing 30 April 2015 and is non-cumulative. The Company has the full discretion to cancel any interest scheduled to be paid on the Securities.

The Securities are convertible into Ordinary Shares of the Company in the event of the Group's Common Equity Tier 1 ratio falling below 7 per cent.

36 Contingent convertible securities (Continued)

As the Securities contain no obligation on the Company to make payments of principal or interest they have been classified as equity instruments as required by IAS 32. Accordingly the Securities have been included in equity at the fair value of the proceeds received less any direct costs attributable to the issue of the Securities. Any interest paid on the Securities will be a distribution to holders of equity instruments and shall be recognised directly in equity on the payment date. Although there are a number of additional terms relating to events such as acquisition and wind up, there are no circumstances in which the Group has an unavoidable obligation to issue a variable number of its own shares.

The Group has not separated any embedded derivative features because the Group has an accounting policy not to separate a feature that has already been considered in determining that the entire issue is a non-derivative equity instrument.

The classification of the securities is considered a critical judgement. See note 3(d).

37 Statement of cash flows

(a) Adjustments for non-cash items and other adjustments included within the income statement

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Depreciation and amortisation	3,901	3,822	2,319
Write-off of intangible assets	1,628	—	—
Amortisation of securitisation issuance cost	431	—	—
Discount accretion on subordinated notes	1,158	971	557
Impairment losses on loans and advances	9,570	11,468	5,416
Unwind of discounting	(2,009)	(957)	(920)
Write off net of recoveries	(6,015)	(1,932)	(4,368)
Net (gain)/loss on debt securities designated at fair value through profit or loss	(9,537)	10,716	(3,098)
Gains on hedged available for sale recognised in profit or loss	(4,068)	—	—
Net (gain) on disposal of available for sale debt securities	(2,465)	(1,869)	(3,231)
Interest expense on subordinated notes	5,179	5,150	3,318
Interest income on debt securities	(10,655)	(9,529)	(11,251)
Interest expense on debt securities in issue	2,851	—	—
Equity settled share based payment charge	609	162	140
	(9,422)	**18,002**	**(11,118)**

(b) (Increase)/decrease in operating assets

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Loans and advances to customers	(1,428,766)	(1,325,863)	(900,090)
Loans and advances to banks	(45,680)	10,480	(8,973)
Derivative financial instruments	704	1,390	(1,666)
Fair value adjustments for portfolio hedged risk	(7,175)	—	—
Other operating assets	(6,870)	(6,859)	(1,990)
	(1,487,787)	**(1,320,852)**	**(912,719)**

37 Statement of cash flows (Continued)

(c) Increase in operating liabilities

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Amounts due to banks	(80,044)	270,872	115,079
Customers' accounts	994,944	1,302,369	802,794
Derivative financial instruments	36,331	(13,745)	10,092
Fair value adjustments for portfolio hedged risk	1,528	—	—
Other operating liabilities	10,013	12,431	2,986
	962,772	**1,571,927**	**930,951**

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on demand and overnight deposits classified as cash and balances at central banks (unless restricted) and balances within loans and advances to banks. The following balances have been identified as being cash and cash equivalents.

Excluded balances comprise minimum balances required to be held at the Bank of England as they are not readily convertible to cash in hand or demand deposits. Cash and cash equivalents as at 31 December 2014 include £10.9 million held by the securitisation vehicle, Oak No.1 PLC, which is not available to the other members of the Group (31 December 2013: £nil, 31 December 2012: £nil).

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Cash and balances at central banks	79,567	192,844	1,654
Less excluded balances	(5,919)	(3,828)	(1,154)
Loans and advances to banks	60,371	226,194	83,189
	134,019	**415,210**	**83,689**

38 Commitments and contingencies

At 31 December 2014 the Group had undrawn commitments to lend of £404.6 million (31 December 2013: £343.7 million, 31 December 2012: £213.6 million). These relate mostly to irrevocable lines of credit granted to customers.

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Land and buildings			
In less than one year	1,545	1,201	1,183
Between one and five years	2,942	3,319	3,270
More than five years	544	1,123	1,696
	5,031	**5,643**	**6,149**
Equipment			
In less than one year	180	140	334
Between one and five years	267	14	150
	447	**154**	**484**

38 Commitments and contingencies (Continued)

At 31 December 2014 the majority of operating leases for equipment related to 49 cars that the Group held under lease (31 December 2013: 64, 31 December 2012: 74). The majority of these leases are due to expire in 2017.

(a) Legislation

As a financial services Group, Aldermore Group PLC is subject to extensive and comprehensive regulation. The Group must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affect the way it does business. Whilst the Group believes there are no unidentified areas of failure to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

(b) Working Time Directive

A recent ruling by the European Court of Justice indicated that under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay, includes contractual commission rather than being limited to basic salary. A UK Employment Tribunal is now considering the implications for UK employers under the Working Time Regulations 1998.

Meanwhile, the UK Employment Tribunal has ruled that non-guaranteed overtime payments should be included for the purposes of calculating how much holiday pay a worker should receive. It is therefore expected that the UK Employment Tribunal will conclude on a similar basis for certain commissions.

Based on information and advice to date, the Group does not expect the impact of either the non-guaranteed overtime payments or commissions to be material; however, in the event that analysis, judgements and/or appeals are determined to ultimately be different, the Group expects the likely impact to be immaterial.

39 Related Parties

(a) Controlling parties

The Group is controlled by AnaCap Financial Partners, II L.P. (52.3 per cent. of voting rights) and AnaCap Financial Partners, L.P. (47.7 per cent. of voting rights) who are the sole voting shareholders of Aldermore Group PLC. The following agreements are in place with a company under their common control:

- The Group provides £5 million of block discounting facilities to Syscap Limited, a provider of business finance solutions. The facilities are secured by underlying receivables of short term loans, primarily to solicitors' practices which are funded at a discount to the face value of the loans. The facilities contain appropriate conditions relating to performance, non-performing deal substitution rights and default provisions in line with the Group's standard commercial policies. Pricing on the facilities is subject to normal commercial terms.
- During the year ended 31 December 2014 Syscap Limited introduced business of £21.9 million (31 December 2013: £27.7 million, 31 December 2012: £32.3 million) and received commission of £0.4 million (31 December 2013: £0.3 million, 31 December 2012: £0.4 million) of which £nil is outstanding as at 31 December 2014 (31 December 2013: £nil, 31 December 2012: £nil).
- In addition, the Group has been charged investment monitoring fees and capital raising costs by funds related to AnaCap Financial Partners LLP of £150,000 for the year ended 31 December 2014 (31 December 2013: £150,000, 31 December 2012: £75,000). The balance outstanding at 31 December 2014 is £93,000 (31 December 2013: £195,000, 31 December 2012: £120,000).

Syscap Limited was sold on 20 February 2015 and is no longer a related party.

(b) Key management personnel compensation

Until 21 September 2014, key management personnel comprised the Directors of the Group. From 21 September 2014, following changes to the Group's governance structure, key management personnel

39 Related Parties (Continued)

also comprise the members of the Executive Committee. Prior year comparatives consist of Directors of the Group. Details of the compensation paid to key management personnel are:

	Year ended 31 December		
	2014	2013	2012
		(£'000)	
Directors' emoluments	3,366	2,747	2,072
Compensation for loss of office	20	195	348
Group contributions to money purchase scheme	72	60	61
	3,458	**3,002**	**2,481**

Compensation for loss of office for the year ended 31 December 2014 of £20,000, (31 December 2013: £195,000, 31 December 2012: £348,000) relates to two key persons (31 December 2013: two key persons, 31 December 2012: one key person) and includes a £nil (31 December 2013: £nil, 31 December 2012: £75,000) pension plan contribution.

In addition, in the prior year the Group's controlling party repurchased shares in the Group undertaking for an amount which was in excess of the initial purchase price.

The Group made payments of £24,000 in aggregate in respect of two key persons' personal pension plans during the year ended 31 December 2014 (31 December 2013: £25,000, two key persons, 31 December 2012: £22,000, two key persons).

During the year ended 31 December 2014, one key person was given the option to purchase B ordinary shares of £0.10 and three key persons were given the option to purchase C ordinary shares of £0.0001 in Aldermore Group PLC, at a discount to market value. 455,021 discounted B ordinary shares were purchased and 26,250,206 discounted C ordinary shares were purchased (31 December 2013: one key person, 303,347 B ordinary shares, 31 December 2012: five key persons, 557,813 B ordinary shares).

Key persons' emoluments includes £nil of deferred bonus (31 December 2013: £nil, 31 December 2012: £nil).

(c) Transactions with key management personnel

The aggregate value of transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosure) were as follows:

	Transaction values for the period ended		
	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Loans	33	2	74
Deposits	2,015	1,570	821

	Maximum balance during the period ended		
	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Loans	162	115	113
Deposits	1,565	1,862	844

	Balance outstanding as at		
	31 December 2014	31 December 2013	31 December 2012
		(£'000)	
Loans	162	115	113
Deposits	1,565	1,067	937

39 Related Parties (Continued)

The table above includes transactions and balances relating to key management personnel in post at the end of the year. Interest rates charged on loan balances outstanding from related parties are lower than the rates that would be charged in arm's length transactions. During the year ended 31 December 2014 interest was charged on these loans at an annual rate of 0.8 per cent above 1 month LIBOR. These loan balances are not secured. All deposit arrangements have been operated by the Group on commercial terms and conditions.

40 Financial instruments and fair values

The following tables summarise the classification and carrying amounts of the Group's financial assets and liabilities.

	Loans and receivables	Available for sale	Designated at fair value through profit or loss	Fair value through profit or loss (required)	Fair value hedges	Liabilities at amortised cost	Total
				(£'000)			
31 December 2014							
Cash and balances at central banks	79,567	—	—	—	—	—	79,567
Loans and advances to banks	117,401	—	—	—	—	—	117,401
Debt securities	—	355,328	154,356	—	—	—	509,684
Derivatives held for risk management	—	—	—	8,168	—	—	8,168
Fair value adjustment for portfolio hedged risk	—	—	—	—	7,175	—	7,175
Loans and advances to customers	4,801,064	—	—	—	—	—	4,801,064
Other assets	1,298	—	—	—	—	—	1,298
Total financial assets	**4,999,330**	**355,328**	**154,356**	**8,168**	**7,175**	**—**	**5,524,357**
Amounts due to banks	—	—	—	—	—	305,907	305,907
Customers' accounts	—	—	—	—	—	4,458,962	4,458,962
Derivatives held for risk management	—	—	—	54,198	—	—	54,198
Fair value adjustment for portfolio hedged risk	—	—	—	—	1,528	—	1,528
Other liabilities	—	—	—	—	—	14,778	14,778
Debt securities in issue	—	—	—	—	—	279,143	279,143
Subordinated notes	—	—	—	—	—	36,758	36,758
Total financial liabilities	**—**	**—**	**—**	**54,198**	**1,528**	**5,095,548**	**5,151,274**

40 Financial instruments and fair values (Continued)

	Loans and receivables	Available for sale	Designated at fair value through profit or loss	Fair value through profit or loss (required)	Liabilities at amortised cost	Total
				(£'000)		
31 December 2013						
Cash and balances at central banks	192,844	—	—	—	—	192,844
Loans and advances to banks	237,544	—	—	—	—	237,544
Debt securities	—	192,755	162,898	—	—	355,653
Derivatives held for risk management	—	—	—	8,872	—	8,872
Loans and advances to customers	3,373,844	—	—	—	—	3,373,844
Other assets	159	—	—	—	—	159
Total financial assets	**3,804,391**	**192,755**	**162,898**	**8,872**	**—**	**4,168,916**
Amounts due to banks	—	—	—	—	385,951	385,951
Customers' accounts	—	—	—	—	3,464,018	3,464,018
Derivatives held for risk management	—	—	—	17,867	—	17,867
Other liabilities	—	—	—	—	10,304	10,304
Subordinated notes	—	—	—	—	35,571	35,571
Total financial liabilities	**—**	**—**	**—**	**17,867**	**3,895,844**	**3,913,711**

	Loans and receivables	Available for sale	Designated at fair value through profit or loss	Fair value through profit or loss (required)	Liabilities at amortised cost	Total
				(£'000)		
31 December 2012						
Cash and balances at central banks	1,654	—	—	—	—	1,654
Loans and advances to banks	105,019	—	—	—	—	105,019
Debt securities	—	168,748	173,616	—	—	342,364
Derivatives held for risk management	—	—	—	10,262	—	10,262
Loans and advances to customers	2,056,560	—	—	—	—	2,056,560
Other assets	80	—	—	—	—	80
Total financial assets	**2,163,313**	**168,748**	**173,616**	**10,262**	**—**	**2,515,939**
Amounts due to banks	—	—	—	—	115,079	115,079
Customers' accounts	—	—	—	—	2,161,649	2,161,649
Derivatives held for risk management	—	—	—	31,612	—	31,612
Other liabilities	—	—	—	—	7,073	7,073
Subordinated notes	—	—	—	—	34,600	34,600
Total financial liabilities	**—**	**—**	**—**	**31,612**	**2,318,401**	**2,350,013**

40 Financial instruments and fair values (Continued)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the statement of financial position at fair value:

	31 December 2014		31 December 2013		31 December 2012	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
			(£'000)			
Cash and balances at central banks	79,567	79,567	192,844	192,844	1,654	1,654
Loans and advances to banks	117,401	117,401	237,544	237,544	105,019	105,019
Loans and advances to customers	4,801,064	4,807,766	3,373,844	3,351,249	2,056,560	2,048,457
Other assets	1,298	1,298	159	159	80	80
Total financial assets	**4,999,330**	**5,006,032**	**3,804,391**	**3,781,796**	**2,163,313**	**2,155,210**
Amounts due to banks	305,907	305,907	385,951	385,951	115,079	115,079
Customers' accounts	4,458,962	4,469,413	3,464,018	3,473,176	2,161,649	2,183,207
Other liabilities	14,778	14,778	10,304	10,304	7,073	7,073
Debt securities in issue	279,143	281,281	—	—	—	—
Subordinated notes	36,758	47,930	35,571	44,219	34,600	41,600
Total financial liabilities	**5,095,548**	**5,119,309**	**3,895,844**	**3,913,650**	**2,318,401**	**2,346,959**

Key considerations in the calculation of the disclosed fair values for those financial assets carried at amortised cost include the following:

Cash and balances at central banks

These represent amounts with an initial maturity of less than 3 months and as such their carrying value is considered a reasonable approximation of their fair value.

Loans and advances to banks

These represent either amounts with an initial maturity of less than 3 months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly the carrying value of the assets is considered to be not materially different from their fair value.

Loans and advances to customers

For fixed rate lending products the Group has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent product plus the credit spread attributable to the borrower. For standard variable rate lending products, and fixed rate products when they revert to the Group's standard variable rate, the interest rate on such products is considered equivalent to a current market product rate and as such the Group considers the discounted future cash flows of these mortgages to be equal to their carrying value. The fair value estimations do not incorporate adjustments for future credit risk, however, incurred loss provisions are deducted from the fair value amounts.

Other assets and liabilities

These represent short term receivables and payables and as such their carrying value is not considered to be materially different from their fair value.

Amounts due to banks

These mainly represent securities sold under agreements to repurchase which were drawn down from the Bank of England under the terms of the Funding for Lending Scheme. The Group conducts these

40 Financial instruments and fair values (Continued)

transactions through collateralised UK Government Treasury Bills, which have a low susceptibility to credit risk, so adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly the carrying value of the liabilities are considered to be not materially different from their fair value.

Customers' accounts

The fair value of fixed rate customers' accounts have been determined by discounting estimated future cash flows based on market interest rates on equivalent deposits. Customers' accounts at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value. The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

Debt securities in issue

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values.

Subordinated notes

The estimated fair value of the subordinated notes is based on discounted cash flows using interest rates for similar liabilities with the same remaining maturity, credit ranking and rating. The calculated fair value takes no account of the warrants issued separately to the holders of the subordinated notes, which have been separately accounted for as a capital contribution within equity (see Note 34).

The following table provides an analysis of financial assets and liabilities held on the consolidated statement of financial position at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	Level 1	Level 2	Level 3	Total
		(£'000)		
31 December 2014				
Financial assets:				
Derivatives held for risk management	—	8,168	—	8,168
Debt securities:				
Asset backed securities	—	16,328	—	16,328
UK Gilts and Superannuational bonds	468,840	—	—	468,840
Corporate bonds	24,516	—	—	24,516
	493,356	**24,496**	**—**	**517,852**
Financial liabilities:				
Derivatives held for risk management	—	54,198	—	54,198
	—	**54,198**	**—**	**54,198**

Level 1: Fair value determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determined using directly or indirectly observable inputs other than unadjusted quoted prices included within level 1 that are observable.

40 Financial instruments and fair values (Continued)

Level 3: Fair value determined using one or more significant inputs that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
		(£'000)		
31 December 2013				
Financial assets:				
Derivatives held for risk management	—	8,872	—	8,872
Debt securities:				
Asset backed securities	—	77,844	—	77,844
UK Gilts and Treasury Bills and Supranational bonds	277,809	—	—	277,809
	277,809	**86,716**	**—**	**364,525**
Financial liabilities:				
Derivatives held for risk management	—	17,867	—	17,867
	—	**17,867**	**—**	**17,867**
31 December 2012				
Financial assets:				
Derivatives held for risk management	—	10,262	—	10,262
Debt securities:				
Asset backed securities	—	68,698	—	68,698
UK Gilts and Treasury Bills and Supranational bonds	273,666	—	—	273,666
	273,666	**78,960**	**—**	**352,626**
Financial liabilities:				
Derivatives held for risk management	—	31,612	—	31,612
	—	**31,612**	**—**	**31,612**

The fair values of UK Gilts and Supranational Bonds are based on quoted bid prices in active markets.

The fair values of asset backed securities are based on prices provided by third party pricing services, but before relying on these prices, the Group has obtained an understanding of how the prices were obtained to ensure that each investment is assigned an appropriate classification within the fair value hierarchy.

The fair values of derivative assets and liabilities are determined using widely recognised valuation models for determining the fair values of common derivative financial instruments such as interest rate swaps that use only observable market data that require little management judgement and estimation. Credit value and debt value adjustments have not been applied as the derivative assets and liabilities are largely collateralised.

Fair value measurement—financial assets and liabilities held at amortised cost

All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for debt securities in issue which are Level 1 and loans and advances to customers which are Level 3.

Fair value of transferred assets and associated liabilities

Securitisation vehicle

The beneficial ownership of the loans and advances to customers sold to the securitisation vehicle by the Bank fail the derecognition criteria, and consequently, these loans remain on the balance sheet of the seller. The seller therefore recognises a deemed loan financial liability on its balance sheet and an equivalent deemed loan asset is held on the securitisation vehicle's balance sheet. The deemed loans are

40 Financial instruments and fair values (Continued)

repaid as and when principal repayments are made by customers against these transferred loans and advances.

The securitisation vehicle has issued fixed and floating rate notes which are secured on loans and advances to customers. The notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgagors in respect of the underlying assets.

The Group retains substantially all of the risks and rewards of ownership. The Group benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of these mortgages. The Group continues to bear the credit risk of these mortgage assets.

The results of the securitisation vehicle listed in Note 23 is consolidated into the results of the Group. The table below shows the carrying value and fair value of the assets transferred to the securitisation vehicle and its associated liabilities. The carrying value presented below is the carrying amount recorded in the books of the subsidiary company, some of these notes are held internally by the Group and as such are not shown in the consolidated statement of financial position of the Group.

	Carrying amount of transferred assets not derecognised	Carying amount of associated liabilities	Fair value of transferred assets not recognised	Fair value of associated liabilities	Net position
			(£'000)		
31 December 2014					
Oak No.1 PLC	293,110	279,143	295,526	281,281	14,245

In addition to the transferred assets not derecognised, the Group held within Oak No.1 PLC Loans and advances to banks amounting to £18.4 million. This represents amounts of interest and principal already collected from the transferred mortgage portfolios which will be required to be distributed to the note holders of Oak No.1 PLC on the next quarterly repayment date in 2015.

41 Risk Management

A key component of the Group's business strategy is the effective management of risk in order to ensure that the Group maintains sufficient capital, liquidity and controls at all times, and acts in a reputable way, taking into account the interests of customers, regulators and shareholders.

Given the nature of the activities undertaken, the principal risks that the Group faces are strategic risk, credit risk, capital risk, liquidity risk, interest rate risk, market risk, operational risk and conduct risk. The Group has not defined regulatory risk as a single category of risk, owing to the broad nature of regulation. Prudential regulatory risks are covered as part of capital risk, liquidity risk and operational risk. Conduct regulatory risks are covered under conduct risk.

The Group's risk management framework, policies and procedures are subject to on-going improvement, and are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities. In addition, the Group continues to invest in and develop its risk management systems and resources to ensure that the risk management function, governance and infrastructure are appropriate for the nature, scale and complexity of the business, which has and continues to experience growth.

All these risks arise as a result of the Group's normal operations. The Group does not enter into transactions for speculative purposes. The Group uses derivatives such as interest rate swaps to manage interest rate and other market risks.

The risk management structure has developed over the current and comparative periods presented. In prior periods the governance structure operated primarily at an Aldermore Bank PLC level. Whilst it has continued to operate at the Aldermore Bank PLC level during the year ended 31 December 2014, the intention is for the structure to operate equally at the Aldermore Group PLC and Aldermore Bank PLC level. The following section describes the risk management framework in operation at 31 December 2014.

41 Risk Management (Continued)

A review of the governance structure at an Executive Committee level was performed in December 2014. A number of changes were made which became effective from 1 January 2015. Details of the revised structure are provided within the Risk Governance Structure section on page 137.

Further details regarding the Group's capital management is provided in Note 42.

(a) Risk management framework

A core objective for the Group is the effective management of risk. The responsibility for identifying and managing the principal risks ultimately rests with the Group's Board of Directors. The Board has ultimate responsibility for setting the Group's strategy, risk appetite and control framework. The risk management framework is outlined below, indicating the relevant governance and control structure for each principal risk.

(i) Principal risks

The principal risks faced by the Group are listed below:

- Strategic risk—the risks which can affect the Group's ability to achieve its corporate and strategic objectives;
- Credit risk—the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Group in accordance with agreed terms;
- Capital risk—the risk that the Group has insufficient capital to cover regulatory requirements and growth plans;
- Liquidity risk—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;
- Interest rate risk—the risk of financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates;
- Market risk—the financial impact from movements in market prices on the value of assets and liabilities;
- Operational risk—the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime; and
- Conduct risk—the risk of detriment caused to the Group's customers due to the inappropriate execution of its business activities and processes.

The risk management framework is designed to ensure that each risk is managed, monitored and overseen through a dedicated risk-individual committee. Each risk has a defined risk appetite which is controlled through documented policies and frequent reporting, and is overseen by a governance process.

The Group's risk management framework is outlined below, indicating the relevant governance and control structure for each principal risk.

The risk management framework includes the following components:

- Policy and control documents—the overarching document which sets out the overall appetite and how each principal risk is managed;
- Risk reporting—the primary reporting document relating to the risk;
- Stress testing—the primary means to understand how the risk area behaves under stressed conditions, and the implication for capital and liquidity resources; and
- Monitoring committees—the principal committee responsible for monitoring risk is the Risk Committee. This is supported by further oversight by the Group Risk function, executive committees, other board level governance committees and internal audit.

41 Risk Management (Continued)

To support the risk management framework, the Group operates a "three lines of defence" model:

- The first line of defence comes through operational management, who manage risk by operating within approved policies implementing and maintaining appropriate systems and controls that are effective on a daily basis.
- The second line of defence comprises governance and oversight. Governance and oversight include the monitoring committees and the Group Risk function. These functions cover all principal risk areas, such as credit risk, interest rate risk, operational risk and liquidity risk. The committee structure is covered in more detail below.
- The third line of defence is independent assurance checking. This is provided by the Internal Audit function. Assurance reporting is provided to the Audit Committee.

(ii) Control framework

The control framework operates over each principal risk as described below:

	Group risk oversight						
	Business model risk	Prudential risks					Conduct risk
Principal risk	Strategic risk	Credit risk	Capital risk	Liquidity risk	Market & interest rate risk	Operational risk	Conduct risk
Control documents	Business plan (strategic objectives/ financial forecast)	Credit policy	ICAAP	ILAA & liquidity policy	Interest rate policy	Operational risk policy and key risk registers	Conduct risk policy
Risk reporting	Strategic risk register & financial reporting	Credit pack	ALCO & capital forecast	ALCO & treasury reports	ALCO & treasury reports	OPCO & operational risk reporting	Conduct risk reporting
Stress testing	Strategic risk stress-testing pack (also ICAAP)	ICAAP	ICAAP	ILAA	ICAAP	ICAAP	ICAAP
Second line monitoring committee	EXCO (report to Board)	Management Credit Committee (report to EXCO)	ALCO (report to EXCO)	ALCO (report to EXCO)	ALCO (report to EXCO)	Operating Committee (report to EXCO)	Product Committees (report to ALCO/ EXCO)
Additional oversight	Board / EXCO / Internal audit oversight						

"ALCO" is the Asset and Liability Committee.

Escalation procedures exist which seek to ensure that issues are reported and addressed at the right level.

A detailed analysis of all key risks has been considered as part of the capital adequacy assessment and is documented in the Internal Capital Adequacy Assessment Process ("**ICAAP**") report, which is approved by the Board. Liquidity risk is individually assessed through the Individual Liquidity Adequacy Assessment ("**ILAA**"), also approved by the Board. Operational risk is managed through the Operational Risk Policy and Key Risks Registers.

41 Risk Management (Continued)

(iii) Risk oversight, monitoring and reporting

The Group has a Chief Risk Officer ("**CRO**") who is responsible for ensuring each risk is adequately monitored, managed and mitigated. Through the Group Risk function, the CRO is responsible for providing assurance to the Board and the Directors that the principal risks are adequately managed and that the Group is operating within its risk appetites. The below diagram presents the functional focus of the risk department:

Prudential risk management covers liquidity, market and capital risk. Strategic risk is managed collectively by the Board and the Executive Committee.

Group Risk is an independent risk management function, and is separate from the operational and sales side of the Group. Group Risk is responsible for ensuring that appropriate risk management processes, techniques and controls are in place, and that they are sufficiently robust.

The Group Risk function provides periodic independent reports on risk positions, risk management and performance against the risk appetite statements for all principal risks faced by the Group. Risk reports are provided to the Operating Committee, Executive Committee, Risk Committee, Audit Committee and Board.

The reporting and oversight process is designed to ensure the committees which form the governance structure are informed and aware of the principal risks and that there are adequate controls in place for these risks. Reports are produced on each principal risk and the frequency ranges from daily to monthly, according to what is appropriate for the risk.

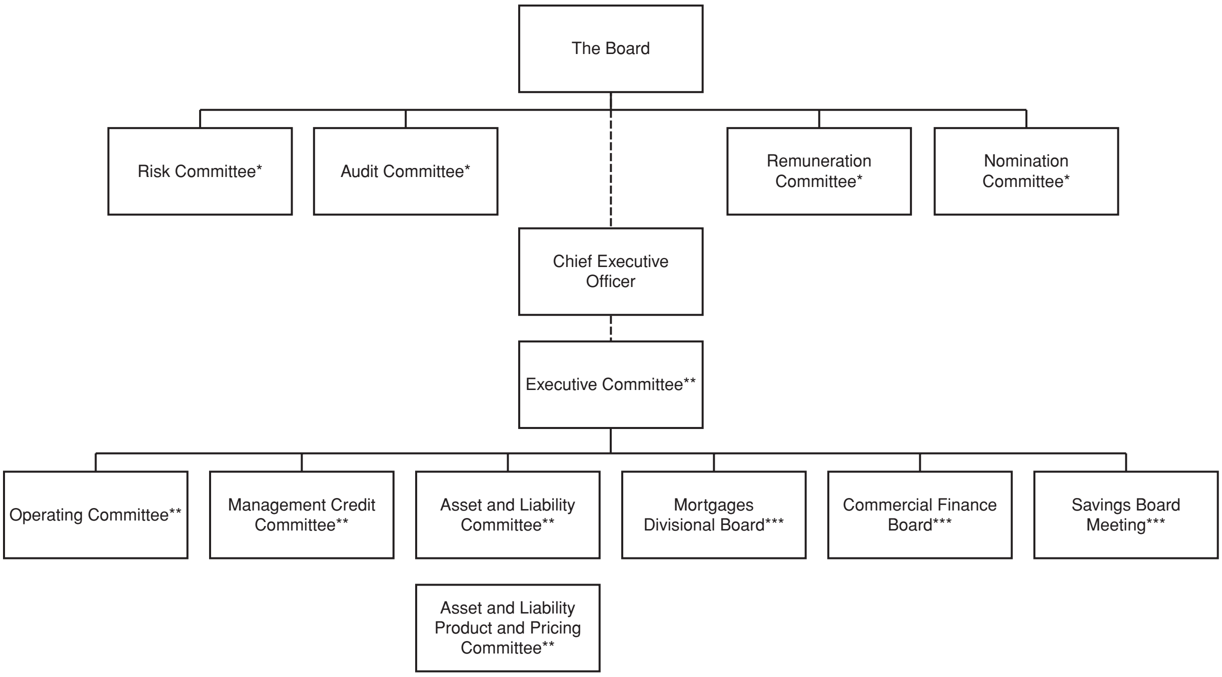
(iv) Committee structure

The responsibility for managing the principal risks ultimately rests with the Group's Board of Directors.

The Group's committee structure with regard to risk management is outlined below. This structure was in existence as at 31 December 2014.

41 Risk Management (Continued)

A review of the governance structure at an Executive Committee level was performed in December 2014. A number of changes were made which became effective from 1 January 2015. Details of the revised structure are provided within the Risk Governance Structure section on page 137.



* Non-Executive oversight

** Executive / Second line oversight

*** First line

Set out below are the details of the Board and principal committees which enable high-level controls to be exercised over the Group's activities. The frequency of meetings is detailed below, although these committees will meet more frequently as circumstances require. The details provided below represent the operation of each committee as at 31 December 2014.

In prior periods the risk management structure operated primarily at an Aldermore Bank PLC level. Whilst it has continued to operate at the Aldermore Bank PLC level during the year ended 31 December 2014, the intention is for the structure to operate equally at the Aldermore Group PLC and Aldermore Bank PLC level.

Committee	Risk focus
The Board	The Board is the primary governing body and has ultimate responsibility for setting the Group's strategy, corporate objectives and risk appetite. The strategy and risk appetites take into consideration the interests of depositors, borrowers and shareholders. The Board defines and approves the level of risk which the Group is willing to accept and is responsible for maintaining a sufficient control environment to manage the principal risks. The Board is also responsible for ensuring the capital and liquidity resources are adequate to achieve the Group's objectives without taking undue risk. The Board also maintains a close oversight of current and future activities, through a combination of monthly board reports including financial results, operational reports, budgets and forecasts and reviews of the main risks set out in the ICAAP and ILAA reports.

41 Risk Management (Continued)

Committee	Risk focus
Audit Committee	During 2014, the Audit and Risk Committee separated into two separate committees. The Audit Committee is responsible for reviewing the Group's internal control environment and monitors the financial integrity of the financial statements, and involves internal and external auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained.
Risk Committee	During 2014, the Audit and Risk Committee separated into two separate committees. The Board has delegated responsibility for oversight of the Group's principal risks to the Risk Committee, which includes reviewing the performance against risk appetites and the effectiveness of the Group's internal controls and risk management processes. This committee oversees the development, implementation and maintenance of the Group's risk management framework, ensuring that its strategy, principles, policies and resources are aligned to the Group's risk appetite, as well as to regulatory and industry best practices.
Remuneration Committee	The Remuneration Committee reviews remuneration matters, employee benefits and performance related pay structures for the Group. It is also responsible for considering and determining the Group's remuneration policy and reviewing its adequacy and effectiveness.
Nomination Committee	The Nomination Committee reviews the structure and composition of the Board, succession planning and material appointments, in particular Board appointments.
Executive Committee	The Executive Committee takes day-to-day responsibility for the running of the business. The Executive Committee implements the strategy and financial plan which is approved at the Board and ensures the performance of the business is conducted in accordance with the Board's instructions. The Executive Committee interacts with the Board via the CEO.
Management Credit Committee	This committee meets monthly and is responsible for monitoring portfolio performance to ensure it remains within the Bank's credit risk appetite and reviewing and maintaining credit and lending policies. Detailed credit reports are produced covering each specific business line. These reports are reviewed by the Management Credit Committee and Group Risk. The credit packs report on the quality of new lending, credit performance, arrears and non-performing loans and also provides detail on the composition of the credit portfolios.
*Asset & Liability Committee (“**ALCO**”)*	The Executive Committee has delegated responsibility for managing the Group's exposure to capital, liquidity, interest rate and market risk to the ALCO. The ALCO meets monthly and ensures that the firm adheres to the market risk, 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 prudential and regulatory targets. The committee is also responsible for the effective management of the Group's assets and liabilities and the impact on capital and liquidity of future business activity and management actions.

41 Risk Management (Continued)

Committee	Risk focus
*Operating Committee (“**OPCO**”)*	The Operating Committee reviews IT, operational and compliance matters to ensure appropriate systems and controls exist which are able to support the needs of the Group including any projects and change programmes. The committee monitors operational risk, including regulatory, compliance and conduct risk, implements the operational risk management policy and reviews operational performance, including key risk indicator reports.
Asset and liability: Product and Pricing Committee	The committee meets monthly to review, approve and set the pricing for new products proposals, and reviews product performance as well as on-going pricing initiatives and strategic directions on product launch. The committee is also responsible for the effective oversight of the Group’s conduct risk processes for new products.
Divisional Boards (Mortgages, Commercial Finance and Savings)	The Divisional Boards meet on a monthly basis and provide a forum for open discussion and decisions on key issues affecting the relevant business segment. Specific responsibilities include the delivery of strategic objectives, budget formulation and financial delivery, recruitment, training, implementing and maintaining effective controls, product review and performance and management of conduct risk.

(v) Risk appetite

The risk appetite framework is the means through which risks are identified, assessed, reported and monitored. The Group has set a defined risk appetite for each of the principal risks and performance against the risk appetite statements is monitored and reported on a regular basis. The risk appetites are set by the Board and implemented by the Executive Committee. The Group Risk function is responsible for ensuring the Group operates within the stated risk appetites.

The risk appetite framework has the following components:

- Risk appetite statement: the articulation of the level and types of risk that the Group is willing to accept in order to achieve its business objectives;
- Risk capacity: the maximum level of risk the Group can assume before breaching constraints determined by regulatory capital and liquidity needs;
- Risk limits: quantitative measures that allocate the Group’s aggregate risk appetite statement to individual activities. Where possible this should be based on forward looking measures; and
- Risk profile: the point in time assessment of the Group’s net risk exposure.

The following section provides details of the Group’s risk appetite for each of the principal risks:

Strategic risk appetite

The strategic risk appetite is measured in terms of the deviation against key performance indicators which form part of the Group’s business plan. Performance against the strategic risk appetite is measured every quarter and reported to the Risk Committee.

41 Risk Management (Continued)

Credit risk appetite

The Group operates a business line individual credit risk appetite, as well as an overall credit risk appetite for its lending activities. Expected losses are factored into the budgeting and forecast process and reflect the Group's expected view of lending performance, taking into account recent performance data and the prevailing economic environment.

The Group recognises that actual losses may differ from forecasted or budgeted values. The credit risk appetites are set as an upper limit on losses from credit and credit related fraud and so this limit is set above the budgeted value for each business.

Capital risk appetite

Capital Risk is the risk that the Group has insufficient capital to cover regulatory requirements and/or growth plans. The Group maintains sufficient capital to cover regulatory requirements, including any capital planning buffers, and maintains a management capital buffer.

Liquidity risk appetite

The Board has set a liquidity risk appetite which aims to ensure that a prudent level of liquidity is held to cover an unexpected liquidity outflow such that the Group will be able to meet its financial commitments during an extended period of stress. Additionally, reputational risks are kept low through honouring pipeline commitments expected to complete during a three month period.

Market and interest rate risk appetite

The Group aims to minimise interest rate risk and has a policy of matching fixed or variable rate assets with liabilities of a comparable interest rate basis, supplemented by derivatives such as interest rate swaps.

The Group does not seek to take or expose itself to market risk, and does not carry out proprietary trading, although certain liquid asset investments which form part of the liquid asset buffer carry mark to market risk which is regularly monitored.

Operational risk appetite

The Group aims to maintain operational systems and controls and seeks to operate within a defined level of operational risk. The operational risk appetite considers risk events, the assessment of internal controls, as well as holding additional capital for certain operational risks.

Conduct risk appetite

The Group has a zero appetite for systemic unfair outcomes, which may result in significant detriment to the Group's customers. Systemic unfair outcomes may arise from poor product design, poor sale processes or unacceptable operational practices which risk repeated or continual outcomes which are detrimental to customers.

(b) Credit risk

(i) Overview

Credit risk is the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Group in accordance with agreed terms. This risk arises from the Group's lending activities as a result of defaulting mortgage, lease and loan contracts and is the most significant risk faced by the Group. Although credit risk arises from the Group's loan book it can also arise from off balance sheet activities. The Group does not actively trade in financial instruments, other than for liquidity management purposes.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Group maintains a dynamic approach to credit management and aims to take necessary steps if

41 Risk Management (Continued)

individual issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to borrower economic or sector-specific weaknesses.

The Group seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans, certain sectors and other factors which can represent higher risk. The Group also seeks to obtain security cover, and where appropriate, personal guarantees from borrowers.

Due to the retail and small and medium enterprise ("**SME**") markets the Group operates in, external rating agency ratings for borrowers are not typically available. However, credit risk is assessed through applying a combination of due diligence, reviewing credit reference agency reports, reviewing financial information, credit scores and the use of underwriters.

Group Risk, the Management Credit Committee and Risk Committee have oversight responsibility for credit risk.

(ii) Credit exposure

Maximum exposure to credit risk

The following table presents the Group's maximum exposure to credit risk of financial instruments on the balance sheet and commitments to lend before taking into account any collateral held or other credit. The maximum exposure to credit risk for loans, debt securities, derivatives and other on balance sheet financial instruments is the carrying amount and for loan commitments the full amount of any commitment to lend that is irrevocable or is revocable only in response to material adverse change.

	Note	31 December 2014	2013	2012
			(£'000)	
Included in the statement of financial position				
Cash and balances at central banks		79,567	192,844	1,654
Loans and advances to banks		117,401	237,544	105,019
Debt securities		509,684	355,653	342,364
Derivatives held for risk management		8,168	8,872	10,262
Loans and advances to customers		4,823,638	3,394,872	2,069,009
Other assets		1,298	159	80
		5,539,756	4,189,944	2,528,388
Commitments to lend	38	404,593	343,652	213,639
Gross credit risk exposure		**5,944,349**	**4,533,596**	**2,742,027**
Less: allowance for impairment losses	20	(22,574)	(21,028)	(12,449)
Net credit risk exposure		**5,921,775**	**4,512,568**	**2,729,578**

(iii) Credit risk management

Credit risk—lending

The Group targets SME and mortgage customers. Credit risk is managed in accordance with lending policies, the risk appetite and the risk management framework. Lending policies and performance against risk appetites are reviewed regularly. This section provides further detail on the specific areas where the Group is exposed to credit risk.

Residential Mortgages

The Group's residential mortgage lending focuses on owner occupied residential and buy-to-let mortgage loans.

All applications are reviewed by an experienced team of underwriters who assess each application. Applications are underwritten in accordance with a residential mortgage lending policy and each loan has

41 Risk Management (Continued)

to undergo an affordability assessment, which takes into account the specific circumstances of each borrower. Information is obtained on all loan applications from credit reference agencies which provide a detailed insight on the applicant's credit history and indebtedness, which is reviewed by the underwriters.

The Group aims to take a conservative approach to lending, lending up to a maximum of 85 per cent. loan-to-value ("**LTV**") on a single dwelling without further guarantees and undertakes a full valuation on all properties which act as security. Valuation reports are produced by an experienced panel of qualified external valuers. The Group also offers mortgages with a LTV between 85 per cent. and 95 per cent. via the Help to Buy scheme. This lending has an associated government guarantee which reduces the credit risk to the Group.

The Group does offer limited advice to mortgage borrowers but does not sell payment protection insurance policies.

SME Commercial Mortgages

The Group provides commercial mortgages to businesses who own their own property and to commercial and residential property investors. Loans are typically to SMEs and secured on smaller properties, with limits in place for loans over £1.5 million. A team of underwriters review all applications.

Properties are individually valued and a detailed report produced to ensure the property represents suitable security. Consideration is given to whether the property has an alternate use and/or can be disposed of within a reasonable period in the event of default, where the asset acting as security has to be recovered and sold. Valuations are performed by qualified external surveyors. The valuation reports also provide commentary on the tenancy/letting of properties where the commercial mortgages are connected to an investment property transaction. In-house valuation experts approve the panel of qualified external valuers and perform ongoing quality monitoring.

Affordability assessments are performed on all loans and other forms of security are often obtained, such as a personal guarantee.

Loans to commercial mortgage customers are secured on properties solely located in the UK, although there are various sectors within the UK to which the Group is not currently lending. Concentration risks are monitored and credit exposures are diversified by sector and geography. Regular reviews are performed on loans in the portfolio, with particular attention paid to larger exposures.

Property Development

The Group has a small portfolio of property development loans, which are predominantly for the purpose of building and developing residential property.

Although the UK property sector has shown signs of recovery, the Group continues to be cautious about property development financing. The Group has maintained a conservative approach to development lending and developments are regularly inspected by the Group and external quantity surveyors.

Invoice Finance

The invoice financing activity provides working capital finance for SME clients. This activity may also include credit control and collection services for clients.

The approval process includes a review of the management, financial and operational strength of the client's business and careful consideration is given to the quality and contractual collectability of the underlying receivables which act as security. Information on the business and the individuals behind the business are reviewed and financial and credit information is obtained from external credit reference agencies.

During the term of the facility, in-life monitoring, audits and reconciliations are performed to ensure the risk of fraud and default risks associated with client failure are carefully managed. There is significant diversification at the invoice level which heavily mitigates concentration risk.

41 Risk Management (Continued)

Asset Finance

The asset finance business line originates loan and lease contracts to a diversified range of end users and finances a range of assets. Exposures range from public sector organisations to corporates, SMEs and sole traders. Asset finance and leasing to smaller businesses can represent a higher risk, although the majority of contracts will have tangible assets acting as security which can be recovered and sold in the event of default.

Expert manual underwriting, supported by data driven by risk management systems and automated decisioning is used to underwrite credit proposals. Information on the business and the individuals behind the business are carefully reviewed and financial and credit information is obtained from external credit reference agencies. Assets which act as security are valued and the future resale value of assets is also considered where appropriate. Audits and site visits are used to ensure the Group maintains an awareness of the location, use and condition of assets being financed where considered necessary.

At the balance sheet date the Group has nominal direct residual value risk.

Impaired and past due loans

The table below provides information on the payment due status of loans and advances to customers:

Details of the methodologies and estimates used to determine the allowances for loan impairments are provided in Note 3.

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
31 December 2014					
Neither past due nor individually impaired	2,542,738	994,410	1,039,692	183,324	4,760,164
Past due but not individually impaired	19,405	16,061	7,167	—	42,633
Individually impaired	6,003	6,292	2,614	5,932	20,841
	2,568,146	1,016,763	1,049,473	189,256	4,823,638
31 December 2013					
Neither past due nor individually impaired	1,654,324	752,387	715,971	213,749	3,336,431
Past due but not individually impaired	23,715	4,733	5,228	—	33,676
Individually impaired	3,634	9,979	3,238	7,914	24,765
	1,681,673	767,099	724,437	221,663	3,394,872

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
31 December 2012					
Neither past due nor individually impaired	943,895	525,698	375,217	179,232	2,024,042
Past due but not individually impaired	9,949	15,162	1,691	—	26,802
Individually impaired	1,398	9,184	3,992	3,591	18,165
	955,242	550,044	380,900	182,823	2,069,009

41 Risk Management (Continued)

Past due but not individually impaired loans are further analysed as follows:

	Year ended 31 December		
	2014	2013	2012
	(£'000)	(£'000)	(£'000)
Past due but not individually impaired			
—Up to 2 months past due	29,989	27,318	21,464
—2 to 3 months past due	12,644	6,358	5,338
Total	**42,633**	**33,676**	**26,802**

Impairment coverage is analysed as follows:

	31 December 2014	31 December 2013	31 December 2012
	(£'000)	(£'000)	(£'000)
Coverage ratio			
Gross Loans and advances	4,823,638	3,394,872	2,069,009
Of which individually impaired	20,841	24,765	18,165
Impaired as a % of gross loans and advances	0.43%	0.73%	0.88%
Allowance for losses—individual provisions	14,047	14,714	9,318
Coverage	**67.40%**	**59.41%**	**51.30%**

The credit quality of assets that are neither past due nor individually impaired are internally analysed as follows:

2014

	Residential Mortgages			SME Commercial Mortgages			Asset Finance	Invoice Finance
	Residential	Buy to Let	Total	Commercial	Buy to Let	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Low risk	585,826	1,380,644	1,966,470	257,375	369,693	627,068	59,262	—
Medium risk	341,771	172,479	514,250	113,865	105,938	219,803	839,553	6,502
High risk	38,040	23,978	62,018	103,308	44,231	147,539	140,877	176,822
Total	965,637	1,577,101	2,542,738	474,548	519,862	994,410	1,039,692	183,324
Fair value of collateral held	965,559	1,576,914	2,542,473	474,548	519,862	994,410	738,390	181,752

2013

	Residential Mortgages			SME Commercial Mortgages			Asset Finance	Invoice Finance
	Residential	Buy to Let	Total	Commercial	Buy to Let	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Low risk	392,637	965,253	1,357,890	171,859	268,893	440,752	32,160	—
Medium risk	115,445	151,279	266,724	86,927	87,856	174,783	579,290	7,388
High risk	12,400	17,310	29,710	80,199	56,653	136,852	104,521	206,361
Total	520,482	1,133,842	1,654,324	338,985	413,402	752,387	715,971	213,749
Fair value of collateral held	520,127	1,132,891	1,653,018	338,985	413,402	752,387	509,456	206,342

The above categorisation is based on internal grading models.

41 Risk Management (Continued)

Low Medium High Grading Methodology:

The grading models are used to generate a consistent Group-wide approach for the grading of customer credit risk exposures for all lending businesses, and provide a relative internal ranking of risk. Drivers for the grade mapping include external credit reference agency risk scores, property valuations and qualitative factors. The relative measure of risk reflects a combined assessment of the probability of default (PD) by the customer and an assessment of the expected loss in the event of default.

The probability of default refers to the probability of a customer or counterparty defaulting, which is typically taken as 3 payments past due, within the next 12 months. A default probability model predicts this probability by using credit scores along with financial, behavioral and qualitative inputs.

The main drivers of loss in the event of default i.e. loss given default (LGD) are the propensity to "cure", that is for an account to be restored to a performing status, and the level of security held in relation to the credit exposure. The level of security varies, ranging from a small number of very short term unsecured loans in the Asset Finance business, to highly secured loans on residential property within the Residential Mortgage business. The valuation method for assets is specific to the nature of the collateral and includes indexation for property valuations.

The resulting classification of balances between Low, Medium and High is consequently driven by a combination of the probability of default and loss given default grades explained above. A matrix of fifteen PD and ten LGD grades determine the category within which each loan is categorised.

Fair Value of Collateral Methodology

For Residential and Commercial Mortgages agreements, the fair value of underlying collateral is calculated based on the indexed valuation of the property on which the mortgage is secured. Where the balance outstanding is greater than the indexed valuation, the fair value of the collateral is capped to the value of the outstanding balance.

For Asset Finance agreements, the estimated fair value of the collateral is calculated by applying LGDs on a case by case basis. The LGD against each loan is deducted from the balance outstanding to derive a proxy for fair value. As the fair value is derived using LGDs, the fair value calculated includes an element of prudence as the LGD is based on non performing loan data. Only a small proportion of neither past due nor impaired assets will ultimately default.

Individually impaired balances are further analysed as follows:

2014

	Residential Mortgages			SME Commercial Mortgages			Asset Finance	Invoice Finance
	Residential	Buy to Let	Total	Commercial	Buy to Let	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Impaired status:								
Past due 3-6 months	1,709	1,688	3,397	436	74	510	1,837	—
Past due 6-12 months	186	737	923	2,891	—	2,891	370	3,225
Past due over 12 months	1,407	276	1,683	2,543	348	2,891	407	2,707
	3,302	2,701	6,003	5,870	422	6,292	2,614	5,932
Of which:								
Possessions	1,376	—	1,376	—	—	—	1,363	—

41 Risk Management (Continued)

2013

	Residential Mortgages			SME Commercial Mortgages			Asset Finance	Invoice Finance
	Residential	Buy to Let	Total	Commercial	Buy to Let	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Impaired status:								
Past due 3-6 months	2,479	279	2,758	122	2,295	2,417	1,424	—
Past due 6-12 months	482	284	766	1,104	153	1,257	654	4,727
Past due over 12 months	—	110	110	3,382	2,923	6,305	1,160	3,187
	2,961	673	3,634	4,608	5,371	9,979	3,238	7,914
Of which:								
Possessions	—	—	—	2,176	—	2,176	280	—

Movement in impaired loans is analysed as follows:

2014

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance
	£'000	£'000	£'000	£'000
At 1 January	3,634	9,979	3,238	7,914
Classified as impaired during the year	4,090	1,828	3,517	4,171
Transferred from impaired to unimpaired	(1,147)	(581)	(630)	—
Amounts written off	(59)	(336)	(2,190)	(4,246)
Repayments	(515)	(4,598)	(1,321)	(1,907)
At 31 December	**6,003**	**6,292**	**2,614**	**5,932**

2013

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance
	£'000	£'000	£'000	£'000
At 1 January	1,398	9,184	3,992	3,591
Classified as impaired during the year	3,370	7,098	1,226	4,505
Transferred from impaired to unimpaired	(597)	(2,828)	(441)	—
Amounts written off	(94)	(925)	(767)	(65)
Repayments	(443)	(2,550)	(772)	(117)
At 31 December	**3,634**	**9,979**	**3,238**	**7,914**

41 Risk Management (Continued)

Collateral held and other enhancements

The principal indicators used to assess the credit security of performing loans are loan-to-value ratios for commercial and retail mortgages. Loan-to-collateral value on indexed origination information on the Group's residential mortgage portfolio is set out below:

Residential Mortgages

	Year ended 31 December		
	2014	2013	2012
	(£'000)	(£'000)	(£'000)
100%+	9,167	39,122	12,492
95 - 100%	82,454	26,378	4,462
90 - 95%	151,447	23,775	4,291
85 - 90%	82,427	20,103	3,892
80 - 85%	117,888	62,875	79,280
75 - 80%	219,839	225,890	271,466
70 - 75%	370,024	421,991	209,637
60 - 70%	770,682	486,067	205,205
50 - 60%	450,194	211,533	85,982
0 - 50%	310,777	161,952	77,065
	2,564,899	**1,679,686**	**953,772**
Capital repayment	898,008	425,316	266,686
Interest only	1,666,891	1,254,370	687,086
	2,564,899	**1,679,686**	**953,772**
Average Loan to Value percentage—all residential mortgages	66.84%	66.80%	68.44%
Average Loan to Value percentage—buy to let residential mortgages	64.18%	68.19%	69.82%

Residential Mortgages at a Loan to Value of 90 per cent. and above have increased as a result of the Group's participation in the Help to Buy Scheme.

41 Risk Management (Continued)

SME Commercial Mortgages

Loan-to-collateral value on indexed origination information on the Group's commercial mortgage portfolio is set out below:

	Year ended 31 December		
	2014	2013	2012
	(£'000)	(£'000)	(£'000)
100%+	—	—	—
95 - 100%	—	—	—
90 - 95%	—	—	897
85 - 90%	209	566	456
80 - 85%	2,113	812	1,644
75 - 80%	26,522	21,515	20,317
70 - 75%	73,065	42,474	40,456
60 - 70%	204,627	215,914	221,163
50 - 60%	252,420	264,764	153,411
0 - 50%	452,335	215,953	107,410
	1,011,291	**761,998**	**545,754**
Capital repayment	478,760	380,760	296,009
Interest only	532,531	381,238	249,745
	1,011,291	**761,998**	**545,754**
Average Loan to Value percentage—commercial mortgages	52.23%	56.82%	58.72%
Average Loan to Value percentage—buy to let	55.73%	60.72%	61.18%

2013 and 2012 comparatives have been re-presented with a revised split between the LTV bandings.

Invoice Finance

In respect of invoice finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 31 December 2014, the average advance rate against the fair value of assigned sales ledger balances which have been assigned to the Group, net of amounts considered to be irrecoverable, is 68.04 per cent. (31 December 2013: 69.34 per cent., 31 December 2012: 66.01 per cent).

In addition to the value of the underlying sales ledger balances, the Group will, wherever possible, obtain additional security before offering invoice finance facilities to a client. These include limited personal guarantees from major shareholders, charges over personal and other business property, cross guarantees from associated companies and unlimited warranties in the case of frauds. These additional forms of security are impracticable to value given their nature.

Asset Finance

In respect of asset finance, collateral is provided by the Group's rights and/or title to the underlying leased assets, which the Group is able to repossess in the event of default. Where appropriate the Group will also obtain additional security, such as parent company or personal guarantees. Asset finance also undertakes a small volume of unsecured lending where it has obtained an understanding of the ability of the borrower's business to generate cash flows to service and repay the facilities provided. As at 31 December 2014 the total amount of such unsecured lending was £17.4 million.

41 Risk Management (Continued)

Concentration of credit risk

The Group monitors concentration of credit risk by product type, geographic location and sector. Analyses of concentrations are shown below. Details of the Group's lending by product type are as follows:

	Year ended 31 December		
	2014	2013	2012
	(£'000)	(£'000)	(£'000)
Finance lease receivables	1,044,298	720,198	378,325
Invoice financing	180,576	211,962	178,709
SME Commercial Mortgage loans	1,011,291	761,998	545,754
Residential Mortgage loans	2,564,899	1,679,686	953,772
	4,801,064	**3,373,844**	**2,056,560**
Including:			
Value of buy to let residential mortgages	1,597,255	1,172,213	587,643
Value of buy to let commercial mortgages	401,090	411,262	295,768

Credit concentration of assets by size analysed as follows:

	2014			2013		
	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Residential Mortgages	SME Commercial Mortgages	Asset Finance
	£'000	£'000	£'000	£'000	£'000	£'000
0 - 50K	32,485	7,117	460,409	24,011	5,857	291,794
50 - 100K	548,053	64,933	224,912	390,316	46,889	155,957
100 - 150K	608,382	69,861	108,361	404,716	52,634	72,116
150 - 200K	424,686	71,650	59,135	271,954	48,419	44,609
200 - 300K	479,799	114,550	73,556	283,193	83,997	55,074
300 - 400K	233,269	80,233	36,274	135,404	56,632	32,528
400 - 500K	93,509	62,991	21,644	66,570	45,989	18,112
500K - £1m	132,502	190,714	39,988	98,180	156,023	37,122
£1m - £2m	12,214	181,727	12,208	5,342	157,566	10,459
£2m+	—	167,515	7,811	—	107,992	2,427
Total	2,564,899	1,011,291	1,044,298	1,679,686	761,998	720,198

An analysis of the Group's geographical concentration is shown in the table below:

	year ended 31 December		
	2014	2013	2012
	(%)	(%)	(%)
East Anglia	9.5	8.8	8.7
East Midlands	6.3	6.2	6.3
Greater London	20.9	19.2	18.3
North East	1.6	1.9	3.3
North West	11.9	13.2	13.9
Northern Ireland	0.1	0.1	—
Scotland	4.6	4.3	3.0
South East	19.5	18.7	18.3
South West	9.9	9.9	9.2
Wales	3.2	3.3	3.2
West Midlands	8.2	8.3	7.9
Yorkshire and Humberside	4.3	6.1	7.9
	100.0	**100.0**	**100.0**

41 Risk Management (Continued)

An analysis of the Group's loans and advances to customers by sector is shown in the table below:

	Year ended 31 December		
	2014	2013	2012
		(%)	
Agriculture, hunting and forestry	1.3	0.9	0.3
Construction	3.2	3.2	3.8
Education	0.1	—	0.2
Electricity, gas and water supply	0.6	0.6	0.1
Financial intermediation	1.4	1.2	1.4
Health and social work	0.2	0.3	0.3
Hotels and restaurants	0.3	0.4	0.4
Manufacturing	4.8	5.9	12.9
Mining and quarrying	0.2	0.2	0.2
Private households with employed persons	0.8	1.0	2.1
Public administration and defence; compulsory social security	0.1	0.2	0.8
Real estate, renting and business activities	18.7	18.5	16.9
Residential	61.4	59.1	46.4
Transport, storage and communication	3.9	4.4	6.8
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal household goods	3.0	4.1	7.4
	100.0	**100.0**	**100.0**

Forbearance

On occasion, borrowers experience financial difficulties which impact their ability to meet mortgage or SME finance obligations. Management seeks to identify borrowers who are experiencing financial difficulties as well as contacting borrowers whose loans have gone into arrears, consulting with them in order to ascertain the reason for the difficulties, and to establish the best course of action that can be taken to bring the account up to date. In certain circumstances where the borrower is experiencing significant financial distress, management may use forbearance measures to assist them. These are all considered on a case-by-case basis and must be in the best interest of the customer. The forbearance measures are undertaken in order to achieve the best outcome for both the customer and the Group by dealing with financial difficulties and arrears at any early stage.

The most widely used methods of forbearance are reduced monthly payments, loan term extension, deferral of payment and a temporary or permanent transfer to interest only payments to reduce the borrower's financial pressures. Where the arrangement is temporary, borrowers are expected to resume normal payments within six months. Temporary concessions are counted as forborne for three months following the end of the concession. Permanent concessions are counted as forborne for 24 months

41 Risk Management (Continued)

following the concession. As at 31 December 2014 and as at 31 December 2013 the Group had undertaken forbearance measures as follows in each of its lending divisions:

Asset finance	2014	2013
	£'000	£'000
Capitalisation	21	953
Reduced monthly payments	68	—
Loan-term extension	162	482
Deferred payment	1,152	1,601
Total asset finance	**1,403**	**3,036**
Total forborne as a percentage of the total divisional gross lending book (%)	0.13%	0.42%
SME commercial mortgages		
Temporary or permanent switch to interest only	3,741	7,152
Total SME commercial mortgages	**3,741**	**7,152**
Total forborne as a percentage of the total divisional gross lending book (%)	0.37%	0.93%
Residential mortgages		
Temporary or permanent switch to interest only	1,661	1,842
Reduced monthly payments	1,076	—
Loan term extension	11	11
Deferred payment	624	90
Total Residential Mortgages	**3,372**	**1,943**
Total forborne as a percentage of the total divisional gross lending book (%)	0.13%	0.12%
Total forborne		
Total capitalisation	21	953
Temporary or permanent switch to interest only	5,402	8,994
Total reduced monthly payments	1,144	—
Total loan-term extension	173	493
Total deferred payment	1,776	1,691
Total forborne	**8,516**	**12,131**
Total forborne as a percentage of the total gross lending book (%)	0.18%	0.36%

The Group's total loan balances in forbearance decreased by 30 per cent. from £12.1 million as at 31 December 2013 to £8.5 million as at 31 December 2014.

Analysis of forborne accounts is shown in the tables below:

	2014			
	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Total
	£'000	£'000	£'000	£'000
Neither past due nor impaired	1,438	2,259	1,152	4,849
Past due but not impaired	1,225	1,482	175	2,882
Impaired	709	—	76	785
	3,372	3,741	1,403	8,516

41 Risk Management (Continued)

	2013			
	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Total
	£'000	£'000	£'000	£'000
Neither past due nor impaired	1,481	7,152	2,076	10,709
Past due but not impaired	111	—	960	1,071
Impaired	351	—	—	351
	1,943	7,152	3,036	12,131

Credit risk—treasury

Credit risk exists with treasury assets where the Group has acquired securities or placed cash deposits with other financial institutions. The credit risk of treasury assets is considered to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of the Group's liquidity buffer.

The table below sets out information about the credit quality of financial assets held by Treasury:

	Year ended 31 December		
	2014	2013	2012
	(£'000)	(£'000)	(£'000)
Cash and balances at central banks and Loans and Advances to banks			
—Rated AAA	—	—	1,654
—Rated AA+ to AA−	79,555	192,844	—
—Rated A+ to A−	100,043	237,544	105,018
—Rated BBB+ and below	17,370	—	1
	196,968	430,388	106,673
Debt securities: UK Government Gilts and Treasury Bills and Supranational Bonds			
—Rated AAA	334,927	144,794	273,666
—Rated AA+ to AA−	158,429	133,015	—
—Rated A+ to A−	—	—	—
—Rated BBB+ and below	—	—	—
Debt securities: Asset backed securities			
—Rated AAA	16,328	68,837	35,837
—Rated AA+ to AA−	—	8,609	32,861
—Rated A+ to A−	—	398	—
—Rated BBB+ and below	—	—	—
	509,684	355,653	342,364
Derivatives held for risk management purposes			
—Rated AAA	—	—	—
—Rated AA+ to AA−	689	651	—
—Rated A+ to A−	4,182	8,221	10,262
—Rated BBB+ and below	3,297	—	—
	8,168	8,872	10,262
	714,820	**794,913**	**459,299**

As at 31 December 2014, 31 December 2013 and 31 December 2012, none of the treasury assets were past due or impaired.

41 Risk Management (Continued)

Cash placements

Credit risk of Group and treasury counterparties is controlled through the counterparty placements policy which limits the maximum exposure by entity where the Group can place cash deposits. All institutions need a sufficiently high long term and short term rating at inception.

Gilts and supranational bonds

As part of the liquidity buffer, the Group holds a portfolio of Gilts and Supranational Bonds. These instruments are AAA or AA+ to AA− rated, and typically carry sovereign risk.

Asset backed securities ("ABS")

The Group has a portfolio of asset backed securities ("**ABS**"). The majority of these investments are in AAA or AA+ to AA− rated bonds secured on UK originated assets. All investments are in Sterling; no foreign currency bonds were bought. The portfolio has credit enhancement, providing principal protection against losses.

Derivatives

Credit risk on derivatives is controlled through a policy of only entering into contracts with a small number of UK credit institutions, with a credit rating of at least AA− at inception. Most derivative contracts are collateralised through the receipt/payment of daily cash margin calls to cover the mark to market asset/liability.

(iv) Offsetting financial assets and liabilities

It is the Group's policy to enter into master netting and margining agreements with all derivative counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated.

Under the margining agreements where the Group has a net asset position valued at current market values, in respect of its derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Group in order to cover the position. Similarly, the Group will place collateral, usually cash, with the counterparty where it has a net liability position.

As the Group's derivatives are under master netting and margining agreements as described above, they do not meet the criteria for offsetting in the statement of financial position.

The following tables detail amounts of financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements including the Funding for Lending Scheme as detailed in Notes 20 and 28.

41 Risk Management (Continued)

31 December 2014

Type of financial instrument	Gross amount of recognised financial instruments	Gross amount of recognised financial instrument offset in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral paid/ (received)	Net amount
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	719,900	—	719,900	(304,207)	—	415,693
Derivatives held for risk management	8,168	—	8,168	(7,068)	(1,100)	—
	728,068	—	728,068	(311,275)	(1,100)	415,693
Liabilities						
Amount due to banks—repurchase agreements	(304,207)	—	(304,207)	304,207	—	—
Derivatives held for risk management	(54,198)	—	(54,198)	7,068	46,162	(968)
	(358,405)	—	(358,405)	311,275	46,162	(968)

31 December 2013

Type of financial instrument	Gross amount of recognised financial instruments	Gross amount of recognised financial instrument offset in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral paid/ (received)	Net amount
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	822,900	—	822,900	(383,071)	—	439,829
Derivatives held for risk management	8,872	—	8,872	(6,163)	(1,675)	1,034
	831,772	—	831,772	(389,234)	(1,675)	440,863
Liabilities						
Amounts due to banks—repurchase agreements	(383,071)	—	(383,071)	383,071	—	—
Derivatives held for risk management	(17,867)	—	(17,867)	6,163	11,350	(354)
	(400,938)	—	400,938	389,234	11,350	(354)

41 Risk Management (Continued)

31 December 2012

Type of financial instrument	Gross amount of recognised financial instruments	Gross amount of recognised financial instrument offset in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral paid/ (received)	Net amount
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	647,600	—	647,600	(114,579)	—	533,021
Derivatives held for risk management	10,262	—	10,262	(9,542)	—	720
	657,862	—	657,862	(124,121)	—	533,741
Liabilities						
Amounts due to banks—repurchase agreements	(114,579)	—	(114,579)	114,579	—	—
Derivatives held for risk management	(31,612)	—	(31,612)	9,542	21,830	(240)
	(146,191)	—	(146,191)	124,121	21,830	(240)

(c) 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.

To protect the Group and its depositors against liquidity risks, the Group maintains a liquidity buffer which is based on the Group's liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding and to enable the Group to meet all financial obligations and to support anticipated asset growth.

Through the ILAA process, the Group has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks and the ILAA process determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base.

The ILAA requires the Group to consider all material liquidity risks in detail and the ILAA has documented the Group's analysis of each key liquidity risk driver and set a liquidity risk appetite against each of these drivers. Liquidity risks are specifically considered by the ALCO each month.

Based on the business model of funding primarily via retail and SME deposits, the board has set a liquidity risk appetite which it considers to be appropriate to provide it with the assurance that the relevant liquidity risk drivers should be considered and appropriately stressed and that the Group is able to meet liabilities beyond the targeted survival period.

41 Risk Management (Continued)

The components of the Group's liquidity buffer were as follows:

	Year ended 31 December		
	2014	2013	2012
	(£'000)	(£'000)	(£'000)
Bank of England reserve account and unencumbered cash and bank balances	104,216	390,369	67,912
UK Gilts and Treasury Bills and Supranational Bonds	486,225	275,817	271,632
Treasury bills held under the FLS scheme	179,608	99,784	89,801
Covered Bonds	4,005	—	—
Total liquidity buffer	**774,054**	**765,970**	**429,345**
As a per cent. of funding liabilities	14.87%	19.56%	19.00%

Encumbered assets

The Group holds encumbered assets in the form of a reserve bank account with the Bank of England (see Note 37), loans and advances to customers secured within the securitisation vehicle and prepositioned under the FLS scheme (see Note 20) and cash collateral received from derivative transactions. These balances have been disclosed in the relevant note disclosures. Further details of assets encumbered within the Group's securitisation vehicle are provided in note 40.

An overview of the Group's key liquidity risk drivers is provided below:

Deposit funding risk

The deposit funding risk is the primary liquidity risk driver for the Group and this could occur if there was a concern by depositors over the current or future creditworthiness of the Group. Although the Group seeks to operate in such a way as to protect depositors, an extremely high proportion of deposits are protected by the government Financial Services Compensation Scheme ("**FSCS**"). The increase in the FSCS to £85,000 has provided further protection to depositors.

Wholesale funding

The Group mainly finances its operations through retail and SME deposit-taking. It does not have long term wholesale funding lines in place with the exception of drawings under the Funding for Lending Scheme, repo facilities to help manage liquid assets, and debt securities issued by the Group securitisation vehicle in April 2014. The Group does have relationship banking facilities in place which are used to hedge against currency and interest rate exposures as well as repo facilities for short term liquidity management.

A summary of the Group's wholesale funding sources is show below:

	Note	2014	2013	2012
		£'000	£'000	£'000
Repurchase agreements on drawings under FLS Scheme	28	304,207	383,071	114,579
Debt securities in issue	33	279,143	—	—
Deposits by banks	28	600	1,205	500
		583,950	384,276	115,079

Payments systems

The Group does not form part of the UK payment system. However, in the event there are problems with one of the payment systems, the Group has access to other facilities with which to make payments if needed.

41 Risk Management (Continued)

Pipeline loan commitments

The Group needs to maintain liquidity to cover the outstanding pipeline of loan offers. Although certain pipeline offers may not be legally binding, the failure to adhere to an expression of intent to finance a loan contract brings reputational risk, therefore liquidity is held for such pipeline offers.

Cash collateral requirements

The swap Credit Support Annex ("**CSA**") agreement requires the Group or a swap counterparty to hold cash in a deposit account, depending on whether the swap is in or out of the money. As the Group is unrated, the swap agreements are not credit rating sensitive in relation to the Group, which removes the impact from a downgrade risk.

Contingency funding plan

As a regulated firm, the Group is required to maintain a Contingency Funding Plan ("**CFP**"). The plan (which is now part of the Group's Recovery and Resolution Plan ("**RRP**")) involves a two stage process, covering preventative measures and curative measures to be invoked when there is a potential or actual risk to the Group's liquidity or capital position. The CFP/RRP provides a plan for managing a liquidity or capital situation or crisis within the Group, caused by internal events, external events or a combination thereof. The plan outlines what actions the Group could take to ensure it complies with the liquidity adequacy rule, maintains sufficient capital and operates within its risk appetite and limits, as set and approved by the Board.

41 Risk Management (Continued)

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities:

Gross contractual cash flows

	Payable on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
31 December 2014						
Non derivative liabilities						
Amounts due to banks	1,142	234,785	69,910	—	—	305,837
Customers' accounts	1,190,398	809,826	1,434,729	1,090,600	—	4,525,553
Other liabilities	4,200	9,479	—	—	—	13,679
Debt securities in issue	—	14,770	40,651	240,033	—	295,454
Subordinated notes	—	—	5,150	47,725	—	52,875
Unrecognised loan commitments	404,593	—	—	—	—	404,593
	1,600,333	**1,068,860**	**1,550,440**	**1,378,358**	**—**	**5,597,991**
Derivative liabilities						
Derivatives held for risk management—settled net	542	1,200	10,597	25,029	18,022	55,390
Derivatives held for risk management settled gross:						
Amounts received	(2,349)	(4,544)	—	—	—	(6,893)
Amounts paid	2,349	4,545	—	—	—	6,894
	542	**1,201**	**10,597**	**25,029**	**18,022**	**55,391**
31 December 2013						
Non derivative liabilities						
Amounts due to banks	1,685	174,938	109,934	99,806	—	386,363
Customers' accounts	944,724	668,323	1,138,897	775,581	—	3,527,525
Other liabilities	3,583	6,793	—	—	—	10,376
Subordinated notes	—	—	5,150	52,875	—	58,025
Unrecognised loan commitments	343,652	—	—	—	—	343,652
	1,293,644	**850,054**	**1,253,981**	**928,262**	**—**	**4,325,941**
Derivative liabilities						
Derivatives held for risk management—settled net	—	978	3,179	11,158	3,118	18,433
Derivatives held for risk management settled gross:						
Amounts received	(13,849)	—	—	—	—	(13,849)
Amounts paid	13,849	—	—	—	—	13,849
	—	**978**	**3,179**	**11,158**	**3,118**	**18,433**

41 Risk Management (Continued)

	Payable on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
31 December 2012						
Non derivative liabilities						
Amounts due to banks	—	25,004	69,968	19,950	—	114,922
Customers' accounts	449,602	397,955	1,037,748	303,932	—	2,189,237
Other liabilities	2,822	3,990	—	—	—	6,812
Subordinated notes	—	—	5,150	58,025	—	63,175
Unrecognised loan commitments	213,640	—	—	—	—	213,640
	666,064	**426,949**	**1,112,866**	**381,907**	**—**	**2,587,786**
Derivative liabilities						
Derivatives held for risk management—settled net	—	617	5,765	21,274	8,133	35,789
	—	**617**	**5,765**	**21,274**	**8,133**	**35,789**

(d) Market and interest rate risk

The main market risk faced by the Group is interest rate risk which primarily arises from retail and commercial assets and liabilities, liquidity holdings, funding through FLS, debt securities issued by the Group securitisation vehicle and subordinated notes. Interest rate risk is the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates. Interest rate risk is covered by ALCO on a monthly basis. Interest rate risk consists of asset-liability gap risk and basis risk.

Asset-liability gap risk

Where possible the Group 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 interest swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets. The swap agreements transform fixed interest rate liabilities into three month LIBOR liabilities.

Given timing differences and the price of hedging small gaps, it is not cost effective to have an absolute match of variable rate assets and liabilities. The risk exposure of the overall asset-liability interest rate profile is monitored against approved limits using two main measures:

- Changes to economic value of the balance sheet as a result of 2% shift in the interest yield curve; and
- Simulated Value at Risk ("**VaR**").

For each period the risk measures reported were as follows (note: potential losses are shown as negative numbers):

	31 December 2014	31 December 2013	31 December 2012
	(£'000)	(£'000)	(£'000)
2% shift up of the yield curve:			
As at period ended	(323)	(1,459)	(2,121)
Average of month end positions reported to ALCO	(2,274)	(1,463)	(3,104)
2% shift down of the yield curve:			
As at period ended	(1,086)	3,206	1,450
Average of month end positions reported to ALCO	2,490	1,722	2,523
Simulated VaR:			
As at period ended	(3,687)	1,106	1,485
Average of month end positions reported to ALCO	1,966	1,652	2,075

41 Risk Management (Continued)

Simulated VaR measures the monthly maximum potential gain or loss in the net fair value of interest bearing assets and liabilities due to market volatility within a statistical confidence level of 99 per cent. The VaR methodology employed is a Monte Carlo simulation based on 30 day average movements in LIBOR. The VaR methodology has inherent limitations in that past market volatility may not be a reliable predictor of the future, and may not reflect the time required to hedge or dispose of the position, hence VaR is not used as the sole measure of risk. The risk measures above are based on the Group's interest bearing assets and liabilities, including the contingent convertible securities.

Basis risk

Basis risk is where there is a mismatch in the interest rate reference base for assets and liabilities. When the Group enters into derivative contracts to swap fixed rate assets and liabilities into variable rate liabilities, the reference base is usually three month LIBOR. Certain lending products have interest rates which are based on the prevailing Bank of England Base Rate ("**BBR**") and this different basis reference can lead to basis risk.

The Group has a basis risk policy in place which places limits on the net mismatch between base rates linked assets and liabilities and the sensitivity of pre-tax earnings to a 0.50 per cent. change for six months in the differential between LIBOR and BBR; and seeks to manage the overall level of basis risk exposure by entering into basis swap agreements. As at 31 December 2014 the amount of the basis risk sensitivity measure, as described above, was £480,000 (31 December 2013: £260,000, 31 December 2012: £430,000).

Other market risks

The Group does not carry out proprietary trading or hold any positions in assets or equity which are actively traded.

The Group does, however, hold a portfolio of asset backed securities and a portfolio of liquid assets (Gilts, Treasury bills and Supranational Bonds) which are used for liquidity buffer purposes. The interest rate risk on these liquid assets is considered as part of the asset—liability gap risk described above. The instruments are also exposed to other forms of market risk e.g. credit spread risk. Prices are monitored on a day to day basis to ensure that the Group is aware of any material diminution in value. Formal monthly prices are subject to independent review and are reported to ALCO. The Group has repo facilities in place which will be used in the first instance to obtain liquidity when necessary, which will avoid the need to sell the liquidity buffer assets and so crystallise any price gain or loss due to market price movements.

Hedge accounting

As detailed above, the Group only uses derivative contracts in order to hedge existing exposures on loans and advances to customers, customer deposits and available for sale securities, principally with regard to following the Group's policies in respect of the management of asset-liability gap and basis rate risks. Wherever possible the Group seeks to include the derivatives used within hedges which meet the qualification requirements of IAS 39 to be accounted for as fair value portfolio hedges (see accounting policy (j) and Note 22). There are however times where, in order to meet IAS 39 requirements for prospective testing of hedge effectiveness for new derivatives to be included in hedging portfolios, there is a time lag before IAS 39 hedge accounting may commence.

Similarly, there are also certain derivative contracts, e.g. those hedging basis risk exposures (see above) which do not meet the criteria for hedge accounting under IAS 39. The gains and losses arising on contracts which do not meet the IAS hedge accounting criteria are included within "Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss", but as they are not matched by similar adjustments to the economically hedged hedged assets and liabilities they give rise to volatility in the income statement which will reverse over the life of the instrument.

There is also a portfolio of fixed rate UK Gilts and Supranational Bonds where the pre-existing hedges using interest rate swaps did not meet the requirements for hedge accounting on transition to IFRSs and as a consequence the Group used the option available within IFRS to designate the bonds at fair value through profit and loss in order to reduce the accounting mismatch with the derivatives used to hedge the bonds. Changes in the fair value of the bonds and the hedging derivatives, and any differences between

41 Risk Management (Continued)

them, which are largely attributable to changes in the fair value of the bonds due to changes in their credit risk, are both reflected within the income statement as part of "Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss".

42 Capital Management

The European Union Capital Requirements Directive came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord. This was replaced by Capital Requirements Regulation ("**CRR**") and Capital Requirements Directive (together referred to as "**CRD IV**") which came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulatory Authority ("**PRA**").

The Group operated under CRD III framework for periods up to 31 December 2013 and under the CRD IV framework from 1 January 2014.

As part of the Internal Capital Adequacy Assessment Process ("**ICAAP**") applicable to CRD IV firms, the Board is required to consider all material risks which the Group faces and determine whether additional capital is required in order to provide additional protection to depositors and borrowers and to ensure the Group is sufficiently well capitalised to withstand a severe economic downturn.

The Board manages its internal capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP.

The ICAAP represents the aggregated view on risk for the Group and is used by the Board, management and shareholders to understand the levels of capital required to be held over the near and medium term and to assess the resilience of the Group against failure. The Group submitted its last ICAAP to the PRA in February 2014 and is currently in the process of revising the current year ICAAP. It was subject to a Supervisory Review Evaluation Process ("**SREP**") by the PRA.

The Group is required to maintain a certain level of capital to meet several requirements:

- To meet minimum regulatory capital requirements;
- To ensure the Group can meet its objectives, including growth objectives;
- To ensure the Group can withstand future uncertainty, such as a severe economic downturn; and
- To provide assurance to depositors, customers, shareholders and other third parties.

The Group presents regular reports on the current and forecasted level of capital, as well as the results of stress scenarios, to the ALCO, Board and to the Risk Committee.

The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Group would mean the ICAAP would need to be reviewed.

The Group complied with all externally imposed capital requirements throughout the years ended 31 December 2013, and 2012, when its reporting to regulators was based on its books and records maintained under UK GAAP.

As at 31 December 2014, the Group's capital base was made up of £354.9 million of Tier 1 capital and £45.3 million of Tier 2 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the CRR, audited/verified reserves and qualifying Additional Tier 1 capital issued by the Group in December 2014. Tier 2 capital relates to issued subordinated loan notes and collective impairment allowances.

42 Capital Management (Continued)

The Group's regulatory capital position as at the period end was as follows:

	31 December 2014 (£'000)	31 December 2013 (£'000)	31 December 2012 (£'000)
Tier 1			
Share capital	23,737	23,737	19,918
Share premium account	—	237,305	177,959
Capital contribution reserve	2	2	2
Warrant reserve	2,200	2,200	2,200
Retained earnings	277,879	1,531	(24,337)
Less: Intangible assets	(22,571)	(22,657)	(22,427)
Total common equity Tier 1 capital (CET1)	**281,247**	**242,118**	**153,315**
Additional Tier 1 (ATI)			
Additional Tier 1—contingent convertible securities	73,657	—	—
Total Tier 1 capital	**354,904**	**242,118**	**153,315**
Tier 2			
Subordinated notes	36,758	35,571	34,148
Collective impairment allowance	8,527	6,314	3,131
Total Tier 2 capital	**45,285**	**41,885**	**37,279**
Total regulatory capital	**400,189**	**284,003**	**190,594**

2014, 2013 and 2012 are presented on an IFRS basis. The comparatives were previously reported to the Prudential Regulatory Authority ("**PRA**") and its predecessor the Financial Services Authority based on the Group's UK GAAP accounts. Regulatory capital has increased during 2014 as a result of the issuance of Additional Tier 1 capital in December 2014 and the inclusion of the profit for the year in retained earnings.

The Group has elected to use the standardised approach for credit risk. Under CRD III and CRD IV, the Group must set aside capital equal to 8 per cent. of its total risk weighted assets to cover its "**Pillar 1**" capital requirements. The Group must also set aside additional "**Pillar 2**" capital to provide for additional risks. This is calculated by multiplying the Pillar 1 capital by the Individual Capital Guidance ("**ICG**") ratio.

The ICG ratio is based on the various risks which the Group faces and is agreed by the PRA. The Group's capital base was in excess of the minimum required under the ICG.

Further details of the Group's management of capital are provided in the Pillar III disclosures which are available on the Group's investor relations website: www.investors.aldermore.co.uk.

Reconciliation of equity per statement of financial position to capital resources

	31 December 2014 (£'000)	31 December 2013 (£'000)	31 December 2012 (£'000)
Equity per statement of financial position	378,851	265,357	178,890
Regulatory adjustments:			
Add: subordinated notes	36,758	35,571	34,148
Add: collective impairment allowance	8,527	6,314	3,131
Less: available for sale reserve	(1,376)	(582)	(3,148)
Less: intangible assets	(22,571)	(22,657)	(22,427)
Total regulatory capital	**400,189**	**284,003**	**190,594**

With effect from 1 January 2015, the available for sale reserve will be included in the Group's Common Equity Tier 1 capital.

43 Controlling party information

Aldermore Group PLC (the parent company) is controlled by AnaCap Financial Partners II, LP (52.3 per cent. of voting rights) and AnaCap Financial Partners, L.P. (47.7 per cent. of voting rights).

44 Post balance sheet events

Subsequent to 31 December 2014, the Board and Remuneration Committee have approved a number of share based payment arrangements to be implemented during 2015. These schemes aim to incentivise senior management of the Group after the initial public offering. The Group's remuneration policies remain consistent with the requirements of the PRA's Remuneration Code, the Group's business objectives and best practice.

The Group has agreed to write-off loans totalling £162,343 made to certain Directors and members of Senior Management with effect from and conditional upon admission to the London Stock Exchange.

PART XVI
UNAUDITED PRO FORMA FINANCIAL INFORMATION

Section A: Pro forma statement of net assets

1 Introduction

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effects of the Offer on the net assets of the Group, had the Offer taken place on 31 December 2014. The pro forma net assets statement is based on the audited historical financial information of the Group for the year ended 31 December 2014 contained in Part XV: "*Historical Financial Information*" of this Prospectus and has been prepared in a manner consistent with the accounting policies detailed therein, which the Group has adopted in its annual financial statements for the year ended 31 December 2014.

The unaudited consolidated pro forma statement of net assets has been prepared for illustrative purposes only, and by its nature addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position or results.

The unaudited consolidated pro forma statement of net assets is compiled on the basis set out in the notes below and in accordance with the requirements of items 1 to 6 of Annex II to the Prospectus Rules.

2 Pro forma statement of net assets

	As at 31 December 2014	Adjustment— Net proceeds from the Offer(1)	Unaudited proforma as at 31 December 2014(2)
		£'000	
Assets			
Cash and balances at central banks	79,567	—	79,567
Other assets	5,485,676	68,680	5,554,356
Total assets	**5,565,243**	**68,680**	**5,633,923**
Liabilities			
Customers' accounts	4,458,962	—	4,458,962
Other liabilities	727,431	—	727,431
Total liabilities	**5,186,393**	**—**	**5,186,393**
Total equity	378,850	68,680	447,530
Total liabilities and equity	**5,565,243**	**68,680**	**5,633,923**

Note:

(1) The costs in relation to the Offer to be borne by the company are estimated at £6.3 million (inclusive of VAT).

(2) No account has been taken of any results or other activity since 31 December 2014.

(3) This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act.

Section B: Accountant's Report on Pro forma Financial Information

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The Directors
Aldermore Group PLC
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10 March 2015

Dear Sirs

Aldermore Group PLC

We report on the pro forma financial information (the "Pro forma financial information") set out in Part XVI(A) of the prospectus dated 10 March 2015, which has been prepared on the basis described in paragraph 1, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Aldermore Group PLC in preparing the financial statements for the year ended 31 December 2014. This report is required by paragraph 7 of Annex II of the Prospectus Directive Regulation and is given for the purpose of complying with that Annex and for no other purpose.

Responsibilities

It is the responsibility of the directors of Aldermore Group PLC to prepare the Pro forma financial information in accordance with Annex II of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Aldermore Group PLC.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Aldermore Group PLC.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Aldermore Group PLC.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

PART XVII
SUPERVISION AND REGULATION

1 UK Regulatory Bodies

Aldermore Bank PLC, which is a retail bank operating in the UK, falls under the ambit of UK banking regulators and regulation.

1.1 The Prudential Regulation Authority (the "PRA"), the Financial Conduct Authority (the "FCA") and the Financial Policy Committee (the "FPC")

Under the Financial Services Act 2012 (the "**FSA 2012**"), a range of structural reforms to UK financial regulatory bodies were implemented, with the Financial Services Authority (for the purposes of this Part XVII: "*Supervision and Regulation*", the "**FSA**") being replaced from 1 April 2013 by the following bodies: (i) the PRA; (ii) the FCA; and (iii) the FPC.

The PRA, a subsidiary of the Bank of England, has responsibility for micro-prudential regulation of deposit-takers (including banks, building societies and credit unions), insurers, and investment firms that have the potential to present significant risks to the stability of the financial system and that have been designated for supervision by the PRA.

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions, and it represents the UK's interests in markets regulation at the European Securities and Markets Authority.

Aldermore Bank PLC is authorised by the PRA and regulated by the FCA and the PRA.

The FPC, which is an independent committee within the Bank of England, is tasked with a primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC has a secondary objective to support the economic policy of the UK Government, including its objectives for growth and employment.

For the purposes of this Part XVII: "*Supervision and Regulation*", the terms "**Relevant Regulator**" and "**Relevant Regulators**" refer, as the context requires, to one or more of the PRA, FCA and/or FPC.

The PRA's general objective

In discharging its general functions, the PRA's general objective is promoting the safety and soundness of PRA-authorised firms. The PRA is required to advance this objective primarily by seeking to:

- ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
- minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system.

Additionally, the Banking Reform Act introduces, from a day to be appointed, additional requirements on how the PRA is to advance its general objective in relation to certain matters related to ring-fenced bodies.

When discharging its general functions in a way that advances its objectives, the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised firms carrying on regulated activities.

The FCA's objectives

When discharging its general functions of rule-making, preparing and issuing codes under the Financial Services and Markets Act 2000 (the "**FSMA**"), giving general guidance or determining general policy and principles, the FCA must, so far as is reasonably possible, act in a way which is compatible with its strategic objective of ensuring that relevant markets function well, and which advances one or more of its operational objectives of:

- securing an appropriate degree of protection for consumers (the consumer protection objective);
- promoting effective competition in the interests of consumers in financial markets (the competition objective); and

• protecting and enhancing the integrity of the UK financial system (the integrity objective).

So far as is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers.

1.2 The UK Government

The UK Government has no operational responsibility for the activities of the PRA, the FCA or the FPC. However, the PRA, the FCA and the FPC are accountable to Parliament and in addition to periodic reporting requirements, there are a variety of circumstances when the PRA, the FCA and the FPC will need to report to HM Treasury (as the representative of the UK Government) about certain events, for example, in terms of the PRA, where events have occurred which had or could have had a significant adverse effect on the safety or soundness of one or more persons authorised by the PRA and in terms of the FCA, where there has been a significant regulatory failure to secure an appropriate degree of protection for consumers.

1.3 The Financial Ombudsman Service (the "FOS")

The FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money awarded by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

2 UK Regulation

2.1 Overview of UK financial services regulation

2.1.1 Financial Services and Markets Act 2000

The cornerstone of the regulatory regime in the UK is the FSMA, which received Royal Assent on 14 June 2000 and came into force in 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by European Union legislation.

The FSMA prohibits any person from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK unless that person is authorised or exempt under the FSMA (the "**General Prohibition**"). Regulated activities include deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments and advising on or managing investments). The FSMA also prohibits the communication of an invitation or inducement to engage in investment activity (a "**financial promotion**") in the UK unless the financial promotion is issued or approved by an authorised firm or is exempt from such requirements.

The Relevant Regulators are responsible for the authorisation and supervision of institutions that provide regulated activities in the UK. Aldermore Bank PLC is authorised by the PRA and regulated by the FCA and the PRA with permission to undertake, among other things, deposit-taking and mortgage activities.

Authorised firms must at all times meet certain "threshold conditions" specified by the FSMA, which were modified to reflect the new regulatory structure under the FSA 2012. Dual-regulated firms, such as Aldermore Bank PLC, need to meet both the PRA's threshold conditions and the FCA's threshold conditions. The FCA threshold conditions applicable to PRA-authorised firms are, at a high level, that: (i) the firm is capable of being effectively supervised; (ii) the firm maintains appropriate non-financial resources; (iii) the firm itself is fit and proper, having regard to the FCA's operational objectives and (iv) the firm's strategy for doing business is suitable, having regard to the FCA's operational objectives. At a high level, the PRA threshold conditions require: (i) a firm's head office and in particular its mind and management to be in the UK if it is incorporated in the UK; (ii) a firm's business to be conducted in a prudent manner and in particular that the firm maintains appropriate financial and non-financial resources; (iii) the firm itself to be fit and proper, having regard to the PRA's objectives and appropriately staffed; and (iv) the firm to be capable of being effectively supervised. Related to this, the PRA must formally approve persons who intend to become "controllers" of Aldermore (or who intend to increase their control over Aldermore in a way which results in them falling into a different threshold of control) and must be kept informed of the persons who are controllers of Aldermore and closely linked persons of Aldermore. A controller of Aldermore is broadly any person who, whether acting alone or "acting in concert" holds 10 per cent. or more of the shares or voting power in Aldermore or a parent undertaking of Aldermore or anyone who holds shares or voting power in Aldermore or a parent undertaking of Aldermore as a result of which they are able to exercise significant influence over the management of Aldermore.

In addition, persons holding certain specified functions within Aldermore (including governance functions) require prior approval of the PRA or FCA (depending on the particular function) before they can perform the role.

2.1.2 Financial services handbooks

The FSMA (as amended by the FSA 2012) imposes an ongoing system of regulation and control on banks. The detailed rules and guidance made by the FCA and the PRA under the powers given to them by the FSMA are contained in various parts of their respective handbooks (the "**FCA Handbook**" and the "**PRA Handbook**" and, together the "**FCA and PRA Handbooks**"). The PRA has started to move away from the legacy handbook material it adopted from the FSA (currently contained in the PRA Handbook), towards a PRA Rulebook. The PRA Rulebook will contain rules and directions made by the PRA which apply only to PRA-authorised firms. Parts of the PRA Rulebook (including those relating to capital requirements) have already been made.

Once authorised, and in addition to continuing to meet the threshold conditions (the minimum standards for becoming and remaining authorised), firms are obliged to comply with the FCA's Principles and, if a dual-regulated firm, the PRA's Fundamental Rules, which include requirements to: conduct their business with due skill, care and diligence; treat customers fairly; and communicate with customers in a manner that is clear, fair and not misleading. The 11 Principles and 8 Fundamental Rules are set out in the FCA Handbook and PRA Rulebook respectively.

Other modules of the FCA and PRA Handbooks which are of particular relevance to Aldermore include the Senior Management Arrangements, Systems and Controls sourcebook (or "**SYSC**"), the Consumer Credit sourcebook (or "**CONC**"), the Banking Conduct of Business sourcebook (or "**BCOBS**"), the Mortgages and Home Finance: Conduct of Business sourcebook (or "**MCOB**"), the Supervision sourcebook (or "**SUP**") and the Dispute Resolution: Complaints sourcebook (or "**DISP**").

2.1.3 Supervision

Each of the PRA and the FCA has wide powers to supervise and, where necessary, intervene in the affairs of an authorised firm. These powers were extended under the FSA 2012.

The nature and extent of a Relevant Regulator's supervisory relationship with a firm depends on how much of a risk the Relevant Regulator considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a firm failing and on ensuring that it is prepared so that if it does fail, it does so in an orderly manner. The PRA has introduced the "Proactive Intervention Framework" to support early identification and response to risks to a firm's viability (and enable appropriate supervisory actions to be taken to address such risks if necessary) on the basis of information collected.

The Relevant Regulators will undertake a range of supervisory activities and have a range of statutory powers they can exercise in their work to promote the safety and soundness of authorised firms. For instance, they can require authorised firms to provide particular information or documents to them, require the production of a report by a "skilled person" (as defined in the glossary to the FCA and PRA Handbooks), appointed by either the authorised firm or the Relevant Regulator, or formally investigate an authorised firm. The PRA, where it will advance any of its objectives, and the FCA, where it will advance one or more of its operational objectives, have a broad power of direction over qualifying unregulated parent undertakings.

2.1.4 Enforcement

The Relevant Regulators have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. The sanctions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an individual's approval to perform particular roles within a firm. The Relevant Regulators can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months (in certain cases, 6 months), or that fails to meet the threshold conditions (see further Part II: "*Risk Factors—Regulatory risks—Aldermore must comply with a wide range of laws and regulations*").

2.1.5 Challenging the PRA/FCA

If Aldermore wanted to challenge enforcement or supervisory decisions of the PRA or FCA made in respect of Aldermore, then in many cases it could make formal representations and also bring a case to the Upper Tribunal (Tax and Chancery Chamber) (for the purposes of this Part XVII: "*Supervision and Regulation*", the "**Tribunal**"). The new UK regulatory structure introduced under FSA 2012 made a number of amendments to the Tribunal's rules. Although the grounds for making a reference have remained unchanged, the courses of action available to the Tribunal in the event that it disagrees with the PRA or FCA have been changed. Under the previous system, the Tribunal had the power to make its own decision in place of one made by a regulator with which it disagreed. That remains the position for a disciplinary reference or a reference in connection with specific third party rights, but the Tribunal no longer has the power to substitute its own decision for that of the regulator in any other case and will instead be required to remit the decision to the Relevant Regulator with a direction to reconsider.

2.2 Capital adequacy and European Regulatory Landscape

Aldermore is subject to capital adequacy requirements and guidelines adopted by the PRA for a bank, which provide for a minimum ratio of total capital to risk weighted assets, expressed as a percentage. The PRA's capital adequacy requirements and guidelines for banks are found in the PRA Handbook and new PRA Rulebook, as well as the Capital Requirements Regulation (the "**CRR**").

By way of background, in March 2000, the adoption by the European Union of the Banking Consolidation Directive and the Capital Adequacy Directive (as recast in July 2006 and subsequently amended, together the "**Capital Requirements Directive**") resulted in the consolidation of the main pan-European banking legislation into a single directive (the "**EU Banking Consolidation Directive**"). The principal intention underlying the EU Banking Consolidation Directive was the harmonisation of banking regulation and supervision throughout the EEA.

The EU Banking Consolidation Directive prescribed minimum standards in key areas and required EEA States to give mutual recognition to each other's standards of regulation. The EU Banking Consolidation Directive established the "passport" concept, which amounts to freedom for a credit institution authorised in its "home" state (as defined in the EU Banking Consolidation Directive) to establish branches in, and to provide cross-border services into, other EEA States. Although credit institutions are primarily regulated in their home state by a local prudential regulator, as suggested above, the EU Banking Consolidation Directive prescribed minimum criteria for regulation of the authorisation of credit institutions and the prudential supervision applicable to them. The local prudential regulator for banks in the UK is the PRA.

European Union legislation transposing the current risk-adjusted capital guidelines, through the Capital Requirements Directive, was partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk implemented at the start of 2008. The Capital Requirements Directive has since been amended by CRD II. CRD II was implemented in the UK on 31 December 2010 and included changes to the criteria for hybrid tier 1 capital, the control of large exposures and requirements relating to securitisation transactions. The requirements for hybrid capital to count as non-Common Equity Tier 1 capital were toughened, as were the relative permissible proportions of core, non-core and innovative tier 1 capital. However, CRD II provided for a certain proportion of existing instruments that do not comply with the new rules to continue to count as capital for a long transitional period. The Capital Requirements Directive was further amended by CRD III, which further tightened the capital requirements for trading books and securitisations. CRD III entered into force on 15 December 2010 and, following its implementation, the last of its provisions came into force in the UK on 16 April 2012.

The Basel Committee subsequently approved the "Basel III" proposals in 2011, including new capital and liquidity requirements intended to reinforce capital standards, with heightened requirements for global systemically important banks, and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**").

It is intended that member countries will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provisions for phased implementation, meaning that the measures will not apply in full until January 2019), and the Net Stable Funding Ratio from January 2018.

The European Commission published corresponding proposals to implement Basel III through CRD IV on 20 July 2011. The CRD IV draft legislation was approved by the European Council on 21 June 2013 and published in the Official Journal on 26 June 2013.

CRD IV substantially reflects the Basel III capital and liquidity standards, although certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority. CRD IV came into force in January 2014, but will only be fully implemented by January 2019; however, the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or levels of capital more quickly than is envisaged under Basel III. In the UK, the PRA has confirmed that it will accelerate the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA's rules and supervisory statements published on 19 December 2013 and the PRA consultation paper published in August 2013, the PRA will require Aldermore to meet certain capital targets within certain prescribed time frames, without having regard to any transitional provisions in that respect. The actual impact of CRD IV on capital ratios may be materially different as the CRD IV requirements adopted in the UK may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be adopted by the European Banking Authority (the "**EBA**") or changes to the way in which the PRA interprets or applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III).

The CRR is directly applicable in all Member States without the need for national implementing measures and, as a result, Aldermore is already expected to comply with the CRR's requirements.

The PRA's supervisory statement SS 3/13 (released on 29 November 2013) and policy statement PS 7/13 (released on 19 December 2013) set out the PRA's expectations in relation to capital and leverage ratios (in the case of SS 3/13) and the quality of capital (in the case of PS 7/13). The PRA's policy statement PS 7/13 sets out, among other things, changes to the PRA rules in order to implement certain aspects of CRD IV in the UK and PS 7/13, contrary to previous indications from the PRA, stated that UK banks will be able to meet any future Pillar 2A requirements with a blend of regulatory capital, including Common Equity Tier 1 capital, in addition to the minimum capital requirements under CRD IV.

In October 2013, the Bank of England released a discussion paper proposing a new framework for annual, concurrent stress tests of participants in the UK banking system. On 16 December 2014, the Bank of England published the results of its 2014 stress test, which the eight major UK banks and building societies were required to undertake during the course of 2014. This followed the release in October 2014 of the results of a stress test conducted by the EBA in relation to 123 banks across the EU and Norway. While Aldermore was not directly subject to either stress test, the outcomes of such testing are expected to inform regulatory policy more generally going forward.

With respect to liquidity requirements, there are continuing developments. On 10 October 2014 the EC adopted a Delegated Act which lays down a full set of rules on liquid assets, cash outflows, cash inflows needed to calculate the precise liquidity coverage requirements under CRR. This legislation will be directly applicable in the UK from 1 October 2015. In light of this, the PRA must revoke existing rules where appropriate, and revise its overall approach to regulating liquidity. Accordingly, the PRA published consultation paper CP27/14 to seek views on draft rules and a draft supervisory statement which set out the PRA's proposed update to its liquidity regime. Feedback, final rules and a final supervisory statement is expected to be published in the second quarter of 2015. Further, the PRA intends to ask UK banks to start reporting information on their intraday liquidity positions from 1 July 2015. The Basel Committee also published its final rules on Net Stable Funding ratio on 31 October 2014 which it has confirmed will become binding by 1 January 2018. The European Commission is due to produce a report at the end of 2016 on the implementation of this ratio.

With respect to capital buffers, on 30 April 2014, the PRA published its policy statement PS 3/14 and supervisory statement SS 6/14, responding to its August 2013 consultation paper CP 5/13 regarding the capital buffers requirement under CRD IV. Policy statement PS 3/14 provides feedback to the responses raised following the consultation paper and sets out the PRA's final rules implementing the capital buffer requirements of the PRA; supervisory statement SS 6/14 accompanies the policy statement and sets out the PRA's expectations on the CRD IV capital buffers and provides clarifications of the PRA rules. The PRA provided further information regarding the application of the buffers and their integration with Pillar 2 requirements during a consultation process launched in January 2015 (CP1/15). The PRA expects UK banks to be able to report their Pillar 2A requirements publicly from January 2016. Any Pillar 2B (PRA buffer) requirements will not be disclosable.

FPC's review of the leverage ratio

On 31 October 2014, the FPC published its final review of the role of a leverage ratio in the UK's capital framework for banks. The FPC recommended introducing a leverage ratio framework ahead of an internationally agreed standard for UK global systemically important banks ("**G-SIBs**") and other major UK banks and building societies. For all other PRA-regulated banks, the FPC indicated that it was content for leverage ratio requirements and buffers to come into force in line with the international timetable in 2018, subject to a review of progress internationally in 2017. In its report, the FPC made various recommendations including (i) a minimum leverage ratio requirement set at 3 per cent. (which would apply to all PRA-regulated firms), (ii) a supplementary leverage ratio buffer that will apply to G-SIBs and other major domestic UK banks and building societies and (iii) a countercyclical leverage ratio buffer (which would apply to all PRA-regulated firms). HM Treasury consulted from 7 November to 28 November 2014 on the FPC's proposals and draft secondary legislation to grant the FPC powers of direction over the leverage ratio framework. HM Treasury confirmed the outcome of its consultation on 2 February 2015 and the draft secondary legislation was laid before Parliament. For any power of direction given to the FPC, there is a statutory requirement for the FPC to prepare and maintain a general statement of policy. On 4 February 2015, the FPC issued a draft policy statement, which provides more information about how the FPC envisages each type of leverage ratio requirement working and is intended to assit Parliament's scrutiny of the draft legislation. Given that the FPC's recommendations have not yet been implemented, it is not possible to predict with any certainty the additional financial obligations or restrictions that may be imposed on Aldermore or the effect any additional leverage ratio requirements may have on Aldermore's business, financial condition, result of operations or prospects. However, depending on the specific nature of the requirements, their application to Aldermore and the proposed form of supervisory action for any breach of the requirements, such changes could have a significant impact on Aldermore's operations and capital structure.

2.3 Recovery and resolution

In light of the crisis in the financial markets, the Banking Act introduced three pre-insolvency stabilisation options (in addition to the pre-resolution write-down and conversion power and the bail-in tool introduced by the BRRD) as well as two new insolvency procedures for banks in financial difficulty. The Banking Act provides the PRA, the Bank of England and HM Treasury with tools for dealing with failing institutions, which can be exercised where a bank is failing or is likely to fail to meet the threshold conditions and which cannot be assisted through normal regulatory action or market-based solutions. See Part II: "*Risk Factors—Regulatory risks—Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives*" of this Prospectus for risks associated with the Banking Act.

The BRRD was published in the Official Journal of the EU on 12 June 2014 and Member States had until 1 January 2015 to implement it, except for certain bail in provisions which are to be implemented by 1 January 2016.

On 23 October 2014, the Bank of England published a report on its approach to resolution. In its report, the Bank of England sets out its approach to the resolution of banks, building societies and certain investment firms from 1 January 2015, when most of the provisions of the BRRD (including the write-down and conversion power and the bail-in tool) were transposed into national law. The report details the key phases to any resolution and the various stabilisation tools to be used at each stage in order to give greater clarity over how the Bank of England would likely approach a resolution. For more information, see Part II: "*Risk Factors—Regulatory risks—Aldermore's business is subject to substantial and changing prudential regulation*" and "*Risk Factors—Regulatory risks—Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives*".

2.4 Consumer credit regulation

Recent reforms have transferred responsibility for the oversight and regulation of consumer credit from the Office of Fair Trading (the "**OFT**") to the FCA with effect from 1 April 2014. The new framework for consumer credit regulation comprises the FSMA and its secondary legislation (consumer credit activities are therefore now subject to the General Prohibition and the FSMA authorisation regime discussed earlier in this Part XVII: "*Supervision and Regulation*"), retained provisions in the CCA and rules and guidance in the FCA Handbook, including the CONC (for the purposes of this section, collectively the "**New Regime**").

Under the New Regime, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**RAO**") has been amended so that consumer credit activities, including entering into a "regulated credit agreement" as lender, are "regulated activities" for the purposes of the FSMA. A "regulated credit agreement" is any "credit agreement" that is not an "exempt agreement". A "credit agreement" is any agreement between an individual or relevant recipient of credit ("**A**") and any other person ("**B**"), under which B provides A with "credit" of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include certain agreements predominantly for the purposes of a business, certain agreements secured on land and agreements relating to the purchase of land where a local authority or other specified type of organisation is the lender. Other regulated consumer credit activities include credit broking, debt-related consumer credit activities, entering into a regulated consumer hire agreement as owner, operating an electronic system in relation to lending and providing credit information services and credit references.

Key changes to the UK consumer credit regime that have arisen from the New Regime include:

- Authorisation: application for full authorisation will in general be more complex than an application under the previous CCA regime. To become authorised, firms must meet the threshold conditions (the minimum standards for becoming and remaining authorised) and obtain pre-approval for individuals who will perform key roles in the applicant firm;
- Supervision: under the New Regime there is a distinction between higher-risk and lower-risk consumer credit activities and different supervisory approaches for each. There will be close supervision of firms engaged in higher risk consumer credit activities and a less intensive supervision regime for lower risk firms. Firms are subject to regular reporting requirements in relation to their consumer credit activities and the FCA will engage in thematic work in response to systemic issues;
- Rules: the CCA requirements and OFT guidance were replaced by FCA rules (breaches of which can be penalised), guidance and retained provisions of the CCA. The FSMA financial promotions regime also applies and the FCA has also imposed new financial promotion rules for high cost short term credit, cold calling and debt management companies;
- Enforcement: the FCA has greater powers of enforcement than the OFT, including the power to: bring criminal, civil and disciplinary proceedings; withdraw authorisations; suspend authorised firms for 12 months; suspend individuals from performing certain roles for 2 years; and the power to issue unlimited fines. It is also able to use its product intervention powers in the consumer credit market, which can include restrictions on product features and selling practices or product bans; and
- Complaints and redress: consumers continue to have access to the FOS. The FCA also has the power to require authorised firms to reimburse consumers who have suffered loss due to the firm's actions.

2.4.1 Interim permission regime

To facilitate transition to the New Regime, the UK Government has introduced an interim permission regime, which is a transitional arrangement for regulation by the FCA.

Firms with a CCA licence from the OFT were required to register with the FCA for 'interim permission' to be able to continue carrying on regulated consumer credit activities after 1 April 2014. Firms with 'interim permission' are subject to FCA regulation but are exempt from some parts of the New Regime until they become fully authorised. Aldermore Bank PLC has obtained interim permission from the FCA and must apply for authorisation for its consumer credit activities between 1 July 2015 and 30 September 2015. If Aldermore does not apply during this period its interim permission will lapse and it will no longer be able to carry on regulated consumer credit activities (unless it falls within an exemption).

2.4.2 European regulatory landscape

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which provided that, subject to exemptions, loans of between €200 and €75,000 inclusive must be regulated. This directive repealed and replaced the first consumer credit directive and required Member States to implement the directive by measures in force by 11 June 2010. Loan agreements secured by land mortgage are exempted from the consumer credit directives.

2.5 Mortgage lending

The FSMA regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened, then the relevant regulated mortgage contract (and, in the case of financial promotions, certain other credit secured on land) is unenforceable against the borrower without a court order. The MCOB sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under the MCOB rules, an authorised firm (such as Aldermore Bank PLC) is subject to strict rules on arrears handling and repossessions and is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

In March 2009, the Turner Review, "*A regulatory response to the global banking crisis*", was published and set out a detailed analysis of how the global financial crisis began along with a number of recommendations for future reforms and proposals for consultation. As part of the Turner Review, the FSA published a discussion paper outlining proposals for reform of the mortgage market.

Subsequently, the FSA commenced a wide ranging consultation on mortgage lending: the FSA's Mortgage Market Review ("**MMR**"). The MMR concluded with the publication of final rules by the FSA on 25 October 2012 that amended the existing conduct rules for mortgage lending. The majority of the new rules came into effect on 26 April 2014.

Principal changes are to promote responsible lending and include:

- more thorough verification of borrowers' income (no self-certification of income, mandatory third party evidence of income required);
- assessment of affordability of interest-only loans on a capital and interest basis unless there is a clearly understood and believable alternative source of capital repayment;
- application of interest rate stress tests—lenders must consider likely interest rate movements over a minimum period of five years from the start of the mortgage term;
- when making underwriting assessments lenders must take account of future changes to income and expenditure that a lender knows of or should have been aware of from information gathered in the application process; and
- lenders may base their assessment of customers' income on actual expected retirement age rather than state pension age. Lenders will be expected to assess income into retirement to judge whether the affordability tests can be met.

There are also significant changes to mortgage distribution and advice requirements (including a requirement that advice must be given during most interactive sales), plus changes in relation to arrears management and requirements on contract variations such as when additional borrowing is requested.

2.5.1 European regulatory landscape

The Directive on credit agreements relating to residential property, commonly known as the Mortgage Credit Directive ("**MCD**") came into effect on 20 March 2014. The MCD was to some extent modelled on the second directive on consumer credit and requires, among other things, standard pre-contractual information to be provided to the borrower, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and the borrower to have a right to make early repayment. In addition, the European Commission has indicated that it will be carrying out further work around mortgage foreclosure, default and underwriting requirements and the MCD itself provides for a review after five years.

Member States have two years to implement the MCD into national law. On 26 January 2015 the UK Government published the draft statutory instrument intended to incorporate the MCD into national law. Changes include amendment of the definition of "regulated mortgage contract" to include second charge lending, bringing the regulation of second charge mortgage lending into line with first charge lending (rather than it being regulated under the FCA's consumer credit regime), and the establishment of a framework for regulating buy-to-let mortgage lending to consumers.

2.6 Payment Services Regulation

Under the Payment Services Regulations 2009 (the "**PSR**"), the FCA is responsible for regulating payment services in the UK. The PSR establish an authorisation regime, requiring payment service providers (other than authorised credit institutions such as Aldermore Bank PLC) to either be authorised or registered with the FCA. The PSR also contain certain rules about providing payment services that payment service providers must comply with, including in relation to consent for payment transactions, unauthorised or incorrectly executed transactions, liability for unauthorised payment transactions, refunds, execution of payment transactions, execution time, information to be provided to payment service users and liability of payment services providers if things go wrong.

The Banking Reform Act requires the FCA to establish a body corporate to regulate payment systems (the "**Payment Systems Regulator**"). The Payment Systems Regulator was established on 1 April 2014 and it is anticipated that it will become fully operational in April 2015.

The general functions of the Payment Systems Regulator are:

(i) giving general directions;

(ii) giving general guidance; and

(iii) determining the general policy and principles by reference to which it performs particular functions.

In discharging its general functions, the Payment Systems Regulator must, so far as is reasonably possible, act in a way which advances one or more of its payment systems objectives. The Payment Systems Regulator's payment systems objectives are:

(i) to promote effective competition in the market for payment systems and the markets for services provided by payment systems;

(ii) to promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, services provided by payment systems, with a view to improving the quality, efficiency and economy of payment systems; and

(iii) to ensure payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by payment systems.

2.6.1 European regulatory landscape

The UK payment services regulatory regime originates from European Union law. Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market (the "**Payment Services Directive**") was required to be transposed by Member States before 1 November 2009. The Payment Services Directive is implemented in the UK by the PSR and parts of the FCA Handbook.

In July 2013 the European Commission proposed a revised payment services directive ("**PSD II**") to take account of new types of payment services due to technological development and to harmonise the transposition of certain rules set out in the Payment Services Directive that had been transposed or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty. It also published a proposal for a regulation on multilateral interchange fees. Taken together, the proposals are designed to (i) extend the scope of the Payment Services Directive as regards geographical scope, currencies covered and payment services regulated, (ii) limit the scope of available exemptions under the Payment Services Directive, (iii) increase consumer rights and payment security and (iv) reduce interchange fees for card payments and prohibit surcharging. Adoption of the final texts of PSD II and the regulation on multilateral interchange fees is anticipated to occur in 2015.

The European Parliament and Council have sought to create an integrated market for electronic payments in euro, with no distinction between national and cross-border payments. This single euro payments area ("**SEPA**") project aims to develop common European Union-wide payment services to replace current national payment services. The Payment Services Directive provides a modern legal foundation for the creation of an internal market for payments and regulations of the European Parliament and Council have been adopted with a view to furthering this aim.

Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (the "**SEPA Regulation**") lays down rules for credit transfer and direct debit transactions denominated in euro within the European Union. The implementation of the SEPA Regulation is staggered. The general date by which credit transfers and direct debits were to be carried out in accordance with the SEPA Regulation was 1 February 2014. However an amendment to the SEPA Regulation introduced a transitional period of six months to 1 August 2014 to reflect the fact that it was unlikely that all market participants would be in compliance with the SEPA Regulation by 1 February 2014. Credit transfers and direct debit transactions denominated in euro in countries outside the euro area must be carried out in accordance with the SEPA Regulation from 31 October 2016.

In relation to payment accounts, on 28 August 2014, the text of Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**") was published in the Official Journal of the European Union. The Payment Accounts Directive is intended to enable consumers to make informed choices when opening a payment account by improving the transparency and comparability of information on account fees, whilst eliminating discrimination based on residency, and to enable consumers to switch accounts more easily. Member States will have to transpose the Payment Accounts Directive into their own national law by 18 September 2016. However, there are a few exceptions to this, including certain provisions of the Directive that apply to Member States from 17 September 2014.

2.7 FSCS and the EU Deposit Guarantee Scheme Directive ("EU DGSD")

2.7.1 FSCS

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. There are different compensation limits for different categories of claim. For example, for claims against firms declared in default on or after 1 January 2010 (31 December 2010 for deposits) the limits are: (i) for deposits, 100 per cent. of the first £85,000; (ii) for mortgage advice and arranging, 100 per cent. of the first £50,000; and (iii) for insurance, 90 per cent. of the claim with no upper limit (except that compulsory insurance is protected in full). The FSCS pays compensation for financial loss and the actual compensation a customer will receive depends on the basis of their claim. Compensation limits are per person, per firm and per type of claim.

2.7.2 EU DGSD

In Europe, the EU Deposit Guarantee Scheme Directive ("**EU DGSD**") required EU Member States to introduce at least one deposit guarantee scheme by 1 July 1995. Directive 2009/14/EC, amending Directive 94/19/EC, requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

The European Commission published a legislative proposal to revise the EU DGSD in July 2010. The changes include restricting the definition of "deposit", excluding deposits made by certain financial institutions and certain public authorities, reducing time limits for payments of verified claims by depositors and provisions on how deposit guarantee schemes should be funded. In addition the recast EU

DGSD seeks to harmonise eligibility for protection (including an extension of scope to protect deposits of most companies, whatever their size) and allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The recast EU DGSD was published in the Official Journal of the EU on 12 June 2014 and Member States have until 3 July 2015 to transpose the majority of the EU DGSD into national law.

The recast EU DGSD may result in greater administrative and financial burdens on participating firms. Direct cost increases may result from increased contributions to the schemes and greater indirect costs may arise from necessary changes to procedures and IT systems. The PRA's consultation on implementing the recast EU DGSD closed on 6 January 2015 (a second consultation closed on 27 February 2015).

2.8 Competition regulation

Aldermore is subject to supervision and oversight by a number of competition regulators, including the CMA, sectoral regulators and the European Commission. The FCA and the Payment Systems Regulator (which is scheduled to become fully operational in April 2015) are to assume concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. The powers will come into full force on 1 April 2015. These regulatory bodies have, or are anticipated to have, broad powers to launch market studies or conduct investigations.

On 18 July 2014, the CMA published an update on its market studies in respect of personal current accounts and SME banking (the SME banking market study is a joint project with the FCA). The market studies update identifies a number of areas of concerns (e.g., difficulties for customers in making comparisons between banks and low levels of switching between banks) and evidence that competition is not effectively serving the interests of SMEs or personal current account customers. Following this, on 6 November 2014 the CMA announced its decision to launch a joined up in-depth market investigation into the markets for personal current accounts and SME banking. The CMA's provisional findings are expected to be published in September 2015. The FCA has launched market studies in respect of general insurance add-ons, retirement income and cash savings plans and the operation of the credit card market. In July 2014, the FCA launched a review of competition in the wholesale sector to identify any areas that might merit further investigation through an in-depth market study and, following this, in February 2015 the FCA stated that it had selected the topic of investment banking and corporate banking services for its first wholesale market study. While the outcome of ongoing studies, and the scope of any future studies, is inherently uncertain, they may ultimately result in the application of behavioural and/or structural changes and remedies by the regulators.

2.9 Other relevant legislation and regulation

The UK Money Laundering Regulations 2007 place a requirement on Aldermore to verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud. In addition, the Proceeds of Crime Act 2002, Terrorism Act 2000, Counter-Terrorism Act 2008, Terrorist Asset-Freezing etc. Act 2010, Wire Transfer Regulation (EU Regulation 1781/2006) and Transfer of Funds (Information on the Payer) Regulations 2007/3298 collectively contain requirements and offences in relation to money laundering and the financing of terrorism that are applicable to Aldermore. Guidance in respect of Aldermore's anti-money laundering and counter-terrorist financing obligations is produced by the Joint Money Laundering Steering Group, which is made up of certain UK trade associations in the financial services industry.

The Bribery Act 2010 contains offences relating to bribing another person, being bribed and bribing foreign public officials. It also contains an offence for commercial organisations of failing to prevent bribery. The Ministry of Justice has published guidance about procedures which commercial organisations can put into place to help prevent against persons associated with them engaging in such activity.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers.

The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after 1 July 1995. The main effect of these regulations is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services.

The European Market Infrastructure Regulation on OTC derivatives, central counterparties and trade repositories ("**EMIR**") introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. Of relevance to trades undertaken by Aldermore in derivatives, EMIR creates a clearing obligation on certain OTC derivative trades, additional requirements to mitigate the risks in uncleared OTC trades and a reporting obligation in respect of all derivatives trades. EMIR came into force on 16 August 2012, although the implementation of the majority of its requirements is staggered.

2.10 Proposed legislation

2.10.1 Structural and other reforms

On 14 June 2012, HM Treasury issued a White Paper entitled "*Banking reform: delivering stability and supporting a sustainable economy*" on how the UK Government intends to implement the measures recommended by Sir John Vickers' Independent Commission on Banking final report of 12 September 2011. Broadly, the White Paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector.

On 19 June 2013, the Parliamentary Commission on Banking Standards published its final report, entitled "*Changing banking for good*". This was followed by the publication of the UK Government's response on 8 July 2013, accepting the overall conclusions of the report and its principal recommendations.

The UK Government published the Banking Reform Bill in October 2012 but, following the Parliamentary Commission on Banking Standards' final report published in June 2013, amendments to the Banking Reform Bill were tabled. The Banking Reform Bill received Royal Assent as the Financial Services (Banking Reform) Act 2013 on 18 December 2013. Two statutory instruments—the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 and the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014—were enacted in July 2014 pursuant to HM Treasury's powers under the Banking Reform Act. This legislation, taken as a whole, mandates the "ring-fencing" of certain core activities and services relating to the regulated activity of accepting deposits by a UK institution, and prohibits such an institution from, among other things, dealing in investments as principal and having exposures to certain types of financial institution, subject in each case to limited exceptions. The UK Government intends for all remaining relevant secondary legislation to be completed by May 2015 although it is likely that this deadline may slip. Banks that fall within the scope of this legislation will be expected to have implemented all relevant reforms by 1 January 2019 at the latest.

For more information, see Part II: "*Risk Factors—Regulatory risks—Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives*".

2.10.2 Other

The UK's Consumer Rights Bill (the "**Bill**") seeks to reform and consolidate much of the consumer law in the UK and was formally introduced to the House of Commons on 23 January 2014. The Bill will entirely revoke the Unfair Terms in Consumer Contracts Regulations 1999 and will broadly implement the Law Commission's recommendations published in March 2013. These changes include that contract terms relating to the price or main subject matter of the contract may be assessed for fairness if they are not "transparent and prominent", all written terms of a consumer contract or consumer notice must be transparent and that rules on contract terms apply to any secondary contract in addition to the main contract.

Directive 2005/60/EC (the "**Third Money Laundering Directive**"), which underpins the Money Laundering Regulations 2007, was reviewed by the European Commission between 2010 and 2012 and it found that there were no fundamental shortcomings in the regime. In response to the European Commission's review, broad support was expressed for the proposed alignment to the revised "Financial Action Task Force" standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border transactions. In February 2013, the European Commission adopted proposals for a directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorism financing (the "**Fourth Money Laundering Directive**") and a regulation on information accompanying transfer of funds to secure due traceability of these transfers. Changes in the proposed Fourth Money Laundering Directive include amongst other things extending the scope of the previous directive, requiring evidence based measures to be implemented and tighter rules on customer due diligence.

HM Treasury published a consultation paper on 28 March 2014 which sought views on whether the UK Government should take legislative action to help match SMEs that have been rejected for loans from other lenders with challenger banks and alternative finance providers. On 6 August 2014, HM Treasury published the responses it had received to the consultation paper. In light of the support it received in response to the Government consultation, the Government intends to implement this proposal with legislation through the Small Business, Enterprise and Employment Bill.

For the financial services regulatory risks relating to Aldermore's business please see Part II "*Risk Factors—Regulatory risks*".

PART XVIII
TAXATION

GENERAL

The comments in this Part XVIII: "Taxation" are of a general nature and are not intended to be exhaustive. Any prospective investors who are in any doubt about their tax position should consult their own professional advisers immediately.

SECTION A

UNITED KINGDOM

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to shareholders of the Company resident and, in the case of an individual, domiciled for tax purposes in the United Kingdom and to whom "split year" treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Ordinary Shares as an investment and who are the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the Ordinary Shares. Certain categories of shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefitting from certain reliefs or exemptions, those connected with the Company or the Group, those that own (or are deemed to own) 5 per cent. or more of the shares and/or voting power of the Company (either alone or together with connected persons) and those for whom the Ordinary Shares are employment related securities may be subject to special rules and this summary does not apply to such shareholders.

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

1 Taxation of Dividends

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

A United Kingdom resident individual shareholder who receives a dividend from the Company will generally be entitled to a tax credit which may be set off against the shareholder's total income tax liability. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the cash dividend received.

Therefore, a United Kingdom resident individual shareholder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such shareholder's liability to income tax on the dividend.

In the case of a United Kingdom resident individual shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match the shareholder's income tax liability on the gross dividend and such shareholder will have to account for additional income tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received) to the extent that the gross dividend, when treated as the top slice of the shareholder's income, falls above the threshold for higher rate income tax.

In the case of a United Kingdom resident individual shareholder who is subject to income tax at the additional rate, the tax credit will also be set against but not fully match the shareholder's liability on the gross dividend and such shareholder will have to account for additional income tax equal to 27.5 per cent. of the gross dividend (which is also equal to approximately 30.6 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the shareholder's income falls above the threshold for additional rate income tax.

A United Kingdom resident individual shareholder who is not liable to income tax in respect of the gross dividend and other United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Although shareholders who are within the charge to corporation tax would strictly be subject to corporation tax on dividends paid by the Company (subject to special rules for such shareholders that are small companies) generally such dividends will fall within an exempt class and will not be subject to corporation tax (provided certain conditions are met and anti-avoidance rules are satisfied), such shareholders will not be able to claim repayment of tax credits attaching to dividends. However, each shareholder's position will depend on its own individual circumstances and shareholders within the charge for corporation tax should consult their own professional advisers.

Non-United Kingdom resident shareholders will not generally be able to claim repayment of any part of the tax credit attaching to dividends paid by the Company. A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

2 Taxation of Capital Gains

Shareholders who are resident in the United Kingdom, and individual shareholders who are temporarily non-resident and subsequently resume residence in the United Kingdom within a certain time, may depending on their circumstances and the availability of exemptions or reliefs (including, for example, the annual exempt amount for individuals and indexation allowance for corporate shareholders), be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal (or deemed disposal) of the Ordinary Shares.

3 Inheritance Tax

The Ordinary Shares will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there (under certain rules relating to long residence or previous domicile). Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift, and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Ordinary Shares bringing them within the charge to inheritance tax. Holders of Ordinary Shares should consult an appropriate professional adviser if they make a gift of any kind or transfer Ordinary Shares at less than market value, or intend to hold Ordinary Shares through such a company or trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

4 Close Company

The Company is a close company within the meaning of Part 10 of the Corporation Tax Act 2010 as at the date of this Prospectus.

Whether the Company will be a close company following Admission is dependent, amongst other things, on how widely held the Ordinary Shares in the Company are and what proportion of the voting power in respect of the Ordinary Shares is controlled by certain shareholders, and cannot be definitively determined.

If the Company is a close company at any time following the close of the Offer, certain transactions entered into by the Company or other members of the Group may have tax implications for shareholders. In particular, certain gifts, transfers of assets at less than market value or other transfers of value by the Company or other members of the Group may be apportioned to shareholders for the purposes of United Kingdom inheritance tax, although the payment of a dividend to a shareholder or the payment of dividends or transfers of assets between members of the Group will not normally attract such an apportionment. Any charge to United Kingdom inheritance tax arising from such a transaction will primarily be a liability of the relevant company, although in certain circumstances shareholders and beneficiaries may be liable for the tax if it is left unpaid by that company. In addition, any transfer of assets at less than market value by the Company or other members of the Group may result in a reduction of a shareholder's base cost in his Ordinary Shares for the purposes of United Kingdom taxation of capital gains, although transfers of assets between members of the Group will not normally attract such treatment. Shareholders should consult their own professional advisers on the potential impact of the close company rules.

5 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

*The statements in this section entitled "Stamp Duty and Stamp Duty Reserve Tax ("**SDRT**")" are intended as a general guide to the current United Kingdom stamp duty and SDRT position. Investors should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.*

General

Except in relation to depositary receipt systems and clearance services (to which the special rules outlined below apply), no stamp duty or SDRT will arise on the issue of Ordinary Shares in registered form by the Company.

An agreement to transfer Ordinary Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Instruments transferring Ordinary Shares will generally be subject to stamp duty at the rate of 0.5 per cent. of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty. An exemption from stamp duty is available on an instrument transferring Ordinary Shares in cases where the amount or value of the consideration provided is £1,000 or less and a certification is made that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration provided exceeds £1,000.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional), any SDRT already paid is generally repayable, normally with interest, and any SDRT charge yet to be paid is cancelled.

CREST

Paperless transfers of Ordinary Shares within the CREST system are generally liable to SDRT, rather than stamp duty, generally at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system.

Depositary Receipt Systems and Clearance Services

Following the ECJ decision in C-569/07 *HSBC Holdings Plc, Vidacos Nominees Limited v The Commissioners of Her Majesty's Revenue & Customs* and the First-tier Tax Tribunal decision in *HSBC Holdings Plc and The Bank of New York Mellon Corporation v The Commissioners of Her Majesty's Revenue & Customs,* HM Revenue & Customs has confirmed that 1.5 per cent. SDRT is no longer payable when new shares are issued to a clearance service or depositary receipt system.

HM Revenue & Customs remains of the view that where Ordinary Shares are transferred (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the Ordinary Shares.

There is an exception from the 1.5 per cent. charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986 which has been approved by HM Revenue & Customs and which applies to the Ordinary Shares. In these circumstances, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer will arise on any transfer of Ordinary Shares into such an account and on subsequent agreements to transfer such Ordinary Shares within such account.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

6 The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Ordinary Shares (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Ordinary Shares where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States, and the scope of any such tax uncertain. Additional EU Member States may decide to participate.

Prospective holders of Ordinary Shares are advised to seek their own professional advice in relation to the FTT.

SECTION B

UNITED STATES

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

1 General

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Ordinary Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Ordinary Shares that are U.S. Holders and that will hold the Ordinary Shares as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly or indirectly or by attribution) 5 per cent. or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Ordinary Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes investors holding the Ordinary Shares in connection with a trade or business conducted outside of the United States, U.S. expatriates or investors whose functional currency is not the U.S. dollar).

As used herein, the term "**U.S. Holder**" means a beneficial owner of Ordinary Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Ordinary Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Ordinary Shares by the partnership.

Except as otherwise noted, this summary assumes that the Company will not be a passive foreign investment company (a "**PFIC**") for U.S. federal income tax purposes, which the Company believes to be the case. The Company's possible status as a PFIC must be determined annually and therefore is subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date of this Prospectus and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY SHAREHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE INTERNAL REVENUE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

2 Dividends

2.1 General

Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) generally will be taxable to a U.S. Holder as dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Ordinary Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to Ordinary Shares will be reported as ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.

Dividends paid by the Company generally will be taxable to a non-corporate U.S. Holder at the reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the income tax treaty between the United States and the United Kingdom, certain other requirements are met and the Company is not treated as a PFIC for its taxable year in which the dividends are paid or in the preceding taxable year. See paragraph 5 of this Section B of this Part XVIII: "*Taxation—Passive Foreign Investment Company Considerations*". A U.S. Holder would be eligible for this reduced rate only if it has held the Ordinary Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date.

Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to dividends on the Ordinary Shares.

2.2 Foreign Currency Dividends

Dividends paid in pounds sterling will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the pounds sterling are converted into U.S. dollars at that time. If dividends received in pounds sterling are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

3 Sale or other Disposition

Upon a sale or other disposition of Ordinary Shares, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Ordinary Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Ordinary Shares exceeds one year. Any gain or loss generally will be U.S. source.

A U.S. Holder's tax basis in an Ordinary Share generally will be its U.S. dollar cost. The U.S. dollar cost of an Ordinary Share purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Ordinary Shares traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The amount realised on a sale or other disposition of Ordinary Shares for an amount in foreign currency generally will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, the U.S. Holder generally will recognise U.S. source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Ordinary Shares traded on an established securities market that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

4 Disposition of Foreign Currency

Foreign currency received on the sale or other disposition of an Ordinary Share will have a tax basis equal to the U.S. dollar value on the settlement date. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Ordinary Shares or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

5 Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC for any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. Based on guidance issued by the IRS, including a notice of proposed rulemaking issued in 1989 (the "Notice") and proposed Treasury regulations, dealing active foreign banks, the Company does not expect to be a PFIC for its current taxable year or in the foreseeable future. However, because finalised guidance issued by IRS may not be consistent with the proposed Treasury regulations or the Notice and because the composition of the Company's income and assets may vary over time, there can be no assurance that the Company will not be a PFIC for any taxable year. If the Company were a PFIC for any taxable year during which a U.S. Holder held Ordinary Shares, certain materially adverse U.S. federal income tax consequences could apply to such U.S. Holder.

If the Company were treated as a PFIC for any taxable year during which a U.S. Holder held Ordinary Shares, gains recognised by such U.S. Holder on a sale or other disposition of the Ordinary Shares would be allocated rateably over the U.S. Holder's holding period for such Ordinary Shares. The amount allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such year and an interest charge would be imposed on the resulting tax liability. Further, any distribution in respect of Ordinary Shares in excess of 125 per cent. of the average of the annual distributions on such Ordinary Shares received by a U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. If the Company were a PFIC for any taxable year, certain elections may be available to U.S. Holders that may result in alternative tax treatment.

If the Company were a PFIC for any taxable year during which a U.S. Holder held Ordinary Shares, such Ordinary Shares generally would continue to be treated as shares in a PFIC for all succeeding years even if the Company ceased to be treated as a PFIC.

If the Company were a PFIC for any taxable year in which it pays a dividend or the preceding taxable year, the favourable tax rates that may otherwise be applicable to distributions to certain non-corporate U.S. Holders would not apply. In addition, if the Company were a PFIC for any taxable year, U.S. Holders may be required to file returns with the IRS containing such information as the U.S. Treasury may require.

U.S. Holders should consult their tax advisers regarding the potential application of the PFIC rules to their ownership of Ordinary Shares.

6 Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to Ordinary Shares by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

7 Foreign Financial Asset Reporting

U.S. taxpayers that own certain foreign financial assets, including equity of foreign entities, with an aggregate value in excess of U.S.$50,000 at the end of the taxable year or U.S.$75,000 at any time during the taxable year (or, for certain individuals living outside the United States and married individuals filing joint returns, certain higher thresholds) may be required to file an information report with respect to such assets with their tax returns. The Ordinary Shares are expected to constitute foreign financial assets subject to these requirements unless the Ordinary Shares are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisers regarding the application of the rules relating to foreign financial asset reporting.

SECTION C

FATCA Withholding

Certain provisions of U.S. law commonly known as "**FATCA**", impose a new reporting and withholding regime with respect to, among other things, certain payments made by, and financial accounts held with, entities that are classified as foreign financial institutions for purposes of FATCA. Withholding on such payments would not be required prior to 1 January 2017. The United States has entered into intergovernmental agreements with a number of jurisdictions (including the UK) regarding the implementation of FATCA. Under such intergovernmental agreements, currently, the Issuer would not have any obligation to withhold in respect of payments on the Ordinary Shares as a result of FATCA. Notwithstanding the foregoing, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that FATCA withholding will not become relevant with respect to payments made with respect to the Ordinary Shares in the future.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE COMPANY, THE ORDINARY SHARES AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF SHARES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

PART XIX
DETAILS OF THE OFFER

1 Ordinary Shares subject to the Offer

The Offer comprises an offer of: (i) 39,062,500 New Ordinary Shares to be issued by the Company, raising proceeds of approximately £69 million (after deduction of underwriting commissions and other fees and expenses of the Offer including amounts in respect of VAT); and (ii) 78,872,283 Existing Ordinary Shares to be sold by the Selling Shareholders. Up to a further 17,690,217 Over-allotment Shares (representing up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer) are being made available by the Over-allotment Shareholders pursuant to the Over-allotment Option described below. The Company will not receive any proceeds from the sale of Existing Ordinary Shares being sold by the Selling Shareholders (all of which will be paid to the Selling Shareholders), or the proceeds from the sale of any Over-allotment Shares by the Over-allotment Shareholders pursuant to the Over-allotment Option (all of which will be paid to the Over-allotment Shareholders).

The Existing Ordinary Shares will be diluted by the issue of 39,062,500 New Ordinary Shares pursuant to the Offer. The New Ordinary Shares to be issued pursuant to the Offer will represent approximately 13.0 per cent. of the Existing Ordinary Share capital of the Company, and approximately 11.5 per cent. of the enlarged Ordinary Share capital of the Company immediately following Admission.

The Offer is being made by way of an offer of the Offer Shares to: (i) certain institutional and professional investors in the United Kingdom and elsewhere outside the United States in reliance on Regulation S; and (ii) in the United States to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Certain restrictions that apply to the distribution of this Prospectus and the offer, issue and sale of the Offer Shares in jurisdictions outside the UK are described below in paragraph 11 of this Part XIX: "*Details of the Offer—Selling and transfer restrictions*".

The Offer is subject to satisfaction of conditions which are customary for transactions of this type as set out in the Underwriting Agreement including, amongst others, Admission occurring and becoming effective by no later than 8.00 a.m. on 13 March 2015 (or such later time and/or date as the Company and the Joint Global Co-ordinators may agree), and the Underwriting Agreement not having been terminated in accordance with its terms.

When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BQQMCJ47 and SEDOL number BQQMCJ4 and it is expected that the Ordinary Shares will be traded under the ticker symbol ALD.

Immediately following Admission, it is expected that 33.4 per cent. of the Company's issued Ordinary Share capital will be held in public hands (within the meaning of Listing Rule 6.1.19) assuming no Over-allotment Shares are acquired pursuant to the Over-allotment Option (increasing to approximately 38.4 per cent. if the maximum number of Over-allotment Shares are acquired pursuant to the Over-allotment Option).

The Offer Shares being issued or sold pursuant to the Offer will, on Admission, rank *pari passu* in all respects with the Ordinary Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the share capital of the Company. The Offer Shares will, immediately on and from Admission, be freely transferable, subject to the Articles. The rights attaching to the Offer Shares, including any Ordinary Shares sold pursuant to the Over-allotment Option, will be uniform in all respects and they will form a single class for all purposes.

The Company, the Directors and the Selling Shareholders expressly reserve the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to investors without interest.

2 Reasons for the Offer and Admission and use of proceeds

The Directors believe that the Offer and Admission will position the Group for its next stage of development, which will provide liquidity for existing Shareholders, further enhance its profile and brand recognition, provide access to global capital markets and assist in recruiting, retaining and incentivising management and employees.

The Company will receive approximately £69 million net proceeds from the Offer (after deducting estimated underwriting commissions and other fees and expenses of the Offer (including amounts in respect of VAT) of approximately £6 million). The proceeds from the Offer receivable by the Selling Shareholders will be approximately £151 million (assuming no exercise of the Over-allotment Option), before costs. No expenses will be directly charged to the purchasers of Offer Shares by the Company or the Selling Shareholders.

The Company intends to apply the net proceeds from the Offer to support the medium-term growth of its business.

3 Dealing arrangements

The Offer is subject to the satisfaction of certain conditions contained in the Underwriting Agreement, which are typical for an agreement of this nature. Certain conditions are related to events which are outside the control of the Company, the Directors and the Underwriters, see paragraph 5 of this Part XIX: "*Details of the Offer—Underwriting arrangements*".

Application has been made to the FCA for the Ordinary Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

It is expected that Admission will take place and unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange at 8.00am (London time) on 13 March 2015. Settlement of dealings from that date will be on a three-day rolling basis. Prior to Admission, it is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange on 10 March 2015. The earliest date for settlement of such dealings will be 13 March 2015. **All dealings in the Ordinary Shares between the commencement of conditional dealings and the commencement of unconditional dealings will be on a "when issued" basis. If the Offer does not become unconditional in all respects, any such dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.**

It is intended that Ordinary Shares allocated to investors who wish to hold shares in uncertificated form will take place through CREST on Admission. It is intended that, where applicable, definitive share certificates in respect of the Offer will be distributed from 13 March 2015 or as soon as practicable thereafter. Temporary documents of title will not be issued. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the person concerned.

In connection with the Offer, each of the Underwriters and any affiliate acting as an investor for its own account may take up the Ordinary Shares and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offer. Accordingly, references in this Prospectus to the Ordinary Shares being offered or placed should be read as including any offering or placement of securities to any of the Underwriters and any affiliate acting in such capacity. The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

4 Book building and Allocations under the Offer

The Offer Price has been determined by the Company and the Principal Shareholders in agreement with the Joint Global Co-ordinators.

The allocation of Offer Shares among prospective investors will be determined by the Company and the Selling Shareholders in consultation with the Joint Global Co-ordinators. All Ordinary Shares sold pursuant to the Offer will be sold, payable in full, at the Offer Price. No commissions, fees, expenses or taxes will be charged to investors by the Company or the Selling Shareholders under the Offer. Liability for UK stamp duty and SDRT is described in Part XVIII: "*Taxation*".

The Underwriters will solicit from prospective investors indications of interest in acquiring Ordinary Shares under the Offer. Prospective investors will be required to specify the number of Ordinary Shares which they would be prepared to acquire at the Offer Price. Subject to the Company and Principal Shareholders determining allocations (in consultation with the Joint Global Co-ordinators), there is no minimum or maximum number of Ordinary Shares which can be applied for and multiple applications may be accepted.

The rights attaching to the Ordinary Shares will be uniform in all respects with all other Ordinary Shares and will form a single class for all purposes with the other Ordinary Shares. All Ordinary Shares issued or sold pursuant to the Offer will be issued or sold, payable in full, at the Offer Price. The Ordinary Shares allocated under the Offer have been underwritten, subject to certain conditions, by the Underwriters, as described in paragraph 5 of this Part XIX: "*Details of the Offer—Underwriting arrangements*" and in paragraph 11 of Part XX: "*Additional Information—Underwriting and Selling Shareholder arrangements*".

Upon accepting any allocation, prospective investors will be contractually committed to acquire the number of Offer Shares allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from, such commitment. Dealing may not begin before notification is made. A number of factors have been considered in determining the Offer Price, the number of Offer Shares and basis of allocation, including the prevailing market conditions, the level and nature of demand for the Offer Shares, the prices bid to acquire the Offer Shares and the objective of establishing an orderly and liquid after-market in the Ordinary Shares.

Each investor will be required to pay the Offer Price for the Ordinary Shares sold or issued to such investor in such manner as shall be directed by the Joint Global Co-ordinators.

5 Underwriting arrangements

The Company, the Directors, the Selling Shareholders and the Underwriters have entered into the Underwriting Agreement pursuant to which, on the terms and subject to certain conditions contained therein (which are customary in agreements of this nature), the Underwriters have agreed to use their reasonable endeavours to procure purchasers and/or subscribers for the Offer Shares, failing which the Underwriters will purchase and/or subscribe for such Offer Shares.

The Offer is conditional upon, *inter alia*, Admission occurring not later than 8.00 a.m. on 13 March 2015 (or such later date and time as the Joint Global Co-ordinators and the Company may agree) and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms.

The Underwriting Agreement provides for the Underwriters to be paid a commission in respect of the Offer Shares sold pursuant to the Offer. Any commissions received by the Underwriters may be retained and any Offer Shares acquired by them may be retained or dealt in, by them, for their own benefit.

Further details of the terms of the Underwriting Agreement are set out in Part XX: "*Additional Information*".

6 Lock-up arrangements

Pursuant to the Underwriting Agreement the Company, the Selling Shareholders and the Directors have each agreed that, subject to certain exceptions, they will be subject to certain lock-up arrangements and that they will not, without the prior written consent of the Sponsor, as applicable, issue, offer, sell, contract to sell, transfer, charge, lend, pledge distribute, grant any option, right or warrant to purchase or otherwise dispose of, directly or indirectly, any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing. Further details are set out in paragraph 11 of Part XX: "*Additional Information—Underwriting and Selling Shareholder arrangements*".

7 Over-allotment and stabilisation

In connection with the Offer, Credit Suisse as Stabilising Manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares or effect other stabilisation transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such stabilisation transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. There is no assurance that stabilising transactions will be undertaken. Such transactions, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

In connection with the Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares effected by it during the stabilising period, the Over-allotment Shareholders have granted to it the Over-allotment Option, pursuant to which the Stabilising Manager may purchase or procure purchasers for additional Ordinary Shares up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer (the "**Over-allotment Shares**") at the Offer Price. The Over-allotment Option is exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank *pari passu* in all respects with the Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares, will be purchased on the same terms and conditions as the Ordinary Shares being issued or sold in the Offer and will form a single class for all purposes with the other Ordinary Shares.

8 Stock Lending Agreement

In connection with the Over-allotment Option, the Stabilising Manager has entered into the Stock Lending Agreement with the Over-allotment Shareholders pursuant to which the Stabilising Manager, on Admission, will be able to borrow from the Over-allotment Shareholders in aggregate up to 17,690,217 Ordinary Shares (representing up to 15 per cent. of the total number of Offer Shares) for the purposes, among other things, of allowing the Stabilising Manager to settle over-allotments, if any, made in connection with the Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be obliged to return equivalent shares to the Over-allotment Shareholders in accordance with the terms of the Stock Lending Agreement.

9 CREST

CREST is a paperless settlement system in the UK enabling securities to be evidenced otherwise than by a certificate and to be transferred otherwise than by a written instrument. The Ordinary Shares are in registered form. With effect from Admission, the Articles will permit the holding of Ordinary Shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, if any Shareholder so wishes.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. An investor applying for Ordinary Shares in the Offer may, however, elect to receive Ordinary Shares in uncertificated form if that investor is a system-member (as defined in the CREST Regulations) in relation to CREST.

10 Withdrawal rights

In the event that the Company is required to publish any supplementary prospectus, applicants who have applied for Ordinary Shares in the Offer shall have at least two clear business days following the publication of the relevant supplementary prospectus within which to withdraw their offer to acquire Ordinary Shares in the Offer in its entirety. The right to withdraw an application to acquire Ordinary Shares in the Offer in these circumstances will be available to all investors in the Offer. If the application is not withdrawn within the stipulated period, any offer to apply for Ordinary Shares in the Offer will remain valid and binding.

Details of how to withdraw an application will be made available if a supplementary prospectus is published.

11 Selling and transfer restrictions

The distribution of this Prospectus and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and, therefore, persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Ordinary Shares are subject to restrictions on transferability and resale in certain jurisdictions and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

No action has been taken or will be taken in any jurisdiction that would permit a public offering or sale of the Ordinary Shares, or possession or distribution of this Prospectus (or any other offering or publicity material relating to Ordinary Shares) in any country or jurisdiction where action for that purpose is required or doing so may be restricted by law.

None of the Ordinary Shares may be offered for subscription, sale or purchase or be delivered, and this Prospectus and any other offering material in relation to the Ordinary Shares may not be circulated, distributed or published, in or from any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission or to make any application, filing or registration.

Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and any offering of the Ordinary Shares. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or purchase any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

European Economic Area

In relation to each Relevant Member State, an offer to the public of any Ordinary Shares may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that Relevant Member State, or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospective Directive, except that an offer to the public in that Relevant Member State of any Ordinary Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Global Co-ordinators; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the Company or any Underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Ordinary Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the Underwriters and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Ordinary Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Ordinary Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In the case of any Ordinary Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each financial intermediary will also be deemed to have represented, warranted and agreed that the Ordinary Shares acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to offering those Ordinary Shares to the public, other than their offer or resale in a Relevant Member State to

Qualified Investors as so defined or in circumstances in which the prior consent of the Joint Global Co-ordinators has been obtained to each such proposed offer or resale.

The Company, the Joint Global Co-ordinators and their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor, and who has notified the Joint Global Co-ordinators of such fact in writing, may, with the consent of the Joint Global Co-ordinators, be permitted to subscribe for or purchase Ordinary Shares in the Offer.

United Kingdom

This Prospectus comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules and approved by the FCA under section 87A of the FSMA. This Prospectus has been filed with the FCA and made available to the public in accordance with section 3.2 of the Prospectus Rules.

This Prospectus and any other material in relation to the Ordinary Shares described herein is being distributed only to, and is directed only at, persons in the United Kingdom who are Qualified Investors (as defined in the Prospectus Directive) who are also: (i) persons having professional experience in matters relating to investments falling within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005, as amended (the "**Order**"); or (ii) persons who are high net worth bodies corporate, unincorporated associations and partnerships and the trustees of high value trusts, as described in Article 49(2)(a)-(d) of the Order; or (iii) persons to whom it may otherwise be lawful to distribute it (all such persons together being referred to as "**relevant persons**").

Any investment or any investment activity to which this communication relates is only available to and will only be engaged in with relevant persons and persons within the United Kingdom who receive this Prospectus (other than relevant persons) should not rely on or act upon this Prospectus or its contents.

United States

The Ordinary Shares have not been and will not be registered under the Securities Act or the applicable securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The offering of the Ordinary Shares is being made in the United States through U.S. broker-dealer affiliates of the Underwriters. Transfers of the Ordinary Shares will be restricted and each purchaser will be deemed to have made the acknowledgements, representations and agreements as described below.

Each purchaser of the Ordinary Shares located outside the United States will be deemed to have represented, warranted, acknowledged and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

(1) the purchaser is authorised to purchase the Ordinary Shares in compliance with all applicable laws and regulations;

(2) the purchaser acknowledges that the Ordinary Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;

(3) the purchaser and the person, if any, for whose account or benefit the purchaser is acquiring the Ordinary Shares, was located outside the United States at the time the buy order for the Ordinary Shares was originated and continues to be located outside the United States and has not purchased the Ordinary Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of the Ordinary Shares or any economic interest therein to any person in the United States;

(4) the purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate;

(5) the Ordinary Shares have not been offered to it by means of any "directed selling efforts" as defined in Regulation S;

(6) the purchaser acknowledges that the Company shall not recognise any offer, sale, pledge or other transfer of the Ordinary Shares made other than in compliance with the above-stated restrictions;

(7) if it is acquiring any of the Ordinary Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(8) the purchaser acknowledges that the Company, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each U.S. purchaser of the Ordinary Shares will be deemed to have represented, warranted, acknowledged and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) the purchaser is, and at the time of its purchase of any Ordinary Shares will be, a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and is authorised to purchase the Ordinary Shares in compliance with all applicable laws and regulations;

(2) the purchaser understands and acknowledges that the Ordinary Shares have not been, nor will they be, registered under the Securities Act or with any securities regulatory authority of any state of the United States, that sellers of the Ordinary Shares may be relying on the exemption from the registration requirements of section 5 of the Securities Act provided by Rule 144A thereunder, and that the Ordinary Shares may not be offered or sold, directly or indirectly, in the United States, other than in accordance with paragraph 4 below;

(3) the purchaser is purchasing the Ordinary Shares (i) for its own account, or (ii) for the account of one or more other qualified institutional buyers for which it is acting as duly authorised fiduciary or agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgments, representations and agreements herein with respect to each such account (in which case it hereby makes such acknowledgments, representations and agreements on behalf of such qualified institutional buyers as well), in each case for investment and not with a view to any resale or distribution of any such Ordinary Shares;

(4) the purchaser understands and agrees that offers and sales of the Ordinary Shares are being made in the United States only to qualified institutional buyers in transactions not involving a public offering or which are exempt from the registration requirements of the Securities Act, and that if in the future it or any such other qualified institutional buyer for which it is acting, as described in paragraph 3 above, or any other fiduciary or agent representing such investor decides to offer, sell, deliver, hypothecate or otherwise transfer any of the Ordinary Shares, it or any such other qualified institutional buyer and any such fiduciary or agent will do so only (i) pursuant to an effective registration statement under the Securities Act, (ii) to a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in an "offshore transaction" pursuant to Rule 904 of Regulation S under the Securities Act (and not in a pre-arranged transaction resulting in the resale of such shares into the United States) or (iv) in accordance with Rule 144 under the Securities Act and, in each case, in accordance with any applicable securities laws of any state or territory of the United States and of any other jurisdiction. The purchaser understands that no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of the Ordinary Shares;

(5) the purchaser understands that, for so long as the Ordinary Shares are "restricted securities" within the meaning of the U.S. federal securities laws, no such Ordinary Shares may be deposited into any American depositary receipt facility established or maintained by a depositary bank, other than a restricted depositary receipt facility, and that such Ordinary Shares will not settle or trade through the facilities of DTC or any other U.S. clearing system;

(6) the purchaser has received a copy of this Prospectus and has had access to such financial and other information concerning the Company as it deems necessary in connection with making its own investment decision to purchase shares. The purchaser acknowledges that none of the Company or any of their respective representatives has made any representation to it with respect to the Company or the allocation, offering or sale of any shares other than as set forth in this Prospectus and upon which it is relying solely in making its investment decision with respect to the Ordinary Shares. The purchaser also acknowledges that it has made its own assessment regarding the U.S. federal tax consequences of an investment in the Ordinary Shares. The purchaser has held and will hold any offering materials, including the Prospectus, it receives directly or indirectly from the Company in

confidence, and it understands that any such information received by it is solely for it and not to be redistributed or duplicated by it. The purchaser acknowledges that it has read and agreed to the matters stated in this section entitled "**United States**";

(7) the purchaser understands that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Underwriters and their affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. The purchaser irrevocably authorises the Company and the Underwriters to produce this Prospectus to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered herein; and

(8) the purchaser undertakes promptly to notify the Company and the Underwriters if, at any time prior to the purchase of Ordinary Shares, any of the foregoing ceases to be true.

In addition, until the end of the 40 day period after the commencement of the offering, an offer or sale of the Ordinary Shares within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

None of the Company or the Underwriters accept any legal responsibility for any violation by any person, whether or not a prospective investor in the Ordinary Shares, of any of the foregoing restrictions.

Japan

The Ordinary Shares have not been and will not be registered under the Financial Instruments and Exchange Law as amended; the (the "**FIEL**"). The Ordinary Shares may not be offered or sold directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Australia

This Prospectus (a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia (the "**Corporations Act**"); (b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; (c) has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission ("**ASIC**"), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (d) may not be provided in Australia other than to selected investors ("**Exempt Investors**") who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act. This Prospectus is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia. No persons referred to in this Prospectus hold an Australian financial services licence.

The Ordinary Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Ordinary Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Ordinary Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Ordinary Shares, each purchaser or subscriber of Ordinary Shares represents and warrants to the Company, the Selling Shareholders, the Underwriters and their affiliates that such purchaser or subscriber is an Exempt Investor.

As any offer of Ordinary Shares under this Prospectus, any supplement or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Ordinary Shares for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Ordinary Shares each purchaser or subscriber of Ordinary Shares undertakes to the Company, the Selling Shareholders and the Underwriters that such purchaser or subscriber will not, for a period of 12 months from the date of issue or purchase of the Ordinary Shares, offer, transfer, assign or otherwise alienate those Ordinary Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Canada

Any distribution of the Offer Shares in Canada will be made only in the provinces of Ontario and Quebec, by an investment dealer, an exempt market dealer or a restricted dealer, in each case, that is registered in accordance with applicable provincial securities laws, or by a person that is exempt from registration under such laws under the "international dealer registration exemption" in section 8.18 of National Instrument 31-103, and for greater certainty, will be undertaken in accordance with applicable provincial securities laws so that the Company does not become subject to such laws as a "reporting issuer".

Switzerland

The Ordinary Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Ordinary Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Issuer, the Ordinary Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Ordinary Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA ("**FINMA**"), and the offer of Ordinary Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Ordinary Shares.

DIFC

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Prospectus. The Ordinary Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Ordinary Shares should conduct their own due diligence on the Ordinary Shares. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

PART XX
ADDITIONAL INFORMATION

1 Responsibility

The Company and the Directors, whose names and principal functions are set out in Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*", accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Incorporation

2.1 The Company was incorporated and registered in England and Wales on 3 December 2008 as a private company limited by shares under the Act with the name AC Acquisitions Limited and with the registered number 6764335.

2.2 On 30 September 2014, the Company was re-registered as a public limited company and changed its name to Aldermore Group PLC.

2.3 The Company's registered office is at Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire, RG1 1AX (telephone number: 01189556600).

2.4 The principal laws and legislation under which the Company operates and the Ordinary Shares have been created are the Act and regulations made thereunder.

2.5 The business of the Company and its principal activity is to act as the ultimate holding company of the Aldermore Group.

2.6 By a resolution of the Board dated 4 March 2015, KPMG LLP, whose address is 15 Canada Square, London, E14 5GL, was appointed as the auditors of the Company. KPMG LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

3 Share capital

3.1 The share capital history of the Company is as follows:

3.1.1 On incorporation, the issued share capital of the Company was £1 represented by 1 share of £1.

3.1.2 Since its incorporation, there have been the following changes in the authorised and issued share capital of the Company:

(a) On 20 May 2009, the 1 share of £1 was subdivided and re-designated as 10 "A2" ordinary shares of £0.10 each (each as an "**A2 Share**"). The Company then issued 35,694,000 "A1" ordinary shares of £0.10 each (each as an "**A1 Share**") and 38,858,458 A2 Shares. On 13 August 2009, 29,863,156 of the A2 Shares issued on 20 May 2009 were re-designated as "D" ordinary shares of £0.10 each (each a "**D Share**").

(b) On 20 May 2009, the Company issued 2,019,728 "B" ordinary shares of £0.10 each (each a "**B Share**").

(c) On 20 May 2009, the Company issued 66,000,000 "C" ordinary shares of £0.0001 each (each a "**C Share**").

(d) On 7 July 2009, the Company issued 7,260,000 000 C Shares. On 6 January 2014, the Company bought back 330,000 of the C Shares.

(e) On 26 August 2009, the Company issued 9,438,000 C Shares.

(f) On 23 February 2010, the Company issued a total of 12,448,980 A2 Shares to AnaCap Financial Partners II, L.P. and 7,959,184 D Shares to AnaCap Derby Co-investment (No.1) LP.

(g) On 21 May 2010, the Company issued 27,020,400 C Shares. The Company bought back 5,029,200 of the C Shares on 17 October 2013, 8,289,600 of the C Shares on 25 November 2013, and 4,276,800 of the C Shares on 27 November 2013.

(h) On 24 August 2010, the Company issued 16,420,641 A2 Shares to AnaCap Financial Partners L.P. and AnaCap Financial Partners II, L.P. and 6,028,339 D Shares to AnaCap Derby Co-investment (No.1) LP.

(i) On 19 October 2010, the Company issued 2,640,000 C Shares.

(j) On 12 November 2010, the Company issued 172,523 B Shares and 16,302,000 C Shares.

(k) On 13 December 2010, the Company issued a total of 5,439,998 A2 Shares to AnaCap Financial Partners L.P. and AnaCap Financial Partners II, L.P.

(l) On 5 January 2011, the Company issued 1,848,000 C Shares which were bought back by the Company on 6 January 2014.

(m) On 21 February 2011, the Company issued a total of 6,308,426 A2 Shares to AnaCap Financial Partners L.P. and AnaCap Financial Partners II, L.P. and 10,100,000 D Shares to AnaCap Derby Co-investment (No. 1) LP.

(n) On 17 June 2011, the Company issued a total of 8,181,818 A2 Shares to AnaCap Financial Partners II, L.P.

(o) On 28 June 2011, the Company issued 11,366,373 C Shares. On 10 January 2014, the Company bought back 2,082,960 of the C Shares.

(p) On 30 June 2011, the Company issued 909,091 A2 Shares to AnaCap Financial Partners II, L.P.

(q) On 28 July 2011, the Company issued 4,545,454 A2 Shares to AnaCap Financial Partners II, L.P.

(r) On 31 August 2011, the Company issued 4,545,454 A2 Shares to AnaCap Financial Partners II, L.P.

(s) On 21 September 2011, the Company issued 557,813 B Shares.

(t) On 9 November 2011, the Company issued 454,545 D Shares to AnaCap Derby (No.1) Co-investment LP, 37,296,818 "E" ordinary shares of £0.10 each (each a "E Share") to AnaCap Derby Co-investment (No. 2) L.P. and 9,090,906 A2 Shares were re-designated as E Shares.

(u) On 6 January 2012, the Company issued 1,104,568 B Shares.

(v) On 6 March 2012, the Company issued 3,444,027 C Shares. On 19 August 2013, the Company bought back 1,361,067 of the C Shares.

(w) On 11 May 2012, the Company issued 2,905,779 series A warrants constituted by the series A warrant instrument dated 11 May 2012 ("**A Warrants**") which entitle the holder thereof to subscribe for one E Share per A Warrant.

(x) On 11 May 2012, the Company issued 1,452,889 series B warrants constituted by the series B warrant instrument dated 11 May 2012 ("**B Warrants**") which entitle the holder thereof to subscribe for one E Share per B Warrant.

(y) On 1 October 2012, the Company issued 2,082,960 C Shares.

(z) On 12 July 2013, the Company issued a total of 13,908,588 E Shares to AnaCap Financial Partners II, L.P. and AnaCap Derby Co-investment (No. 1) LP.

(aa) On 23 August 2013, the Company issued 171,027 E Shares.

(bb) On 31 October 2013, the Company issued 4,346,736 E Shares to AnaCap Derby Co-investment (No.2) L.P.

(cc) On 18 December 2013, the Company issued 4,942,550 E Shares to Lansdowne Global Financials Master Fund Limited.

(dd) On 30 December 2013, the Company issued 14,333,445 E Shares to partners of and funds managed by Toscafund Asset Management LLP and 494,205 E Shares to John de la Hey.

(ee) On 10 April 2014, the Company issued 7,815,867 C Shares.

3.1.3 On 24 September 2014, the Company reduced its share premium account totalling £237,304,919.77 to nil in order to create distributable reserves.

3.1.4 By resolutions passed at a general meeting of the Company on 9 March 2015, it was resolved that subject to Admission:

(a) 1,025,586 A1 ordinary shares, 131,593,114 C ordinary shares and 568,253 E ordinary shares be redesignated as deferred shares and their rights varied accordingly (the "**Deferred Shares**");

(b) 406,886 C ordinary shares of nominal value £0.0999 be issued and allotted to all existing C ordinary shareholders on a pro rata basis by way of bonus issue using distributable reserves;

(c) each C ordinary share of nominal value £0.0999 be consolidated with a C ordinary share of nominal value £0.0001 so that 406,886 C ordinary shares with a nominal value £0.10 each are in issue;

(d) the 34,668,414 A1 ordinary shares be redesignated as Ordinary Shares and their rights varied accordingly;

(e) the 58,704,268 A2 ordinary shares be redesignated as Ordinary Shares and their rights varied accordingly;

(f) the 3,854,632 B ordinary shares be redesignated as Ordinary Shares and their rights varied accordingly;

(g) the 402,816 C ordinary shares be redesignated as Ordinary Shares and their rights varied accordingly;

(h) the 54,405,224 D ordinary shares be redesignated as Ordinary Shares and their rights varied accordingly;

(i) the 84,016,023 E ordinary shares be redesignated as Ordinary Shares and their rights varied accordingly;

(j) 63,944,554 Ordinary Shares be issued and allotted on a pro rata basis to all Shareholders (excluding holders of Deferred Shares) by way of bonus issue using distributable reserves;

(k) 133,186,953 Deferred Shares be bought back by the Company for an aggregate price of £1 using distributable reserves and the Company's share capital be reduced accordingly;

(l) subject to Admission, the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006, in substitution to all prior authorities conferred upon them, to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company as follows:

(I) up to an aggregate nominal amount of £3,906,250, representing the New Ordinary Shares proposed to be issued by the Company in respect of the Offer;

(II) up to a further aggregate nominal amount of £11,302,083, representing 33.3 per cent. of the nominal share capital of the Company immediately following Admission;

(III) up to a further aggregate nominal amount of £6,000,000, representing the Ordinary Shares to be issued by the Company upon a conversion of the AT1 Securities;

(IV) up to a further aggregate nominal amount of £600,000, representing the Ordinary Shares to be issued by the Company upon the exercise of the Warrants; and

(V) comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a further nominal amount of £11,302,083, representing 33.3 per cent. of the nominal share capital of the Company immediately following Admission, in connection with an offer by way of a rights issue,

the authorities in (I), (II) and (V) above expiring at the end of the next annual general meeting of the Company or on 30 June 2016, whichever is the earlier, but, in each case, so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into Ordinary Shares to be granted after the authority ends;

(m) the Directors be generally empowered to allot equity securities (as defined in section 560(1) of the Companies Act 2006) wholly for cash pursuant to the authorities conferred in paragraph 3.1.4(l) of this Part XX: "*Additional Information—Share capital*" as if section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that the authority in paragraph 3.1.4(l)(II), or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Companies Act 2006, in each case, is:

(I) in connection with a pre-emptive offer; or

(II) otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £1,695,313, representing five per cent. of the nominal share capital of the Company immediately following Admission,

such powers, with the exception of the powers relating to the authorities in paragraphs 3.1.4(l)(III) and (IV), expiring at the end of the next annual general meeting of the Company or on 30 June 2016, whichever is the earlier, but so that the Company may make offers and enter into agreements during this period which would, or might, require equity securities to be allotted after the power ends;

(n) subject to Admission, the Company be unconditionally and generally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (as defined in section 693 of the Companies 2006), subject to the following conditions:

(I) the number of Ordinary Shares authorised to be purchased may not be more than the number equal to 10 per cent. of the nominal amount of the issued share capital of the Company immediately following Admission;

(II) the minimum price which may be paid for an Ordinary Share is £0.10, being the nominal value of an Ordinary Share; and

(III) the maximum price which may be paid for an Ordinary Share shall be the higher of: (a) an amount equal to 105 per cent. of the average of the middle market quotations of an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which an ordinary share is contracted to be purchased; and (b) an amount equal to the higher of the price of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share as derived from the London Stock Exchange Trading System (SETS) as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy-back programmes and stabilisation of financial instruments (No 2273/2003),

such authority expiring on the earlier of the date of the next annual general meeting of the Company or, if earlier, on 30 June 2016 (except in relation to the purchase of shares the contract of which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time; and

(o) subject to Admission, the Articles be adopted by the Company, in substitution for, and to the exclusion of, the existing articles of association of the Company as set out in paragraph 5 of this Part XX: "*Additional Information—Articles of Association*".

3.1.5 Immediately following completion of the Offer, the nominal value of the issued share capital of the Company is expected to be £33,906,250, comprising 339,062,500 Ordinary Shares.

3.1.6 Shortly following Admission, it is expected that Ordinary Shares up to an aggregate market value on the date of award of approximately £450,000 may be issued to eligible employees as free share awards under the Share Incentive Plan.

4 Pre-IPO Reorganisation

4.1 On 24 September 2014, Aldermore Holdings Limited, a wholly owned Subsidiary of the Company, reduced its share premium account to nil and reduced its share capital to £1.00. On 25 September 2014, it made a dividend in specie to the Company of its entire shareholding less one ordinary share in Aldermore Bank PLC using distributable reserves, and transferred the remaining ordinary share of £1.00 to the Company, with the consideration of £1.00 left outstanding on intercompany account.

4.2 On 3 February 2015, in order to simplify the holding structure of the Group, the following Subsidiaries were struck off pursuant to applications made by them voluntarily to the Registrar of Companies:

4.2.1 Aldermore Holdings Limited

4.2.2 Aldermore Bank Nominees Limited

4.2.3 Base Commercial Mortgages Holdings Ltd

4.2.4 Base Commercial Mortgages Ltd

4.2.5 Base Commercial Mortgages Funding Ltd

4.2.6 Lynchwood Commercial Funding No 1 Ltd

4.2.7 Lynchwood Commercial Funding No 2 Ltd

4.3 Prior to Admission, the Group is undertaking a reorganisation of the Company's share capital (the "**Pre-IPO Reorganisation**"). Subject to Admission, all of the A1 ordinary shares, A2 ordinary shares, B ordinary shares, C ordinary shares, D ordinary shares and E ordinary shares in the Company will be re-designated into a single class of Ordinary Shares as further discussed in 3.1.4 above. As part of the Pre-IPO Reorganisation and subject to Admission, all A1 ordinary shares, C ordinary shares and E ordinary shares that are redesignated as deferred shares will be bought back by the Company at an aggregate value of £1; and

4.4 On 9 March 2015, the Company adopted the Articles containing the rights and restrictions attaching to the Ordinary Shares, subject to and with effect from Admission.

See paragraph 3.1.4 of this Part XX: "*Additional Information—Share Capital*" in respect of resolutions and approvals given pursuant to the Pre-IPO Reorganisation and for the issuance of the New Ordinary Shares.

5 Articles of Association

The Company's objects are not restricted by its Articles. Accordingly, pursuant to section 31 of the Act, the Company's objects are unrestricted.

The Articles were adopted on 9 March 2015, conditional upon Admission being effective, and include provisions to the following effect:

5.1 Shares

5.1.1 Respective rights of different classes of shares

Without prejudice to any rights attached to any existing shares, the Company may issue shares with such rights or restrictions as determined by either the Company by ordinary resolution or, if the Company passes a resolution to so authorise them, the Directors. The Company may also issue shares which are, or are liable to be, redeemed at the option of the Company or the holder and the Directors may determine the terms, conditions and manner of redemption of any such shares.

5.1.2 Voting rights

At a general meeting, subject to any special rights or restrictions attached to any class of shares:

(a) On a show of hands, every member present in person and every duly appointed proxy present shall have one vote.

(b) On a show of hands, a proxy has one vote for and one vote against the resolution if the proxy has been duly appointed by more than one member entitled to vote on the resolution, and the proxy has been instructed:

(I) by one or more of those members to vote for the resolution and by one or more other of those members to vote against it; or

(II) by one or more of those members to vote either for or against the resolution and by one or more other of those members to use his discretion as to how to vote.

(c) On a poll, every member present in person or by proxy has one vote for every share held by him.

(d) A proxy shall not be entitled to vote on a show of hands or on a poll where the member appointing the proxy would not have been entitled to vote on the resolution had he been present in person.

(e) Unless the Directors resolve otherwise, no member shall be entitled to vote either personally or by proxy or to exercise any other right in relation to general meetings if any call or other sum due from him to the Company in respect of that share remains unpaid.

5.1.3 Variation of rights

(a) Should the share capital of the Company be divided into different classes of shares, the special rights attached to any class may be varied or abrogated either with the written consent of the holders of three quarters in nominal value of the issued shares of the class (excluding shares held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class (but not otherwise), and may be so varied or abrogated either while the Company is a going concern or during or in contemplation of a winding-up.

(b) The special rights attached to any class of shares will not, unless otherwise expressly provided by the terms of issue, be deemed to be varied by (i) the creation or issue of further shares ranking, as regards participation in the profits or assets of the Company, in some or all respects equally with them but in no respect in priority to them or (ii) the purchase or redemption by the Company of any of its own shares.

5.1.4 Transfer of shares

(a) Transfers of certificated shares must be effected in writing, and signed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect of those shares. Transfers of uncertificated shares may be effected by means of a relevant system (i.e. CREST) unless the CREST Regulations provide otherwise.

(b) The Directors may decline to register any transfer of a certificated share, unless (i) the instrument of transfer is in respect of only one class of share, (ii) the instrument of transfer is lodged at the transfer office, duly stamped if required and accompanied by the relevant share certificate(s) or other evidence reasonably required by the Directors to show the transferor's right to make the transfer or, if the instrument of transfer is executed by some other person on the transferor's behalf, the authority of that person to do so, and (iii) the certificated share is fully paid up.

(c) The Directors may refuse to register an allotment or transfer of shares in favour of more than four persons jointly.

5.1.5 Restrictions where notice not complied with

If any person appearing to be interested in shares (within the meaning of Part 22 of the Act) has been duly served with a notice under section 793 of the Act (which confers upon public companies the power to require information as to interests in its voting shares) and is in default for a period of 14 days in supplying to the Company the information required by that notice:

(a) the holder of those shares shall not be entitled to attend or vote (in person or by proxy) at any shareholders' meeting, unless the Directors otherwise determine; and

(b) the Directors may, in their absolute discretion, where those shares represent 0.25 per cent. or more of the issued shares of a relevant class, by notice to the holder, direct that:

  (i) any dividend or part of a dividend (including shares issued in lieu of a dividend), or other money which would otherwise be payable on the shares, will be retained by the Company without any liability for interest and the shareholder will not be entitled to elect to receive shares in lieu of a dividend; and/or

  (ii) (with various exceptions set out in the Articles) transfers of the shares will not be registered.

5.1.6 Forfeiture and lien

(a) If a member fails to pay in full any sum which is due in respect of a share on or before the due date for payment, then, following notice by the Directors requiring payment of the unpaid amount with any accrued interest and any expenses incurred, such share may be forfeited by a resolution of the

Directors to that effect (including all dividends declared in respect of the forfeited share and not actually paid before the forfeiture).

(b) A member whose shares have been forfeited will cease to be a member in respect of the shares, but will remain liable to pay the Company all monies which at the date of forfeiture were presently payable, together with interest. The Directors may, in their absolute discretion, enforce payment without any allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal, or waive payment in whole or part.

(c) The Company shall have a lien on every share (not being a fully paid-up share) that is not fully paid for all monies called or payable at a fixed time in respect of such share. The Company's lien over a share takes priority over the rights of any third-party and extends to any dividends or other sums payable by the Company in respect of that share. The Directors may waive any lien which has arisen and may resolve that any share shall for some limited period be exempt from such a lien, either wholly or partially.

(d) A share forfeited or surrendered shall become the property of the Company and may be sold, re-allotted or otherwise disposed of to any person (including the person who was, before such forfeiture or surrender, the holder of that share or entitled to it) on such terms and in such manner as the Directors think fit. The Company may deliver an enforcement notice in respect of any share if a sum in respect of which a lien exists is due and has not been paid. The Company may sell any share in respect of which an enforcement notice, delivered in accordance with the Articles, has been given if such notice has not been complied with. The proceeds of sale shall first be applied towards payment of the amount in respect of the lien to the extent that amount was due on the date of the enforcement notice, and then on surrender of the share certificate for cancellation, to the person entitled to the shares immediately prior to the sale.

5.2 General meetings

5.2.1 Annual general meeting

An annual general meeting shall be held within each period of six months beginning with the day following the Company's accounting reference date, at such place or places, date and time as may be decided by the Directors.

5.2.2 Convening of general meetings

The Directors may, whenever they think fit, call a general meeting. The Directors are required to call a general meeting once the Company has received requests from its members to do so in accordance with the Act.

5.2.3 Notice of general meetings, etc.

(a) Notice of general meetings shall include all information required to be included by the Act and shall be given to all members other than those members who are not entitled to receive such notices from the Company under the provisions of the Articles. The Company may determine that only those persons entered on the Register of Members at the close of business on a day decided by the Company, such day being no more than 21 days before the day that notice of the meeting is sent, shall be entitled to receive such a notice. If a member is added to the Register of Members after the day determined by the Company under the Articles, this shall not invalidate the service of the notice, nor entitle such member to receive notice of the meeting.

(b) For the purposes of determining which persons are entitled to attend or vote at a meeting, and how many votes such persons may cast, the Company must specify in the notice of the meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the Register of Members in order to have the right to attend or vote at the meeting. The Directors may, in their discretion, resolve that, in calculating such period, no account shall be taken of any part of any day that is not a working day (within the meaning of section 1173 of the Act).

5.2.4 Quorum and voting

No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Two members present in person or by proxy shall be a quorum. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded by: (i) the chairman of the general meeting; (ii) not less than five members present in person or by proxy and entitled to vote; (iii) a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) a member or members present in person or by proxy and holding Ordinary Shares in the Company conferring a right to vote at the general meeting being Ordinary Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Ordinary Shares conferring that right.

5.2.5 Conditions of Admission

(a) The Directors may require attendees to submit to searches or put in place such arrangements or restrictions as they think fit to ensure the safety and security of attendees at a general meeting. Any member, proxy or other person who fails to comply with such arrangements or restrictions may be refused entry into, or removed from, the general meeting.

(b) The Directors may decide that a general meeting shall be held at two or more locations to facilitate the organisation and administration of such meeting. A member present in person or by proxy at the designated "satellite" meeting place may be counted in the quorum and may exercise all rights that they would have been able to exercise if they had been present at the principal meeting place. The Directors may make and change from time to time such arrangements as they shall, in their absolute discretion, consider appropriate to:

   (i) ensure that all members and proxies for members wishing to attend the meeting can do so;

   (ii) ensure that all persons attending the meeting are able to participate in the business of the meeting and to see and hear anyone else addressing the meeting;

   (iii) ensure the safety of persons attending the meeting and the orderly conduct of the meeting; and

   (iv) restrict the numbers of members and proxies at any one location to such number as can safely and conveniently be accommodated there.

5.3 Directors

5.3.1 General powers

The Directors shall manage the business and affairs of the Company and may exercise all powers of the Company other than those that are required by the Act or by the Articles to be exercised by the Company in a general meeting.

5.3.2 Number of Directors

The Directors shall not be less than two nor more than 15 in number, save that the Company may, by ordinary resolution, from time to time vary the minimum number and/or maximum number of Directors.

5.3.3 Share qualification

A Director shall not be required to hold any shares of the Company by way of qualification. A Director who is not a member of the Company shall nevertheless be entitled to attend and speak at general meetings.

5.3.4 Directors' fees

(a) Directors' fees are determined by the Directors from time to time, except that they may not exceed £2 million per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Company.

(b) Any Director who holds any executive office (including the office of Chairman or deputy Chairman), or who serves on any committee of the Directors, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid extra remuneration by way of salary, commission or otherwise or may receive such other benefits as the Directors may determine.

5.3.5 Executive Directors

The Directors may from time to time appoint one or more of their number to be the holder of any executive office and may confer upon any Director holding an executive office any of the powers exercisable by them as Directors upon such terms and conditions, and with such restrictions, as they think fit. They may from time to time revoke, withdraw, alter or vary all or any of such delegated powers.

5.3.6 Directors' retirement

(a) Each Director shall retire at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company, or at such earlier annual general meeting as the Directors may resolve. In addition, each Director (other than the Chairman and any Director holding an executive office) shall also be required to retire at each annual general meeting following the ninth anniversary of the date on which he was elected by the Company. A Director who retires at any annual general meeting shall be eligible for election or re-election unless the Directors resolve otherwise not later than the date of the notice of such annual general meeting.

(b) When a Director retires at an annual general meeting in accordance with the Articles, the Company may, by ordinary resolution at the meeting, fill the office being vacated by re-electing the retiring Director. In the absence of such a resolution, the retiring Director shall nevertheless be deemed to have been re-elected, except in the cases identified by the Articles.

5.3.7 Removal of a Director by resolution of Company

The Company may, by ordinary resolution of which special notice is given, remove any Director before the expiration of his period of office in accordance with the Act, and elect another person in place of a Director so removed from office. Such removal may take place notwithstanding any provision of the Articles or of any agreement between the Company and such Director, but is without prejudice to any claim the Director may have for damages for breach of any such agreement.

5.3.8 Proceedings of the Board

(a) Subject to the provisions of the Articles, the Directors may meet for the despatch of business, adjourn and otherwise regulate the Board's proceedings as they think fit.

(b) The quorum necessary for the transaction of business of the Directors may be fixed from time to time by the Directors and, unless so fixed at any other number, shall be two. A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Directors.

(c) The Directors may elect from their number a Chairman and a deputy Chairman (or two or more deputy Chairmen) and decide the period for which each is to hold office.

(d) Questions arising at any meeting of the Directors shall be determined by a majority of votes. The Chairman of the meeting shall not have a casting vote.

5.3.9 Directors' interests

(a) For the purposes of section 175 of the Act, the Directors shall have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a Director to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

(b) Any such authorisation will be effective only if:

   (i) the matter in question was proposed in writing for consideration at a meeting of the Directors, in accordance with the Board's normal procedures or in such other manner as the Directors may resolve;

   (ii) any requirement as to the quorum at the meeting at which the matter is considered is met without counting the Director in question or any other interested Director; and

   (iii) the matter was agreed to without such interested Directors voting or would have been agreed to if their votes had not been counted.

(c) The Directors may extend any such authorisation to any actual or potential conflict of interest which may arise out of the matter so authorised and may (whether at the time of the giving of the authorisation or subsequently) make any such authorisation subject to any limits or conditions they expressly impose, but such authorisation is otherwise given to the fullest extent permitted. The Directors may also terminate any such authorisation at any time.

5.3.10 Restrictions on voting

(a) Except as provided below or otherwise permitted in the Articles, a Director may not vote on any resolution in respect of any contract, arrangement or any other proposal in which he, or a person connected to him, is interested. Any vote of a Director in respect of a matter where he is not entitled to vote shall be disregarded.

(b) Subject to the provisions of the Act, a Director shall be entitled to vote and be counted in the quorum in respect of any resolution concerning any contract, transaction or arrangement, or any other proposal (inter alia):

(i) in which he has an interest of which he is not aware or which cannot reasonably be regarded as likely to give rise to a conflict of interest;

(ii) in which he has an interest only by virtue of interests in the Company's shares, debentures or other securities or otherwise in or through the Company;

(iii) which involves the giving of any security, guarantee or indemnity to the Director or any other person in respect of obligations incurred by him and guaranteed by the Company (or vice versa);

(iv) concerning an offer of securities by the Company or any of its subsidiary undertakings in which he is or may be entitled to participate as a holder of securities or as an underwriter or sub-underwriter;

(v) concerning any other body corporate, provided that he and any connected persons do not own or have a beneficial interest in one per cent. or more of any class of share capital of such body corporate, or of the voting rights available to the members of such body corporate;

(vi) relating to an arrangement for the benefit of employees or former employees which does not award him any privilege or benefit not generally awarded to the employees or former employees to whom such arrangement relates;

(vii) concerning the purchase or maintenance of insurance for any liability for the benefit of Directors;

(viii) concerning the giving of indemnities in favour of the Directors;

(ix) concerning the funding of expenditure by any Director or Directors (A) on defending criminal, civil or regulatory proceedings or actions against him or them, (B) in connection with an application to the court for relief, (C) on defending him or them in any regulatory investigations or (D) incurred doing anything to enable him to avoid incurring such expenditure; or

(x) in respect of which the Director's interest, or the interest of Directors generally, has been authorised by ordinary resolution.

5.3.11 Confidential information

If a Director, otherwise than by virtue of his position as Director, receives information in respect of which he owes a duty of confidentiality to a person other than the Company, he shall not be required to disclose such information to the Company or otherwise use or apply such confidential information for the purpose of or in connection with the performance of his duties as a Director, provided that such an actual or potential conflict of interest arises from a permitted or authorised interest under the Articles. This is without prejudice to any equitable principle or rule of law which may excuse or release the Director from disclosing the information in circumstances where disclosure may otherwise be required under the Articles.

5.3.12 Borrowing powers

Subject to the provisions of the Act, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

5.3.13 Powers of the Directors

(a) The Directors may delegate any of their powers or discretions, including those involving the payment of remuneration or the conferring of any other benefit to the Directors, to such person or committee and in such manner as they think fit. Any such person or committee shall, unless the Directors otherwise resolve, have the power to sub-delegate any of the powers or discretions delegated to them. The Directors may make regulations in relation to the proceedings of committees or sub-committees.

(b) The Directors may establish any local boards or appoint managers or agents to manage any of the affairs of the Company, either in the UK or elsewhere, and may:

(i) appoint persons to be members or agents or managers of such local board and fix their remuneration;

(ii) delegate to any local board, manager or agent any of the powers, authorities and discretions vested in the Directors, with the power to sub-delegate;

(iii) remove any person so appointed, and annul or vary any such delegation; and

(iv) authorise the members of any local boards, or any of them, to fill any vacancies on such boards, and to act notwithstanding such vacancies.

(c) The Directors may appoint any company, firm or person or fluctuating body of persons to be the attorney of the Company with such purposes and with such powers, authorities and discretions, for such periods and subject to such conditions as they may think fit.

(d) Any Director may at any time appoint any person (including another Director) to be his alternate Director and may at any time terminate such appointment.

5.3.14 Directors' liabilities

(a) So far as may be permitted by the Act, every Director, former Director or secretary of the Company or of an Associated Company (as defined in section 256 of the Act) of the Company may be indemnified by the Company out of its own funds against any liability incurred by him in connection with any negligence, default, breach of duty or breach of trust by him or any other liability incurred by him in the execution of his duties, the exercise of his powers or otherwise in connection with his duties, powers or offices.

(b) The Directors may also purchase and maintain insurance for or for the benefit of:

(i) any person who is or was a Director or secretary of a Relevant Company (as defined in the Articles); or

(ii) any person who is or was at any time a trustee of any pension fund or employees' share scheme in which employees of any Relevant Company are interested, including insurance against any liability (including all related costs, charges, losses and expenses) incurred by or attaching to him in relation to his duties, powers or offices in relation to any Relevant Company, or any such pension fund or employees' share scheme.

(c) So far as may be permitted by the Act, the Company may provide a Relevant Officer (as defined in the Articles) with defence costs in relation to any criminal or civil proceedings in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company or an Associated Company, or in relation to an application for relief under section 205(5) of the Act. The Company may do anything to enable such Relevant Officer to avoid incurring such expenditure.

5.4 Dividends

(a) The Company may, by ordinary resolution, declare final dividends to be paid to its shareholders. However, no dividend shall be declared unless it has been recommended by the Directors and does not exceed the amount recommended by the Directors.

(b) If the Directors believe that the profits of the Company justify such payment, they may pay dividends on any class of share where the dividend is payable on fixed dates. They may also pay interim dividends on shares of any class in amounts and on dates and periods as they think fit. Provided the Directors act in good faith, they shall not incur any liability to the holders of any shares for any loss they may suffer by the payment of dividends on any other class of shares having rights ranking equally with or behind those shares.

(c) Unless the share rights otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, and apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid.

(d) Any unclaimed dividends may be invested or otherwise applied for the benefit of the Company until they are claimed. Any dividend unclaimed for 12 years from the date on which it was declared or became due for payment shall be forfeited and shall revert to the Company.

(e) The Directors may, if authorised by ordinary resolution, offer to ordinary shareholders the right to elect to receive, in lieu of a dividend, an allotment of New Ordinary Shares credited as fully paid.

5.5 Failure to supply an address

A shareholder who has no registered address within the UK and has not supplied to the Company an address within the UK for the service of notices will not be entitled to receive notices from the Company.

5.6 Disclosure of shareholding ownership

The Disclosure and Transparency Rules require a member to notify the Company if the voting rights held by such member (including by way of certain financial instruments) reach, exceed or fall below three per cent. and each one per cent. threshold thereafter up to 100 per cent. Under the Disclosure and Transparency Rules, certain voting rights in the Company may be disregarded.

5.7 Changes in capital

The provisions of the Articles governing the conditions under which the Company may alter its share capital are no more stringent than the conditions imposed by the Act.

6 Directors and Senior Management

6.1 The Directors and members of Senior Management, their functions within the Company and brief biographies are set out in Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*".

6.2 The table below sets out the interests of the Directors and Senior Management in the share capital of the Company (all of which, unless otherwise stated, are beneficial and include the interests of persons connected with them) as at 10 March 2015 and following Admission.

	Following the Pre-IPO Reorganisation and immediately prior to Admission		Immediately following Admission	
Name of Director	**Number of Ordinary Shares**	**Percentage of issued share capital**	**Number of Ordinary Shares**	**Percentage of issued share capital**
Glyn Jones	578,281	0.19	578,281	0.17
Phillip Monks	3,417,284	1.14	3,417,284	1.01
James Mack	428,421	0.14	428,421	0.13
Name of Senior Manager				
Steve Barry	64,534	0.02	64,534	0.02
Ali Humphries	40,533	0.01	40,533	0.01
Paul Myers	496,086	0.17	496,086	0.15
Mark Stephens	496,086	0.17	496,086	0.15

6.3 The interests of the Directors and Senior Management together represent 1.8 per cent. of the issued share capital of the Company as at the date of this Prospectus and are expected to represent approximately 1.6 per cent. of the issued share capital of the Company immediately following Admission.

6.4 Save as set out in this paragraph 6 of this Part XX: "*Additional Information—Directors and Senior Management*" and in Part XV: "*Historical Financial Information*", none of the Directors or Senior Managers has any interests in the share or loan capital of the Company or any of its subsidiaries. As at 9 March 2015 (being the latest practicable date prior to the publication of this document), the Directors and Senior Managers held awards under the Aldermore Performance Share Plan ("PSP") and/or the Aldermore Restricted Share Plan ("RSP") which may be satisfied by the issue or transfer of Ordinary Shares as detailed in the table below:

Name of Director	Type of award	Total awards outstanding (number of shares)	Vesting date
Phillip Monks	Pre-IPO Award (conditional award)	684,163	31 December 2016
Phillip Monks	PSP award (nil cost option)	351,562	2 March 2020
James Mack	Pre-IPO Award (conditional award)	613,828	31 December 2016
James Mack	PSP award (nil cost option)	218,750	2 March 2020
Name of Senior Manager			
Steve Barry	Pre-IPO Award (conditional award)	920,742	31 December 2016
Ali Humphries	Pre-IPO Award (conditional award)	594,646	31 December 2016
Paul Myers	Pre-IPO Award (conditional award)	1,067,805	31 December 2016
Mark Stephens	Pre-IPO Award (conditional award)	1,067,805	31 December 2016
Vicki Harris	PSP award (nil cost option)	72,265	2 March 2020
Ali Humphries	PSP award (nil cost option)	74,218	2 March 2020
Paul Myers	PSP award (nil cost option)	109,375	2 March 2020
Mark Stephens	PSP award (nil cost option)	109,375	2 March 2020
Steve Barry	RSP award (nil cost option)	52,083	2 March 2020

Certain awards will be granted to employees, including Directors and Senior Management, shortly after Admission under the SIP as set out in paragraph 9, in particular paragraph 9.1.5 of this Part XX: "*Additional Information*".

6.5 Save as set out in this paragraph 6 of this Part XX: "*Additional Information—Directors and Senior Management*" and in paragraph 14 of this Part XX: "*Additional Information—Relationship with the Principal Shareholders*", no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and was effected by the Company in the current or immediately preceding financial year or was effected during an earlier financial year and remains in any respect outstanding or unperformed.

6.6 Save for the loans set out in this paragraph 6.6, which will be written-off with effect from and conditional upon Admission, there were no outstanding loans granted by any member of the Group to any Director or member of Senior Management, nor by any Director or member of Senior Management to any member of the Group, nor was any guarantee which had been provided by any member of the Group for the benefit of any Director or member of Senior Management, or by any Director or member of Senior Management for the benefit of any member of the Group, outstanding.

Director/Senior Manager	Loan amount
Ali Humphries	£13,856
James Mack	£31,276
Phillip Monks	£108,306
Paul Myers	£8,889

6.7 The companies and partnerships of which the Directors and Senior Managers are, or have been, within the past five years, members of the administrative, management or supervisory bodies or partners (excluding the Company and its subsidiaries and also excluding the subsidiaries of the companies listed below) are as follows:

Directors

Name	Current directorships/partnership	Former directorships/partnerships
Glyn Jones	Aspen Insurance Holdings Limited Direct Line Insurance Group PLC	Towry Holdings Limited Hermes Fund Managers Limited BT Pension Scheme Management Limited
Phillip Monks	Monkey Wrench Limited	N/A
James Mack	N/A	Plum Sterling No. 1 Plc Skipton Covered Bonds Finance Limited Reclaim Fund Limited Unity Trust Bank plc CFS Management Services Limited Co-operative Bank (Insurance Services) Limited R.O.P.K. (1980) Limited Haydn Evans Construction (South Wales) Limited Fourth Roodhill Leasing Limited Fastline Credit Finance Limited CIS Mortgage Maker Limited Larchvale Limited Neale House (Calmar) Limited CIS Home Loans Limited CIS Limited CIS Mortgage Finance Limited Third Pioneers Leasing Limited First Pioneers Leasing Limited Second Pioneers Limited Cambrian Care Limited Roodhill Leasing Limited Smile.co.uk Limited Glazebonus Limited Day & Son (Builders) Limited CIS Policies Limited CIS Marketing Limited CIS Motor Limited CIS Finance Limited CIS Property Management Limited CIS Enterprises Limited CIS Financial Advisers Limited CIS Financial Services Limited CIS Portfolio Managers Limited CIS Development Limited CIS Investment Products Limited CIS Investment Managers Limited CIS Investments Limited Primera (Fenchurch Street) Limited CIS City Offices Limited CIS Nominee Limited First Co-operative Finance Limited

Name	Current directorships/partnership	Former directorships/partnerships
		Phoenix Credit Services Limited Cleveland Finance Limited Co-operative Handycard Service Limited First Roodhill Leasing Limited Cleveland Guaranty Limited Third Roodhill Leasing Limited Second Roodhill Leasing Limited Leyburn Developments Limited Scottish Co-operative Society Nominees Limited
Peter Cartwright	AnaCap Financial Partners LLP Xbridge Acquisitions Ltd Xbridge Holdings Ltd Xbridge Limited Equa Bank a.s Equa Group Limited Brightside Insurance Services Limited Brightside Group Limited Belvedere Bidco Limited Belvedere Midco Limited Belvedere Holdings (Guernsey) Ltd	Syscap Holdings Ltd Apex Credit Management Holdings Ltd Cabot Credit Management Ltd AC2 Acquisitions Ltd Pall Mall Finance Ltd Virgo Bidco Limited Mediterranean Strategy Cabot Financial Ltd Mediterranean Bank Plc Amberrock Holdings Ltd, Cyprus Equa Holdings Ltd First Names Group Ltd Medifin Holdings Ltd, Malta
Neil Cochrane	AnaCap Financial Partners LLP	Virgo BidCo Limited
Danuta Gray	Michael Page International PLC Old Mutual Public Limited Company Paddy Power plc Danuta Gray Limited National Centre for Youth and Medical Health Ltd	Aer Lingus Group plc Telefónica Ireland Limited O2 Cellular Networks Ireland Limited O2 Communications O2 Communications (Ireland) Limited O2 Investments Ireland Cellular World Limited Centurion Collections Limited Telefónica Europe People Services Limited Liffey Telecom Limited Manx Telecom Limited Telefónica Ireland Retail Limited Telefónica Digital Limited Telfin Ireland Limited Telefónica Europe plc Irish Life & Permanent plc Permanent TSB Group Holdings Public Limited Company Commercial Communications Sales Limited (dissolved) Eire Cumarsaide Teoranta (dissolved) The Barrettstown Gang Camp Fund Ltd (Ireland) Feilte Dhuibh Linne Teoranta (Ireland) Wayra Ireland Limited

Name	Current directorships/partnership	Former directorships/partnerships
John Hitchins	Camphill Devon Community Ltd Camphill Benevolent Fund The Marsh Academy Pellipar Investments Limited Pellipar Services Limited Skinners Investment Company Limited Skinners (Cheapside) Limited Skinners (Cheapside) No. 2 Limited	PricewaterhouseCoopers LLP Tonbridge School Ltd Tonbridge Services Ltd St Augustine Chapel Charity PricewaterhouseCoopers United Kingdom Partnership
Peter Shaw	Bank of Ireland (UK) PLC	The One Account Limited
Christopher Stamper	Effingham Golf Club Ltd	Cityinc Ltd Cityincorp Ltd Codeland Limited Danwood Finance Limited Evermoor Limited Finance & Leasing Association Ltd ING Lease (UK) Ltd ING Lease (UK) Three Limited ING Lease (UK) Twelve Limited Sonhold Limited
Cathy Turner	Countrywide Plc Manchester Square Partners Royal College of Art Unicef UK	Lloyds Banking Group plc Barclays plc Institute of Financial Services

Management

Name	Current directorships/partnership	Former directorships/partnerships
Steve Barry	N/A	N/A
Vicki Harris	Silverlix Ltd Living Paintings	N/A
Ali Humphries	N/A	Nationwide Building Society
Paul Myers	N/A	Freelance Euro Services (MMDXCVIII) Limited
Mark Stephens	N/A	N/A

6.8 Save as set out above and in paragraph 14 of this Part XX: "*Additional Information—Relationship with the Principal Shareholders*", none of the Directors, Senior Managers or the Company Secretary has any business interests, or perform any activities, outside the Group which are significant with respect to the Group.

6.9 There are no family relationships between any Directors or Senior Managers.

6.10 As at the date of this Prospectus, none of the Directors or Senior Managers has, at any time within the last five years:

6.10.1 had any prior convictions in relation to fraudulent offences;

6.10.2 been declared bankrupt or been the subject of any individual voluntary arrangement;

6.10.3 been associated with any bankruptcies, receiverships or liquidations when acting in the capacity of a member of the administrative, management or supervisory body or of a senior manager;

6.10.4 been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including designated professional bodies);

6.10.5 been disqualified by a court from acting in the management or conduct of the affairs of any company;

6.10.6 been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company;

6.10.7 been a partner or senior manager in a partnership which, while he was a partner or within 12 months of his ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership voluntary arrangement;

6.10.8 owned any assets which have been subject to a receivership or been a partner in a partnership subject to a receivership where he was a partner at a time or within the 12 months preceding such event; or

6.10.9 been an executive director or senior manager of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which he was an executive director or senior manager of that company or within 12 months of his ceasing to be an executive director or senior manager.

6.11 The Group operates two defined contribution pension schemes, and also makes payments to certain employees' individual pension plans. The total amount of pension contributions charged to the income statement by the Company or its subsidiaries in respect of pension, retirement or similar benefits for the Directors for the financial year ended 31 December 2014 was £61,000.

6.12 Peter Shaw is a director at Bank of Ireland (UK) plc and Cathy Turner is a non-executive director of Countrywide Plc. Save in their capacities as persons legally and beneficially interested in Ordinary Shares as set out in paragraph 6.2 above, save as disclosed in this paragraph and save for the appointment of Peter Cartwright and Neil Cochrane pursuant to the terms of the Relationship Agreement (see paragraph 14 of this Part XX: "*Additional Information—Relationship with the Principal Shareholders*") there are:

(i) no potential conflicts of interest between any duties to the Company of the Directors and Senior Managers and their private interests and/or other duties; and

(ii) no arrangements or understandings with the Principal Shareholders, members, customers, suppliers or others pursuant to which any Director or Senior Manager was selected.

6.13 Save as set out in paragraph 11 of this Part XX: "*Additional Information—Underwriting and Selling Shareholder arrangements*", there are no restrictions agreed by any Director or Senior Manager on the disposal within a certain time of their holdings in the Company's securities.

7 Interests of Significant Shareholders

Other than the interests of the Directors and members of the Senior Management disclosed in paragraph 6 of this Part XX: "*Additional Information—Directors and Senior Management*" and other than any interest that may arise under the Underwriting Agreement (and assuming no exercise of the Over-allotment Option), insofar as the Directors are aware, the following persons as at 10 March 2015 are interested, and will immediately following Admission be interested, in 3 per cent. or more of the Company's issued ordinary share capital:

	Following the Pre-IPO Reorganisation and immediately prior to Admission		Immediately following Admission(1)	
Shareholder	**Number of Ordinary Shares**	**Percentage of issued share capital**	**Number of Ordinary Shares**	**Percentage of issued share capital**
Funds managed by AnaCap	269,411,282	89.80	195,785,160	57.74
Toscafund Asset Management LLP	18,717,681	6.24	24,551,262	7.24
Lansdowne	6,239,227	2.08	11,159,485	3.29
Henderson	—	—	12,150,000	3.6

Note:

(1) Assuming no exercise of the Over-allotment Option. Were the Over-allotment Option to be exercised in full upon Admission funds managed by AnaCap would have an interest of 179,271,601 Ordinary Shares, Toscafund Asset Management LLP would have an interest of 23,841,068 Ordinary Shares, Lansdowne would have an interest of 10,693,021 Ordinary Shares and Henderson would have an interest of 12,150,000 Ordinary Shares, representing 52.9 per cent., 7.0 per cent., 3.2 per cent. and 3.6 per cent. of the issued share capital of the Company, respectively, following Admission.

Save as set out above, the Company is not aware of any person who has, or will immediately following Admission have, a notifiable interest of 3 per cent. or more of the issued share capital of the Company.

There are no differences between the voting rights enjoyed by the Shareholders described in this paragraph 7 and those enjoyed by any other Shareholder.

8 Service agreements, benefits and remuneration

8.1 Remuneration approach

From Admission, the Company will apply a clear and transparent approach to remuneration. Its remuneration frameworks will be overseen by the Remuneration Committee.

Over the months leading up to Admission, the Remuneration Committee has considered the most appropriate basis for the Company's remuneration arrangements and developed the various aspects of the framework in line with the following key principles which are considered both fair to individuals within the Company and appropriate for the Company at this stage in its development:

- Total remuneration to be set by reference to a median position against a set of comparators of a similar market capitalisation with actual levels then reflecting the scope of the role, experience and performance of the individual, and affordability for the Company.
- Remuneration to be consistent with the Company's agreed risk appetite and, in particular, being sensitive to best practice as regards the balance of fixed to variable remuneration, and in the use of broad based qualitative and quantitative measures.
- Variable remuneration to be performance aligned with emphasis on achieving sustainable business results.
- Simplicity and transparency in the design and communication of remuneration.
- Full compliance with all regulations to which the Company is subject and due regard to broader regulatory developments (including the wider remuneration elements of CRD IV). Such broader regulatory developments will be considered in light of their appropriateness for the Company's size and wider market experience.

These basic principles extend to all employees of the Group with modification as appropriate to reflect market norms for their level together with their individual performance. Consistent with best practice from Admission, employees within the control functions (risk, compliance and internal audit) do not have financial measures within their incentive arrangements. Accordingly, such individuals will participate in a Restricted Share Plan rather than the Performance Share Plan (see paragraph 9 of this Part XX: "*Additional Information—Employee Share Plans and Share Options and Awards*).

Under English law, it is necessary for the Company to seek shareholder approval for a formal remuneration policy at the AGM following Admission. The Remuneration Committee has developed such a policy (which is set out in full in Section B of Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy—Remuneration Policy*") and will be putting a document substantially in that form (updated as appropriate) at the 2016 AGM.

The arrangements set out above are explained in more detail as follows:

- Employee Share Plans: paragraph 9 of this Part XX: "*Additional Information—Employee Share Plans and Share Options and Awards*";
- Directors' Remuneration Policy: Section B of Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy—Remuneration Policy*".

8.2 Executive Director Remuneration summary

With these principles in mind, the overall remuneration arrangements for the two Executive Directors are summarised as follows:

Element of Pay	Quantum
Base salary	Phillip Monks: £500,000 James Mack: £350,000 Base salaries will typically be reviewed annually. Actual salaries take into account the experience, overall remuneration opportunity and practices at peer companies of equivalent size and complexity. The pay and conditions of the wider workforce will also be considered when considering Executive Director remuneration.
Market Adjusted Allowance	The Executive Directors are also entitled to a market adjusted allowance to reflect the scope and nature of the role initially of 20 per cent. of salary for the CEO and 15 per cent. for the CFO. These will typically be reviewed annually and shall not be taken into account for the purposes of calculating any other incentive entitlements, pension contributions or termination payments.
Benefits and Pensions	Details of the proposed retirement benefits and benefits in kind are set out under paragraph 8.3 below of this Part XX: "*Additional Information—Executive Directors*".
Annual Incentive Plan	An annual "bonus" with a maximum potential pay-out of 125 per cent. of salary for Phillip Monks and 120 per cent. for James Mack. For on-target performance, two-thirds of these levels will be earned. It is anticipated that 40 per cent. of any amount earned will be deferred (60 per cent. if total variable pay exceeds £500,000) into an award of Shares. The deferral arrangements (being the DSP) will provide for release, subject to continued employment, of one-third of the deferred element on each of the first, second and third anniversaries of their award. Appropriate provisions for both malus and clawback have been built into the plan rules. For the part of the year which precedes the IPO, the bonus opportunity will be set at the lower maximum of 100 per cent. of salary in respect of both Executive Directors and deferral applied at a lower rate of 15 per cent.
Performance Share Plan	An annual award of shares with initial pre-vest performance conditions linked to EPS and absolute TSR performance. The rules permit awards to be made to an individual over shares worth up to 200 per cent. of base salary although the current intention is to make annual awards over 135 per cent. of salary to Phillip Monks and 120 per cent. to James Mack. Initial awards have been made subject to Admission over shares worth the policy level. The vesting of awards will be subject to: • 50 per cent. of the award: EPS of 26p (10 per cent. vesting) rising, on a straight-line basis, to the full 50 per cent. vesting for EPS of 34p; • 50 per cent. of the award: TSR in the final two months of 2017 compared with the Offer Price with 10 per cent. vesting for a 15 per cent. per annum compounded growth rising, on a straight line basis, to the full 50 per cent. for a 25 per cent. per annum compounded growth. This part will also be subject to an underpin that the Company's relative

Element of Pay	Quantum
	TSR is at least median over this period compared with the constituents of the FTSE350 (excluding investment trusts) as at the date of Award; • Both parts will be subject to a more general Remuneration Committee underpin under which it will consider whether the above measures appropriately reflect the performance of the Company and, in particular, whether they have been achieved, consistent with the Company's risk appetite; • Continued employment (subject to appropriate leaver provisions) until at least the third anniversary of the award date; • A further holding period to at least the fifth anniversary of grant; • Appropriate provisions for both malus and clawback have been built into the rules. In addition, Pre-IPO Awards have been granted to Phillip Monks, James Mack, and certain senior managers in recognition of their contribution to date. These Pre-IPO Awards are subject to Admission, a TSR performance condition, and continued employment over the period to 31 December 2016. No holding period applies. The TSR performance condition is on the same basis as set out above except that the TSR growth scale is 20 per cent. p.a. at threshold to 30 per cent. p.a. at maximum. These Pre-IPO Awards are over Ordinary Shares worth (using the Offer Price) £1,313,593 for Phillip Monks and £1,178,551 for James Mack. Such awards have also been granted on the basis that the participants bear employers' NICs up to the current rate of 13.8 per cent. In addition, such awards will lapse if the participant, or any connected person, sells, or otherwise disposes of, any Ordinary Shares held by them at Admission within 12 months thereof.
All-employee arrangements	The Executive Directors may be eligible to participate in the Share Incentive Plan and/or Sharesave Plan. For further detail, see paragraphs 9.5 and 9.6 of this Part XX: "*Additional Information—Employee Share Plans and Share Options and Awards*".
Share Ownership Guidelines	200 per cent. of base salary to be achieved through the retention of the full amount earned in Ordinary Shares under the above plans (except as necessary to meet tax obligations) and, in any event, within 5 years. Ordinary Shares held pre Admission need not be retained to meet these obligations and, instead, are subject to the lock-up arrangements set out in paragraph 11 of this Part XX: "*Additional Information—Underwriting and Selling Shareholder arrangements*".

8.3 Executive Directors

The Executive Directors have entered into service agreements with the Company which will come into effect on Admission. These service agreements are terminable by either party with no less than 12 months' prior notice. Phillip Monks and James Mack are entitled to receive an annual salary of £500,000 and £350,000 respectively. Fixed annual reward, comprising base salary, market adjusted allowance, pension and other benefits (described in 8.3.1 below), will total approximately £659,000 for Phillip Monks and £442,000 for James Mack. Both Phillip Monks and James Mack are entitled to participate in the discretionary performance related bonus scheme, up to 125 per cent. and 120 per cent. of base salary respectively.

8.3.1 General terms

Phillip Monks is paid an amount equal to five per cent. (less employers' National Insurance contributions) of annual salary as a non-pensionable cash supplement. James Mack is entitled to employer contributions to the pension scheme of six per cent. of salary. In line with the contributions made to staff generally, the Company will increase the amount of the Executive Director's contributions to 8 per cent. from a date in 2015.

They will also receive benefits in kind including permanent health insurance, life assurance cover, private medical insurance and an annual car allowance of £12,000 for Phillip Monks and £10,000 for James Mack. Both are eligible to receive 90 days full pay in the event of sickness absence in any 12 month period. In respect of the financial year ending 31 December 2015, Phillip Monks and James Mack will, conditional upon Admission, receive a one off benefit in kind of £108,306 and £31,276 respectively in connection with the writing-off of certain loans connected with the Pre-IPO Reorganisation.

The Executive Directors will be entitled to be reimbursed for all reasonable expenses incurred in the course of their duties. They will also be entitled to 25 days paid holiday per annum (in addition to public and bank holidays in England and Wales).

8.3.2 Termination provisions

The Company can elect to terminate an Executive Director's employment by making a payment in lieu of notice equivalent to his base salary for the amount of any unexpired notice period. Any payments in lieu of notice will normally be paid in instalments and will be subject to mitigation. Alternatively, the Company may put the Executive Director on garden leave during his notice period. The contracts limit redundancy entitlement to that provided by statute.

The employment of each Executive Director will be terminable with immediate effect without notice in certain circumstances, including where the Executive Director commits any serious or persistent breach or non-observance of the terms and conditions of his service agreement; for any breach or non-observance of the rules or regulations of the UK Listing Authority or relating to dealings in securities of the Aldermore Group; is guilty of gross misconduct or gross negligence in connection with or affecting his employment; is guilty of conduct which brings him or the Group into disrepute; is convicted of an arrestable offence (other than a road traffic offence for which a non-custodial penalty is imposed); is prohibited by law from acting as a director; ceases to be registered with any relevant regulatory body; or is removed from the FCA's register of principals.

The service agreements of the Executive Directors also contain post-termination restrictions. These include restrictions on competition with the Group for 12 months and restrictions on the solicitation of employees and customers of the Group for a period of 12 months.

8.4 Non-Executive Directors

Each of the Non-Executive Directors has been appointed by a letter of appointment, the terms of which will take effect on Admission. The key terms of these letters of appointment are set out below.

Name	Date of appointment	Committee Chairmanships/Other Board Positions	Fee per annum (£)
Glyn Jones	21 March 2014	Board Chairman	180,000
		Chair Nomination Committee	N/A
		Member Remuneration Committee	N/A
		Total	180,000
Peter Cartwright	3 December 2008	Board Fee	65,000
		Member Nomination Committee	N/A
		Member Risk Committee	5,000
		Total	70,000
Neil Cochrane	4 September 2014	Board Fee	65,000
Danuta Gray	29 September 2014	Board Fee	65,000
		Senior Independent Director	20,000
		Member Nomination Committee	N/A
		Member Remuneration Committee	5,000
		Total	90,000
John Hitchins	28 May 2014	Board Fee	65,000
		Chair Audit Committee	20,000
		Member Risk Committee	5,000
		Total	90,000
Peter Shaw	4 September 2014	Board Fee	65,000
		Chair Risk Committee	20,000
		Member Audit Committee	5,000
		Member Nomination Committee	N/A
		Member Remuneration Committee	5,000
		Total	95,000
Christopher Stamper .	6 February 2014	Board Fee	65,000
		Member Audit Committee	5,000
		Member Risk Committee	5,000
		Total	75,000
Cathy Turner	28 May 2014	Board Fee	65,000
		Chair Remuneration Committee	15,000
		Member Nomination Committee	N/A
		Total	80,000

Each Non-Executive Director is entitled to be reimbursed for all reasonable expenses properly incurred in the performance of his or her duties; is provided with cover under the Company's customary directors' and officers' indemnity insurance; is not entitled to participate in the Company's share, bonus or pension schemes; and is subject to confidentiality undertakings.

Pursuant to the terms of the Relationship Agreement, the Principal Shareholders will be entitled to appoint two Non-Executive Directors to the Board. Any fees referred to in this paragraph 8.4, in consideration for the provision of such Director's time and expertise will be paid directly to the Principal Shareholders and the individual will not receive any fees for the provision of their duties.

Appointment is terminable by each Non-Executive Director on 3 months' notice. The Non-Executive Directors' continuation of appointment is subject to satisfactory performance and each Non-Executive Director is expected to devote sufficient time to meet the expectations and requirements connected with their appointments. In line with principle B.7.1 of the UK Corporate Governance Code, they are all subject to annual re-election by the Company at the AGM and are not entitled to any compensation or pay in lieu of notice if they are not re-appointed or are removed from office by the Shareholders. The appointments may also be terminated with immediate effect if they commit a material breach of their obligations; are disqualified from acting as a director or no longer hold their status as a PRA and/or FCA approved person. Further, those Non-Executive Directors appointed by the Principal Shareholders will resign immediately if required to do so in accordance with the terms of the Relationship Agreement.

8.5 Directors' and Senior Management's remuneration for the financial year ended 31 December 2014

The amounts of remuneration paid (including salary and other emoluments), benefits in kind granted to each of the Executive Directors for services in all capacities by the Group are set out in the table below:

Executive Director	Basic salary and fees	Bonus	Taxable benefits	Pension contributions (or cash in lieu)	Share based payments	Total
				(£'000)		
Phillip Monks	329	305	9	16	0	658
James Mack	347	330	26	20	4	727

The figures above represent actual salary, pension and benefits received, bonus awarded and share based payments in respect of 2014.

The aggregate remuneration paid (including benefits) to the Non-Executive Directors for the financial year ended 31 December 2014, was £505,000.

The aggregate remuneration paid (including salary and other benefits) to the Senior Management team (excluding Phillip Monks and James Mack) for 2014, was £1,605,000 of which £834,000 comprised salaries, £36,000 retirement benefits or cash in lieu of pension, £685,000 annual variable remuneration, £17,000 taxable benefits and £33,000 share based payments.

9 Employee Share Plans and Share Options and Awards

9.1 Introduction

9.1.1 Policy

The Directors believe that share ownership will form a vital part of the culture and incentives structure of the business. On or around Admission, the Company is, therefore, proposing to offer Ordinary Shares to the Directors and the majority of its employees across the Group. The Company has adopted a Performance Share Plan (the "**PSP**"), Deferred Share Plan (the "**DSP**"), Restricted Share Plan (the "**RSP**"), Sharesave Plan (the "**SAYE Plan**"), and Share Incentive Plan (the "**SIP**"), (together the "**Employee Share Plans**"). The principal features of these plans are summarised below.

9.1.2 Employee Benefit Trust

Awards under the Employee Share Plans may be satisfied by new Ordinary Shares, Ordinary Shares purchased in the market or by the transfer of treasury Ordinary Shares. Accordingly, the Company intends to establish an employee benefit trust (the "**Trust**") which can be used for the purpose of providing benefits to employees including engaging with the Company as necessary to satisfy awards under the Employee Share Plans through the provision of Ordinary Shares. The Trust can either subscribe for these Ordinary Shares or, to the extent that funds are provided by Group companies, purchase Ordinary Shares in the open market. In line with best practice for employee benefit trusts, any Ordinary Shares for which the Trust subscribes will be counted towards the applicable dilution limits and at no time will the Trust hold shares representing more than 5 per cent. of the Company's then issued share capital.

9.1.3 Remuneration Committee

The Remuneration Committee will be responsible for determining the basis on which the CEO, the CFO, other selected Senior Management and employees participate in the Employee Share Plans.

9.1.4 Dilution limits

Ordinary Shares can be issued under any of the Employee Share Plans. In any 10 year period commencing on or after Admission, not more than 10 per cent. of the issued ordinary share capital of the Company may be issued or committed to be issued under employee share plans adopted by the Company. In addition, in any 10 year period commencing on or after Admission, not more than 5 per cent. of the issued ordinary share capital of the Company may be issued or committed to be issued under executive share plans adopted by the Company. These limits do not include rights over existing Ordinary Shares (other than treasury shares) or rights over Ordinary Shares which have been granted before or within 7 days following Admission and/or any grants of Pre-IPO Awards.

9.1.5 Timing of operation

Pre-IPO Awards have been granted subject to Admission to Phillip Monks, James Mack, and certain senior managers in recognition of their contribution to date. In addition, subject to Admission, awards have been granted under the PSP and the RSP, and after Admission, free share awards may also be made under the SIP. Going forward, the Employee Share Plans will normally only be operated within six weeks of the announcement of results or in exceptional circumstances. Such plans will not be operated (i.e. further awards granted) after the tenth anniversary of Admission.

9.1.6 Alterations

The rules of the Employee Share Plans may be altered by the Remuneration Committee. However, prior shareholder approval will be required to amend certain provisions if the amendments are to the advantage of participants. These provisions relate to: eligibility; individual and plan limits; the basis for determining entitlements to, and terms of Ordinary Shares or cash provided; the power to make adjustments in the event of a variation in the Company's share capital; and the alteration powers. Shareholder approval is not required to make minor amendments to the rules to benefit the administration of the Employee Share Plans, to take account of a change in legislation, or which will obtain or maintain favourable tax, exchange control or regulatory treatment for any participating company or any participant. Shareholder approval is also not required to amend a performance condition if an event occurs which causes the Remuneration Committee reasonably to consider that it would be appropriate to amend the performance condition, the amended performance condition will not, in the reasonable opinion of the Remuneration Committee, be materially less difficult to satisfy, and the Remuneration Committee acts fairly and reasonably in making such alteration. No alteration to the material disadvantage of participants can be made unless the Board has invited every relevant participant to indicate whether or not he or she approves of the alteration, and the alteration is approved by a majority of those participants who have given such an indication.

Separate Employee Share Plans or schedules to the Employee Share Plans may be adopted for overseas based participants.

9.1.7 Other provisions

Benefits provided under the Employee Share Plans are not pensionable and may not be transferred (other than on death).

Participants will not have dividend or voting rights in respect of Ordinary Shares under award or option until such Ordinary Shares have been issued or transferred to them. On the vesting of awards, participants will receive a payment in cash or Ordinary Shares equal to the value of dividends which would have been payable on the vested Ordinary Shares during the vesting period (assuming that such dividends are reinvested in further shares on the relevant ex dividend date).

In the event of a change of control, scheme of arrangement, demerger or other reorganisation, the Remuneration Committee which was in place before the relevant event may adjust awards under the Employee Share Plans as they consider appropriate.

Ordinary Shares issued under the Employee Share Plans will rank equally in all respects with Ordinary Shares of the same class in issue on the date of allotment, except in respect of rights by reference to a record date prior to the date of allotment.

The Remuneration Committee can decide to prevent the vesting of all or part of the amount of an award and/or clawback vested awards in certain circumstances related to performance, risk outcomes and a participant's conduct.

9.2 The Performance Share Plan ("PSP")

9.2.1 Outline

The PSP gives participants the right to receive free shares subject to certain conditions and continued employment.

Pre-IPO Awards have been granted subject to Admission to Phillip Monks, James Mack, and certain senior managers in recognition of their contribution to date. In addition, awards under the PSP have also been granted subject to Admission.

Awards can take the form of:

(a) a conditional allocation of, or conditional right to, Ordinary Shares which will be receivable at the end of a specified period; or

(b) an option which becomes exercisable at the end of a specified period.

Awards will be made in the form of an option unless the Remuneration Committee specifies otherwise. While not currently anticipated, the Remuneration Committee can decide to satisfy an award by a sum equivalent to the cash equivalent of the number of Ordinary Shares under the award, or by a combination of cash and Ordinary Shares.

9.2.2 Eligibility

Awards may be made under the PSP to Executive Directors and employees of the Company and its subsidiaries. It is currently intended that awards will only be made to Executive Directors and certain senior managers (excluding, from Admission, employees in a control function role).

9.2.3 First Operation of the PSP

Pre-IPO Awards have been granted subject to Admission to Phillip Monks, James Mack, and selected senior managers (including selected control function employees). The Pre-IPO Awards are subject to Admission, a TSR performance condition and continued employment over the period to 31 December 2016 (subject to the approved leaver provisions) beginning on Admission. No holding period applies. The TSR performance condition is on the same basis as set out below except that the TSR growth scale is 20 per cent. p.a. at threshold to 30 per cent. p.a. at maximum. In addition, such awards will lapse if the participant, or any connected person, sells, or otherwise disposes of, any Ordinary Shares held by them at Admission within 12 months thereof.

The first annual PSP awards have also been granted subject to Admission, the market value of Ordinary Shares subject to such an award was at the policy level. Awards were made subject to a performance condition to be measured over the performance period ending 31 December 2017, contingent on employment to the third anniversary of grant, with a further two year holding period ending on the fifth anniversary of grant. The performance condition is in two separate parts. 50 per cent. will vest according to the performance of the Company's absolute TSR growth. None of this part of the award will vest if the Company's TSR is below median compared with the constituents of the FTSE350 (excluding investment trusts) as at the date of award and the Remuneration Committee must be satisfied that the TSR achieved reflects the Company's underlying financial performance over the performance period. 20 per cent. will vest at median and for absolute TSR growth of 15 per cent. per annum rising, on a straight line basis, to 100 per cent. of this part of the award for absolute TSR growth of 25 per cent. per annum. The other 50 per cent. of the award will vest for achievement of EPS growth. 20 per cent. of the award will vest for EPS 26p rising on a straight line basis to 100 per cent. of this part of the award for EPS of 34p. In addition, for both parts, awards will only vest to the extent that the Remuneration Committee is satisfied that the out-turn from the above measures appropriately reflects the performance of the Company and has been achieved consistently with the Company's risk appetite.

The total value of Ordinary Shares under the Pre-IPO Awards granted subject to Admission is approximately £14.5 million and the total value of Ordinary Shares under the first annual PSP awards granted subject to Admission is approximately £2.95 million. The Pre-IPO Awards may be granted over up to 7,549,101 Ordinary Shares. This represents a fixed pool of Ordinary Shares available for Pre-IPO Awards before the application of performance conditions. Should any grant of the Pre-IPO Awards made to an individual lapse before the application of performance conditions due to that individual leaving employment in certain circumstances, the number of Ordinary Shares subject to those Pre-IPO Awards may be re-allocated to another individual who is either a holder of a Pre-IPO Award or is otherwise eligible to be granted a Pre-IPO Award.

9.2.4 Performance conditions

The Remuneration Committee may impose such conditions as it considers appropriate which must be satisfied before any award will vest. All awards will be subject to performance conditions.

9.2.5 Grant and vesting of awards

The market value of Ordinary Shares proposed to be awarded to PSP participants (excluding the Pre-IPO Awards) in respect of any year will be up to a maximum of 200 per cent. of their base salary at the time of award (using the Offer Price for Awards made subject to Admission and using the 3 day average closing price for subsequent awards). Where the Remuneration Committee is unable to grant an award for regulatory reasons, this maximum of 200 per cent. of base salary can be carried forward to a subsequent grant of an award.

Awards will vest at the end of the specified vesting period subject to malus and clawback. PSP awards, other than the Pre-IPO Awards will be subject to a three year period from the date of grant during which performance and continued employment conditions apply and a holding period to at least the fifth anniversary of grant. A vested award granted in the form of a nil cost option is exercisable from the later of the end of the vesting period or any holding period to the tenth anniversary of the grant date of the award (or such shorter period as may be specified by the Remuneration Committee).

The Pre-IPO Awards are subject to Admission, a TSR performance condition and continued employment over the period to 31 December 2016. A holding period does not apply. Such awards have also been granted on the basis that the participants bear employers' NICs up to the current rate of 13.8 per cent. In addition, such awards will lapse if the participant, or any connected person, sells, or otherwise disposes of, any Ordinary Shares held by them at Admission within 12 months thereof.

Awards can be satisfied by new issue, treasury or market purchase Ordinary Shares. PSP awards, other than the Pre-IPO Awards, are subject to the share dilution limits set out in the PSP rules.

9.2.6 Leaving employment

Unvested awards will normally lapse when the participant ceases to be employed. However, if employment ends before the employment requirement date because of death, injury or disability (evidenced to the Company's satisfaction), retirement as determined by the participant's employer, redundancy, the sale of the employing company or business (other than on a change of control), or for other reasons specifically approved by the Remuneration Committee, the award will continue. It will vest subject to the satisfaction of the performance condition over the performance period, and the pro rata reduction in the number of Ordinary Shares vesting to take account of the proportion of the period subject to the employment requirement (which typically ends on the third anniversary of grant, but ends on 31 December 2016 in respect of the Pre-IPO Awards) when the participant was not in employment unless the Remuneration Committee, acting fairly and reasonably, decides that it is appropriate to measure performance over a shorter period and permit the release of Ordinary Shares earlier and/or that it concludes that it is appropriate to dis-apply pro-rating. Such participant may then exercise a vested award after the end of a two year holding period where applicable or earlier if the Remuneration Committee so determines for a period of six months, after which the award will lapse.

If a participant ceases employment with the Group after meeting any employment requirement and holds any unvested awards or vested but unexercised options, then such awards will vest at the original vesting date and such option will be exercisable for a period of six months after the end of the holding period where applicable, or beginning on the date of cessation of employment (whichever is later provided that the Remuneration Committee may accelerate this in exceptional circumstances) and will lapse after this period, unless the reason for cessation of employment is misconduct, in which case, the award will lapse immediately on cessation of employment.

9.2.7 Change of control, scheme of arrangement, demerger, or other reorganisation

If there is a takeover, scheme of arrangement, demerger or other corporate reorganisation of the Company, participants may be required, or may be allowed, to exchange their awards for equivalent awards in the acquiring company. If awards are not exchanged, they will normally vest immediately, the performance conditions will apply, and the number of Ordinary Shares which vest will be time pro-rated to take account of the proportion of the employment period which has elapsed prior to the relevant event unless the Remuneration Committee, acting fairly and reasonably, decides that it is appropriate not to apply pro-rating. No holding period will apply. For Pre-IPO Awards, the Remuneration Committee may, in its discretion, decide that neither pro-rating nor the performance conditions will be applied.

If there is a demerger, special dividend or other similar event which, in the Remuneration Committee's opinion, would affect the market price of Ordinary Shares to a material extent, then the Remuneration

Committee, in its discretion, may allow awards to vest, and if applicable, options to be exercisable on such terms and for such period as the Remuneration Committee determines.

9.3 The Restricted Share Plan ("RSP")

9.3.1 Outline

The RSP gives participants the right to receive free shares subject to continued employment.

Under the RSP, an award can take the form of:

(a) a conditional allocation of, or conditional right to, Ordinary Shares which will be receivable at the end of a specified period; or

(b) an option which becomes exercisable at the end of a specified period.

The Remuneration Committee can decide to satisfy an award by a sum equivalent to the cash equivalent of the number of Ordinary Shares under the award, or by a combination of cash and Ordinary Shares.

9.3.2 Eligibility

All employees of the Company and any or its subsidiaries (excluding Executive Directors) are eligible to participate in the RSP. The Remuneration Committee will decide which employees will be granted awards and over how many Ordinary Shares. Typically, employees in a control function role and employees below the level of the Executive Directors and senior employees will participate in the RSP.

9.3.3 First operation of the RSP

Employees who participate in the RSP have received an RSP award subject to Admission of an amount which represents the normal policy level. These awards are subject to an employment requirement from the date of grant to the third anniversary of grant and, in the case of identified staff, a further two year holding period. The total face value of Ordinary Shares under the first awards to be granted subject to Admission is approximately £200,000.

9.3.4 Performance conditions

Awards may or may not be subject to performance conditions.

9.3.5 Grant and vesting of awards

Awards will vest at the end of the specified vesting period subject to malus and clawback. They will be subject to a period of at least three years from the date of grant during which continued employment conditions will apply and may be subject to a holding period.

A vested award granted in the form of a nil cost option is generally exercisable from the date of vesting to the tenth anniversary of the grant date of the award (or such shorter period as may be specified by the Remuneration Committee).

Awards can be satisfied by new issue, treasury or market purchase Ordinary Shares subject to the Share dilution limits set out in the RSP rules.

9.3.6 Leaving employment

Unvested awards will normally lapse when the participant ceases to be employed. However, if employment ends before the employment requirement date because of death, injury or disability (evidenced to the Company's satisfaction), redundancy, retirement as determined by the participant's employer, the sale of the employing company or business (other than on a change of control), or for other reasons specifically approved by the Remuneration Committee, the award will continue and will normally vest subject to a pro rata reduction in the number of Ordinary Shares vesting to take account of the proportion of the period when the participant was not in employment relative to the period when he would normally be required to be so employed unless the Remuneration Committee, acting fairly and reasonably, decides otherwise. The period of exercise for an award granted as an option will be six months from the date the award vests (and the award will lapse at the end of that period) or earlier if the Remuneration Committee so determines.

If a participant ceases employment with the Group after meeting any employment requirement and holds any unvested awards or vested but unexercised options, then such awards will vest at the original vesting date and such options will be exercisable for a period of six months after the end of any holding period, or beginning on the date of cessation of employment (whichever is later provided that the Remuneration Committee may accelerate this in exceptional circumstances) and will lapse after this period, unless the reason for cessation of employment is misconduct, in which case, the option will lapse immediately.

9.3.7 Change of control, scheme of arrangement, demerger, or other reorganisation

If there is a takeover, or scheme of arrangement of the Company, participants may be required, or may be allowed, to exchange their awards for equivalent awards in the acquiring company. If awards are not exchanged, they will normally vest immediately, and the number of Ordinary Shares which vest will be time pro-rated to take account of the proportion of the employment requirement period which has elapsed prior to the relevant event unless the Remuneration Committee, acting fairly and reasonably, decides otherwise.

If there is a demerger, special dividend or other similar event which, in the Remuneration Committee's opinion, would affect the market price of Ordinary Shares to a material extent, then the Remuneration Committee, in its discretion, may allow awards to vest, and the number of Ordinary Shares which vest will be time pro-rated to take account of the proportion of the period he would normally be required to be employed which has elapsed prior to the relevant event unless the Remuneration Committee, acting fairly and reasonably, decides otherwise. If applicable, options are to be exercisable on such terms and for such period as the Remuneration Committee determines.

9.4 The Deferred Share Plan ("DSP")

9.4.1 The Annual Incentive Plan ("AIP")

The AIP is an annual bonus plan with a current maximum potential payment of 125 per cent. of salary. Such proportion of the AIP award as the Remuneration Committee determines will be deferred into shares under the DSP as described below.

9.4.2 Outline

Awards under the DSP enable such proportion of the amount earned under the AIP as the Remuneration Committee considers appropriate to be deferred into Ordinary Shares for such period as it considers (provided that it shall not be shorter than one-third for each year up to three years). This period may be further extended by a holding period.

It is currently intended that Code Staff will be subject to 40 per cent. deferral (60 per cent. if their total variable pay exceeds £500,000) in respect of any period post-IPO (15 per cent. in respect of the part of the year which pre-dates the IPO). For this purpose, the level of variable pay earned in a financial year shall be the aggregate of the AIP awarded in respect of that year (whether or not subject to deferral under the DSP) plus the face value of any PSP or RSP awards made in that year.

As explained above, the awards will be subject to an employment requirement (subject to the leaver provisions set out below) of at least one year in respect of one-third of the Ordinary Shares subject to the award, two years in respect of one-third and three years in respect of the final third with any subsequent holding period not being subject to continued employment.

Under the DSP, an award can take the form of:

(a) a conditional allocation of, or conditional right to, Ordinary Shares which will be receivable at the end of a specified period; or

(b) an option which becomes exercisable at the end of a specified period.

The Remuneration Committee can decide to satisfy an award by a sum equivalent to the cash equivalent of the number of Ordinary Shares under the award, or by a combination of cash and Ordinary Shares.

9.4.3 Eligibility

All employees and former employees of the Company or its subsidiaries who have been granted an award under the AIP in the preceding financial year are eligible to participate in the DSP.

9.4.4 Performance conditions

Awards will not be subject to performance conditions.

9.4.5 Grant and vesting of awards

Awards are subject to malus and clawback. Awards can be satisfied by new issue, treasury or market purchase Ordinary Shares subject to the dilution limits set out in the DSP rules. See paragraph 9.4.2 of this Part XX: "*Additional Information—Employee Share Plans and Share Options and Awards—The Deferred Share Plan ("DSP")—Outline*" for further information.

9.4.6 Leaving employment

Unvested awards will normally vest at the end of the later of any applicable employment requirement date and applicable holding periods unless the Remuneration Committee decides in exceptional circumstances the award will vest on the date of cessation of employment. The period of exercise for an award granted as an option will be six months from the date the award vests and the award will lapse at the end of that period.

However, if employment ends before the employment requirement date because of misconduct (as reasonably determined by the Remuneration Committee) or the participant giving notice of cessation of employment (except where notice of cessation of employment is because of injury or disability (evidenced to the Company's satisfaction), redundancy, retirement as determined by the participant's employer, the sale of the employing company or business (other than on a change of control), or for other reasons specifically approved by the Remuneration Committee), an unvested award will lapse on the date of cessation of employment.

If a participant ceases employment with the Group after the employment requirement date and holds an unvested award and/or a vested and unexercised option, then such award will vest on the original vesting date and such option will be exercisable for a period of six months beginning on expiry of the holding period or the date of cessation of employment (whichever is later provided that the Remuneration Committee may accelerate this in exceptional circumstances) and will lapse after this period, unless the reason for cessation of employment is misconduct, in which case, the option will lapse immediately on cessation of employment.

9.4.7 Change of control, scheme of arrangement, demerger, or other reorganisation

If there is a takeover, or scheme of arrangement of the Company, participants may be required, or may be allowed, to exchange their awards for equivalent awards in the acquiring company. If awards are not exchanged, they will normally vest immediately, and an award granted in the form of an option will normally be exercisable for up to six months to the extent that the linked savings are sufficient to fund the exercise after the date of vesting and will lapse at the end of that period.

9.5 The Share Incentive Plan ("SIP")

9.5.1 Outline

The SIP is an all employee tax favoured plan. The SIP allows employees based in the UK to be offered free, partnership and matching shares as determined by the Remuneration Committee. The SIP operates in conjunction with a trust, which will hold Ordinary Shares on behalf of employees.

9.5.2 Eligibility

Executive Directors and all employees of the Company and any subsidiaries designated by the Remuneration Committee as participating companies must be eligible to join the SIP, if they have worked for the Company or a participating company for a qualifying period determined by the Remuneration Committee, which may not exceed 18 months.

9.5.3 Operation of the SIP

The Remuneration Committee reserves the right to operate the SIP in its discretion. HMRC limits (as amended from time to time) apply to awards under the SIP. The current limit for free shares is £3,600 per year. The current limit for partnership shares is £1,800 per year. The current limit for matching shares is

£3,600 per year. Dividend shares are limited to the amount of dividends paid on the other types of share awards held within the SIP.

9.5.4 Performance conditions

Awards of free shares may or may not be subject to performance conditions. Other types of awards will not be subject to performance conditions.

9.5.5 Free Shares

The SIP allows eligible employees to be offered free shares ("**free shares**") worth up to £3,600 in any tax year or such other level as may be specified by HMRC from time to time. Free shares must be offered to all eligible employees on similar terms and can be subject to certain performance criteria permitted by the relevant legislation. The number of free shares awarded can vary by reference to the eligible employee's remuneration or other criteria. Free shares must be held in trust for a period of between three and five years at the discretion of the Company and will be free of income tax if held in trust for five years.

9.5.6 Partnership Shares

The SIP allows eligible employees to be offered the opportunity to purchase Ordinary Shares using money deducted from their pre-tax salary ("**partnership shares**"). The amount deducted must not exceed £1,800 (or 10 per cent. of salary, if lower) or such other level as may be specified by HMRC from time to time, in any tax year. Partnership shares can be withdrawn from the SIP at any time, but income tax and national insurance charges will apply if they are withdrawn within five years of the purchase date.

9.5.7 Matching Shares

The SIP provides that where employees buy partnership shares, they may be awarded additional free shares ("**matching shares**") by the Company of up to a current maximum of two matching shares for each partnership share. Employees may not generally withdraw the matching shares for three years, and will suffer income tax and national insurance charges if they withdraw them within five years of the award date.

9.5.8 Dividends

The Plan provides that Directors may permit any dividends paid on the free, partnership or matching shares to be re-invested in the purchase of additional shares, which must be held in the Plan for a period of three years.

9.5.9 Leaving Employment

Ordinary Shares allocated to a participant must be withdrawn from the SIP immediately. Ordinary Shares awarded as free shares or matching shares may, if the Remuneration Committee so determines prior to the grant of an award, be forfeited where employment ceases before the third anniversary of the award date unless the participant leaves by reason of death, injury, disability, redundancy, retirement or the sale of the business or subsidiary for which the participant works. Charges to income tax and national insurance will apply unless the participant leaves for a reason set out above or the shares have been retained in the plan for at least five years.

These forfeiture provisions will not apply to any initial award of free shares on or shortly following Admission.

9.5.10 Takeovers and Reconstructions

If a takeover offer or a scheme of arrangement is made to the shareholders of the Company, participants may direct the trustees how to act in respect of any shares held on their behalf and any holding and/or forfeiture periods shall cease.

9.6 The Sharesave Plan ("SAYE Plan")

9.6.1 Outline

The SAYE Plan is an all employee tax favoured plan under which employees may be invited to apply for options to acquire Ordinary Shares. The number of shares over which the option is granted is determined by the amount which the employee commits to save under a savings contract. This cannot exceed £500 per month or such other level as specified by HMRC from time to time.

9.6.2 Eligibility

All Executive Directors and employees of the Group and any participating subsidiaries are eligible to participate in the SAYE Plan if they have been employed for a qualifying period.

9.6.3 Grant and exercise of options

The option price must not be less than 80 per cent. of the market value of an Ordinary Share calculated either as the price on the business day before the date of invitation or the date specified in the invitation or the average price over the three preceding business days. The savings contract may run over a period of three or five years and must not permit savings (currently) of more than £500 per month

Options are normally exercisable during the six months after the end of the savings contract.

9.6.4 Leaving employment

Options will normally lapse when the participant ceases to be employed. However, if employment ends because of injury, disability, redundancy, retirement, or the sale of the employing company or business options immediately become exercisable to the extent of the related savings. Options will remain exercisable for six months and then lapse.

9.6.5 Takeover, reconstruction and winding-up

Options may generally be exercised early on a takeover, scheme of arrangement or winding-up, to the extent that the linked savings are sufficient to fund the exercise, in which case the option will normally be exercisable for a period of up to six months. Alternatively, option holders may be allowed or required to exchange their options for options over shares in the acquiring company.

10 Pensions

The Company operates and makes contributions for its employees to two defined contribution pension schemes (or equivalent pension arrangements). The Company makes employer contributions to the group personal pension plan of generally between 5 per cent. and 7 per cent. of basic salary (which it is intended will increase to up to 8 per cent. (less employer's national insurance contributions if taken in cash) from a date in 2015).

The total pension cost in the year ending 31 December 2014 amounted to £1,181,000 for the two defined contribution pension schemes and certain employees' individual personal pension plans.

The assets of these arrangements are held separately from those of the Company in independently administered funds.

11 Underwriting and Selling Shareholder arrangements

On 10 March 2015, the Company, the Directors, the Selling Shareholders and the Underwriters entered into the Underwriting Agreement. Pursuant to the Underwriting Agreement:

11.1 the Company has agreed, subject to certain conditions, to allot and issue, at the Offer Price, the New Ordinary Shares to be issued in connection with the Offer;

11.2 the Selling Shareholders have agreed, subject to certain conditions, to sell the Existing Ordinary Shares in the Offer at the Offer Price;

11.3 the Underwriters have agreed, subject to certain conditions, to procure subscribers and purchasers for (or subscribe or purchase themselves) the Offer Shares (in such proportions as set out in the Underwriting Agreement) pursuant to the Offer;

11.4 the Underwriters will deduct from the proceeds of the Offer due to the Company a commission of 2 per cent. of the product of the Offer Price and the number of New Ordinary Shares allotted pursuant to the Offer and from the proceeds of the Offer due to the Selling Shareholders a commission of 2 per cent. of the product of the Offer Price and the number of Existing Ordinary Shares sold in the Offer;

11.5 the obligations of the Underwriters to procure subscribers and/or purchasers for or, failing which, themselves to subscribe for or purchase Ordinary Shares (as the case may be) on the terms of the Underwriting Agreement are subject to certain conditions. These conditions include the absence of any breach of representation or warranty under the Underwriting Agreement and Admission occurring on or before 8 a.m. 13 March 2015 (or such later time and/or date as the Joint Global Co-ordinators and the Company may agree). In addition, the Joint Global Co-ordinators have the right to terminate the Underwriting Agreement, exercisable in certain customary circumstances prior to Admission;

11.6 Credit Suisse, as Stabilising Manager, has been granted the Over-allotment Option by the Over-allotment Shareholders pursuant to which Credit Suisse may purchase, or procure purchasers for, up to 17,690,217 Over-allotment Shares at the Offer Price for the purposes of covering short positions arising from over-allocations, if any, in connection with the Offer, and/or any sales of Ordinary Shares made during the stabilisation period. Save as required by law or regulation, neither Credit Suisse, as Stabilising Manager, nor any of its agents, intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Offer. The number of Over-allotment Shares to be transferred pursuant to the Over-allotment Option, if any, will be determined not later than 8 April 2015. Settlement of any purchase of Over-allotment Shares will take place shortly after such determination (or, if acquired on Admission, at Admission). If any Over-allotment Shares are acquired pursuant to the Over-allotment Option, Credit Suisse will be committed to pay to the Over-allotment Shareholders, or procure that payment is made to them of, an amount equal to the Offer Price multiplied by the number of Over-allotment Shares purchased from the Over-allotment Shareholders, less commissions and expenses.

11.7 the Company and the Selling Shareholders have agreed to pay any stamp duty and/or stamp duty reserve tax or other transfer taxes arising on the allotment and issue of Offer Shares and the sale of Ordinary Shares (as applicable);

11.8 to the extent permitted by law and subject to an agreed maximum, the Company has agreed to pay the costs, charges, fees and expenses of the Offer (together with any related value added tax);

11.9 each of the Company, the Directors and the Selling Shareholders has given certain representations, warranties and undertakings, subject to certain limits, to the Underwriters;

11.10 the Company has given an indemnity to the Underwriters in a form that is typical for an agreement of this nature;

11.11 the parties to the Underwriting Agreement have given certain covenants to each other regarding compliance with laws and regulations affecting the making of the Offer in relevant jurisdictions;

11.12 each of the Company, the Selling Shareholders and the Directors has agreed to certain lock-up arrangements, as follows:

11.12.1 The Company has agreed that during the period commencing on the date of the Underwriting Agreement and ending on the date which is 180 days after Admission, it will not, without the prior written consent of the Sponsor, issue, offer, sell or contract to sell, or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing; and

11.12.2 Each:

(a) Selling Shareholder has agreed that during the period commencing on Admission and ending on the date which is 180 days from the date of Admission, it will not; and

(b) Director has agreed that he or she will not during the period commencing on the date of Admission and ending on the date which is:

(I) 12 months from the date of Admission in relation to 66.7 per cent. of the Director's shareholding immediately prior to Admission; and

(II) 24 months from the date of Admission in relation to the remainder of the Director's shareholding immediately prior to Admission, without the prior written consent of the Joint Global Co-ordinators, directly or indirectly, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly or announce an offering of, any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.

11.13 All lock-up arrangements are subject to certain customary exceptions.

12 Principal Subsidiaries

The Company is the principal operating and holding company of the Group and has one principal subsidiary, Aldermore Bank PLC, which is registered in England and Wales.

A number of the Company's dormant subsidiaries were voluntarily struck off in February 2015 pursuant to applications made by them to the Registrar of Companies. The names of the relevant subsidiaries are noted in paragraph 4.2 of this Part XX: "*Additional Information—Pre-IPO Reorganisation*".

13 Principal Establishments

Name and Location	Type of Facility	Tenure	Term
Apex Plaza, 1st & 4th Floor, Block D, Apex Plaza, Forbury Road, Reading, RG1 1AX	Office	Lease	From 23 May 2014 to 22 May 2024
St James' House, 7 Charlotte Street, Manchester, M1 4DZ	Office	Lease	From 16 February 2006 to 15 February 2016
1st Floor, Block B, Western House, Lynch Wood, Peterborough, PE2 6FZ	Office	Lease	From 8 May 2007 to 22 September 2015
(Half of) 3rd Floor, 50 St. Mary Axe, London, EC3A 8FR	Office	Lease	From 25 March 2014 to 19 October 2016
5th Floor, 50 St. Mary Axe, London, EC3A 8FR	Office	Lease	From 20 August 2012 to 19 August 2022
Springfield House, 76 Wellington Street, Leeds, LS1 2AY	Office	Lease	From 24 March 2014 to 24 March 2024
5th Floor, 100 West Regent Street, Glasgow, G2 2QD	Office	Lease	From 16 September 2008 to 15 September 2018
1 Tolherst Court, Turkey Mill, Ashford Road, Maidstone, Kent, ME14 5SF	Office	Lease	From 31 July 2013 to 31 July 2018
3rd Floor, 35 Newhall Street, Birmingham, B3 3PU	Office	Lease	From 12 November 2010 to 11 November 2020
Norcliffe House, Station Road, Wilmslow, Cheshire, SK9 1BB	Office	Lease	From 25 December 2013 to 25 December 2023

Name and Location	Type of Facility	Tenure	Term
MWB Executive Centre, 3rd Floor, Regal House, 70 London Road, Twickenham, TW1 3QS	Office	Serviced office	From 1 April 2012 to 30 June 2015
5th Floor, Broad Quay House, Prince Street, Bristol BS1 4DJ	Office	Serviced office	From 1 March 2014 to 28 February 2016
Bloxham Mill, Barford Road, Bloxham, Banbury, OX15 4FF	Office	Service office	3 months rolling contract

14 Relationship with the Principal Shareholders

The Principal Shareholders are AnaCap Financial Partners L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co-investment (No.1) LP and AnaCap Derby Co-investment (No.2) L.P. whose business addresses are all at Carinthia House, 9-12 The Grange, St Peter Port, Guernsey GY1 4BF. See paragraph 15.2 of this Part XX: "*Additional Information—Material contracts—Relationship Agreement*" for details regarding the Relationship Agreement entered into between the Company and the Principal Shareholders.

15 Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group within the two years immediately preceding the date of this Prospectus or which are expected to be entered into prior to Admission and which are, or may be, material or which have been entered into at any time by the Company or another member of the Group and which contain any provision under which the Company or any member of the Group has any obligation or entitlement which is, or may be, material to the Company or any member of the Group as at the date of this Prospectus.

15.1 Underwriting Agreement

The Underwriting Agreement is referred to in paragraph 11 of this Part XX "*Additional Information—Underwriting and Selling Shareholder arrangements*".

15.2 Relationship Agreement

On 10 March 2015, the Principal Shareholders and the Company entered into the Relationship Agreement which will come into force on Admission. The principal purpose of the Relationship Agreement is to ensure that the Company is capable of carrying out its business independently of the Principal Shareholders and their associates (the "**Principal Shareholders Group**").

Under the Relationship Agreement, the Principal Shareholders agree to ensure that:

15.2.1 all transactions and arrangements between a member of the Principal Shareholders Group and the Company or any member of the Group, are conducted at arm's length and on normal commercial terms;

15.2.2 no member of the Principal Shareholders Group shall take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules;

15.2.3 no member of the Principal Shareholders Group shall propose or procure the proposal of a shareholder resolution of the shareholders of the Company which is intended or appears to be intended to circumvent the proper application of the Listing Rules;

15.2.4 no member of the Principal Shareholders Group shall take any action that would have the effect of: (i) preventing the Group from carrying out its business independently of the Principal Shareholders Group and for the benefit of its shareholders as a whole; or (ii) prejudice the listing of the Company on the Official List;

15.2.5 no member of the Principal Shareholders Group shall exercise any of its voting or other rights and powers to procure any amendment to the Articles which would be inconsistent with, undermine or breach any of the provisions of the Relationship Agreement;

15.2.6 each member of the Principal Shareholders Group shall abstain from voting on, and procure that any Director appointed by it shall abstain from voting on, any resolution to approve a related party transaction involving any member of the Principal Shareholders Group as the related party; and

15.2.7 in order to ensure compliance, on the part of some of its limited partners, with the US Bank Holding Company Act 1956, AnaCap Derby Co-investment (No.1) LP has agreed for so long as it holds in excess of 4.99 per cent. of the ordinary share capital of the Company, that save in limited circumstances, it shall not exercise any voting rights with respect to any Ordinary Shares beneficially owned, directly or indirectly, by it.

The Relationship Agreement entitles the Principal Shareholders, for such time as they have an interest of 20 per cent. or more of the issued ordinary share capital of the Company (or an entitlement to exercise 20 per cent. or more of the aggregate voting rights in the Company), to appoint two Non-Executive Directors to the Board. For such time as the Principal Shareholders have an interest of less than 20 per cent. but 10 per cent. or more of the issued ordinary share capital of the Company (or an interest which carries less than 20 per cent. but 10 per cent. or more of the aggregate voting rights in the Company), the Principal Shareholders shall be entitled to appoint one Non-Executive Director to the Board. In addition, for such time as the Principal Shareholders have an interest of 10 per cent. or more of the issued ordinary share capital of the Company (or an interest which carries 10 per cent. or more of the voting rights in the Company), the Principal Shareholders shall have the right to appoint one Non-Executive Director to each of the Corporate Governance and Nomination Committee and the Risk Committee.

The Relationship Agreement allows, subject to certain exceptions and applicable law and regulation, the Principal Shareholders to participate in any offer or allotment of ordinary shares (or a right to convert any equity securities into ordinary shares) for cash ("**Cash Issue**") or for shares of an entity the assets of which comprise substantially cash (a "**Cash Box Issue**") to such an extent so as to maintain the Principal Shareholders' shareholding in the Company at the same shareholding percentage that existed immediately before the Cash Issue or Cash Box Issue.

The Relationship Agreement will terminate if the Ordinary Shares cease to be listed on the premium listing segment of the Official List and traded on the London Stock Exchange or when the Principal Shareholders cease to retain, in aggregate, an interest of 10 per cent. or more of the issued ordinary share capital of the Company (or an interest which carries 10 per cent. or more of the aggregate voting rights in the Company from time to time).

15.3 Stock Lending Agreement

In connection with the Over-allotment Option, the Stabilising Manager has entered into the Stock Lending Agreement with the Over-allotment Shareholders, pursuant to which the Stabilising Manager or any of its affiliates or agents, on Admission, will be able to borrow up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer for the purpose, among other things, of allowing the Stabilising Manager or any of its affiliates or agents to settle, at Admission, over-allotments, if any, made in connection with the Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be required to return equivalent securities to the Over-allotment Shareholders in accordance with the terms of the Stock Lending Agreement.

15.4 AT1 Securities

In December 2014, Aldermore issued £75 million in aggregate principal amount of fixed rate reset additional tier 1 perpetual subordinated contingent convertible securities (the "**AT1 Securities**"). In connection with the issue of the AT1 Securities, Aldermore entered into a subscription agreement with Deutsche Bank AG, London Branch dated 5 December 2014 (the "**AT1 Securities Subscription Agreement**"). Pursuant to the AT1 Securities Subscription Agreement, the AT1 Securities were issued at a premium and are classified as equity instruments and are recorded on the balance sheet as proceeds less issue costs. Interest on the AT1 Securities is payable annually in arrears: (i) in respect of the interest periods commencing prior to 30 April 2020, at a fixed rate of interest of 11.875 per cent. per annum; and (ii) in respect of the interest periods commencing on or following 30 April 2020, at the relevant reset rate determined in accordance with the terms and conditions of the AT1 Securities. The interest rate on the AT1 Securities will be reset to a new fixed rate in April 2020 and every five years thereafter. The AT1 Securities qualify as additional tier 1 capital of the UK prudential consolidation group of which Aldermore is part and were admitted to trading and listing on the global exchange market of the Irish Stock Exchange pursuant to an information memorandum dated 5 December 2014. The AT1 Securities were issued in registered global form and are subject to certain customary terms and conditions for additional tier 1 capital issued by a bank. In particular:

15.4.1 the AT1 Securities constitute direct, unsecured and subordinated obligations of Aldermore;

15.4.2 the AT1 Securities are perpetual securities with no fixed redemption date and are not redeemable at the option of the holders. However, Aldermore is entitled, in its discretion and subject to certain conditions (including obtaining regulatory approval), to redeem or repurchase the AT1 Securities in certain circumstances in accordance with the terms and conditions of the AT1 Securities. In particular, subject to certain conditions (including obtaining regulatory approval), Aldermore is entitled to redeem all of the AT1 Securities at their principal amount, together with any interest accrued to the date of redemption, on the occurrence of certain changes in the taxation or regulatory treatment applicable to the AT1 Securities. In addition, subject to certain conditions (including obtaining regulatory approval), Aldermore is entitled to redeem the AT1 Securities on 30 April 2020 or any interest payment date thereafter at their principal amount together with accrued but unpaid interest;

15.4.3 Aldermore may elect to cancel any interest payment (in whole or in part) otherwise scheduled to be paid on an interest payment date at its full discretion. In addition, Aldermore must cancel payments of interest to the extent that: (a) Aldermore has insufficient 'distributable items' (as that term is defined in the terms and conditions of the AT1 Securities); (b) payment of the relevant interest amount would cause, when aggregated with certain other amounts, the Maximum Distributable Amount (as that term is defined in the terms and conditions of the AT1 Securities) then applicable to the UK prudential consolidation group of which Aldermore is part, to be exceeded; or (c) Aldermore is insolvent or payment of such interest would cause Aldermore to become insolvent. Any interest which is cancelled will not accumulate or be payable at any time thereafter; and

15.4.4 if the common equity tier 1 ratio of the UK prudential consolidation group of which Aldermore is part falls below 7.00 per cent., any accrued and unpaid interest on the AT1 Securities will be cancelled and the AT1 Securities will be converted into Ordinary Shares. On a conversion, the AT1 Securities will convert into a maximum of 52,966,102 Ordinary Shares (assuming that the AT1 Securities are converted at the Post IPO Conversion Price and subject to customary adjustments in the event of any extraordinary distributions, any issues of Ordinary Shares by way of capitalisation of profits or reserves or below 95 per cent. of current market price in certain circumstances or any subdivision, reclassification, redesignation or conversion of Ordinary Shares, in each case occurring between the issue date of the AT1 Securities and any conversion).

15.5 Securitisation

In connection with the RMBS described in paragraph 11.3 of Part IX: "*Information on the Group—Capitalisation, liquidity and sources of funding—Sources of Funding*", Aldermore entered into a mortgage sale agreement with the Issuer and U.S. Bank Trustees Limited on 10 April 2014 (the "**Mortgage Sale Agreement**").

Pursuant to the Mortgage Sale Agreement, Aldermore agreed to sell to the Issuer a portfolio of residential mortgage loans over properties located in England and Wales and related security (the "**Portfolio**") by way of an equitable assignment. The legal title in the Portfolio has remained and will remain with Aldermore unless a perfection event occurs (which includes, amongst others, Aldermore being required to perfect legal title to the Portfolio, Aldermore calling for perfection or occurrence of an insolvency event in relation to Aldermore).

Under the Mortgage Sale Agreement:

15.5.1 the Issuer gave certain customary undertakings to Aldermore, including undertaking to use its reasonable endeavours to administer and enforce the loans comprising the Portfolio;

15.5.2 Aldermore gave certain customary representations and warranties to the Issuer and U.S. Bank Trustees Limited in relation to its capacity and authority, and in respect of the underlying loans which comprised the Portfolio. In the event of a material breach of representations and warranties in respect of the underlying loans, Aldermore may be subject to an obligation to repurchase the affected loans; and

15.5.3 Aldermore gave undertakings to the Issuer to maintain a material net economic interest of not less than 5 per cent. in the securitisation which is currently satisfied by its holding of the Class Z VFN. Aldermore has also given undertakings to comply with certain customary disclosure obligations.

15.6 Subordinated Notes and Warrants

In May 2012, Aldermore Bank PLC issued £40 million Subordinated Fixed-to-Fixed Rate Notes due 2022 (the "**Subordinated Notes**"). In connection with the issue of the Subordinated Notes, Aldermore Bank PLC entered into a subscription agreement with Centerbridge Partners L.P., among others, dated 30 March 2012 ("**Subordinated Notes Subscription Agreement**"). Pursuant to the Subordinated Notes Subscription Agreement, the Subordinated Notes were issued at a discount and are carried in the balance sheet at amortised cost using the effective interest rate of 18.597 per cent. Interest on the Subordinated Notes is payable semi-annually in arrears: (i) in respect of the interest periods commencing prior to 31 May 2017, at a fixed rate of interest of 12.875 per cent. per annum; and (ii) in respect of the interest periods commencing on or following 31 May 2017, at a fixed rate of interest per annum determined in accordance with the terms and conditions of the Subordinated Notes. The Company provided certain customary representations and warranties to the holders of the Subordinated Notes. The Subordinated Notes were admitted to the Official List of the Channel Islands Stock Exchange pursuant to an offering circular dated 11 May 2012.

The Subordinated Notes were issued in registered definitive form and are subject to certain customary terms and conditions for tier 2 capital issued by a bank. In particular:

15.6.1 the Subordinated Notes constitute direct, unsecured and subordinated obligations of Aldermore Bank PLC;

15.6.2 unless previously redeemed, or purchased and cancelled, the Subordinated Notes will be redeemed at their principal amount together with accrued but unpaid interest on 31 May 2022;

15.6.3 subject to certain conditions (including obtaining the prior written consent of the PRA), the Company is entitled to redeem for taxation reasons or regulatory reasons, all of the Subordinated Notes at their principal amount, together with any interest accrued to the date of redemption, on the occurrence of certain changes of law or regulation. In addition, Aldermore Bank PLC may, having complied with certain notice provisions, opt to redeem the Subordinated Notes on 31 May 2017 or any interest payment date thereafter at their principal amount together with accrued but unpaid interest; and

15.6.4 Aldermore Bank PLC may, subject to certain conditions, either substitute all (but not some only) of the Subordinated Notes for, or vary the terms of the Subordinated Notes to comply with applicable regulatory capital requirements.

In addition to the Subordinated Notes, two series of warrants ("**Series A Warrants**" and "**Series B Warrants**", together, the "**Warrants**") were issued by the Company, the parent company of Aldermore Bank PLC, which, upon exercise would deliver to the holder, in aggregate, 4,358,668 E ordinary shares of nominal value £0.10 each in the capital of the Company (which are accounted for in the financial statements of the Company) valued at £2.2 million. Two warrant instruments (the "**Series A Warrant Instrument**" and the "**Series B Warrant Instrument**", together the "**Warrant Instruments**") both dated 11 May 2012, created the Warrants. The holders each have the right (but not the obligation) to subscribe in cash during a subscription period in whole or in part and on more than one occasion for up to 4,358,668 E ordinary shares of the Company at the applicable subscription price and on the applicable terms and conditions set out in the Warrant Instruments. The Company provided certain customary representations and warranties to the holders of the Warrants.

The Warrants were issued in registered form and are subject to certain customary terms and conditions. In particular:

15.6.5 the subscription period during which the subscription rights attach to the warrants expires on the earlier of (i) the completion of a sale of the shares of the Company which results in a change of control of the Company (as described in the articles of association of the Company); and (ii) 31 May 2022;

15.6.6 the E ordinary shares of the Company allotted will rank in full for all dividends and other distributions, subject to certain conditions, and *pari passu* in all other respects with the E ordinary shares of the Company in issue at the time; and

15.6.7 the Warrants are subject to customary anti-dilution adjustments. The subscription price per Series A Warrant is £1.12 and per Series B Warrant is £1.55. All Warrants remain unexercised as at the date of this Prospectus.

Pursuant to the terms of the Warrant Instruments, a notice of Admission was sent to the warrantholders. The Admission and the Reorganisation constitute an adjustment event under the Warrant Instruments causing the Company to adjust the subscription rights of the Warrants. If all the Warrants were to be exercised on Admission, it is expected they would convert into 5,502,164 Ordinary Shares, such number being subject to auditor certification in accordance with the terms of the Warrants following the adjustment event.

16 Related party transactions and other arrangements

Details of related party transactions entered into by members of the Group during the period covered by the financial information and up to the date of this Prospectus are set out in note 39 to the combined financial information contained in Section B of Part XV: "*Historical Financial Information—Related Parties*". See also paragraph 15.2 of this Part XX: "*Additional Information—Material Contracts—Relationship Agreement*".

Save as set out above, and for the related party transactions set out in the financial information in note 39 to the combined financial information contained in Section B of XV: "*Historical Financial Information—Related Parties*", there are no related party transactions that were entered into during the period covered by the financial information and during the period from 31 December 2014 to 10 March 2015.

17 Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Company's or the Group's financial position or profitability.

18 Working capital

In the opinion of the Company, taking into account the net proceeds receivable by the Company from the Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of publication of this Prospectus.

19 No significant change

There has been no significant change in the financial or trading position of the Group since 31 December 2014, the date to which the historical financial information in Part XV: "*Historical Financial Information*" was prepared.

20 Consents

KPMG LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of the reports in Part XV: "*Historical Financial Information*" and Part XVI: "*Unaudited Pro Forma Financial Information*", in the form and context in which they appear, and has authorised the contents of its reports for the purposes of paragraph 5.5.3R(2)(f) of the Prospectus Rules. A written consent under the Prospectus Rules is different from a consent filed with the SEC under section 7 of the Securities Act. As the Ordinary Shares have not been, and will not be, registered under the U.S. Securities Act, KPMG LLP has not filed a consent under section 7 of the Securities Act.

21 Takeover regulation

21.1 Mandatory bids

The City Code on Takeovers and Mergers (the "**City Code**") is issued and administered by The Panel on Takeovers and Mergers (the "**Takeover Panel**"). The Company is subject to the City Code and therefore its shareholders are entitled to the protections afforded by the City Code.

Under Rule 9 of the City Code, when: (i) a person acquires an interest in shares which (when taken together with shares he and persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company subject to the City Code; or (ii) any person who, together with any persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company, but does not hold shares carrying more than 50 per cent. of the voting rights of a company subject to the City Code, and such person, or any persons acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in which he is interested, then, in either case, that person, together with the person acting in concert with him, is normally required to extend offers in cash, at the highest price paid by him (or any persons acting in concert with him) for shares in the company within the preceding 12 months, to the holders of any class of equity share capital, whether voting or non-voting, and also to the holders of any other class of transferable securities carrying voting rights. Following Admission, the Principal Shareholder will hold 57.7 per cent. of the issued Ordinary Share capital of the Company, assuming the Over-allotment Option is not exercised, and 52.9 per cent., assuming the Over-allotment Option is exercised in full.

21.2 Squeeze-out

Under the Act, if a takeover offer (as defined in section 974 of the Act) is made for the Ordinary Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which the takeover offer relates (the "**Takeover Offer Shares**") and not less than 90 per cent. of the voting rights attached to the Takeover Offer Shares within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their Takeover Offer Shares and then, six weeks later, it would execute a transfer of the outstanding Takeover Offer Shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose Takeover Offer Shares are acquired compulsorily under the Act must, in general, be the same as the consideration that was available under the takeover offer.

21.3 Sell-out

The Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Ordinary Shares and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares to which the offer relates, any holder of Ordinary Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Ordinary Shares. The offeror is required to give any shareholder notice of his or her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his or her rights, the offeror is bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

22 General

(a) The expenses of the Offer and Admission, whether incidental or otherwise, payable by the Company, including the London Stock Exchange fee, the FCA's listing fee, professional fees and the cost of preparation, printing and distribution of documents, are estimated to amount to approximately £6 million (exclusive of recoverable VAT).

(b) Each Ordinary Share will be offered at a premium of £1.82 to its nominal value of £0.10.

(c) No Ordinary Shares have been marketed to, nor are available for purchase in whole or in part by, the public in the UK or elsewhere in conjunction with the Offer. This Prospectus does not constitute an offer or the solicitation of an offer to the public in the UK to subscribe for or buy any securities in the Company or any other entity.

(d) There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.

(e) The financial information contained in this Prospectus does not amount to statutory accounts within the meaning of section 434(3) of the Act. Full audited accounts have been delivered to the Registrar of Companies for the Company for the accounting periods ended 31 December 2013 and 31 December 2012 and will shortly be delivered for the accounting period ended 31 December 2014.

(f) The information set out in this Prospectus that has been sourced from third-parties has been accurately reproduced and, so far as the Company is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

23 Documents available for inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period from and including the date of publication of this Prospectus until the date of Admission at the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ:

(a) the Articles;

(b) the historical financial information for the Group in respect of the three financial years ended 31 December 2014, 31 December 2013 and 31 December 2012;

(c) the Employee Share Plans;

(d) the consent letter referred to in paragraph 20 of this Part XX: "*Additional Information—Consents*";

(e) the reports from KPMG which are set out in Part XV: "*Historical Financial Information*" and Part XVI: "*Unaudited Pro Forma Financial Information*"; and

(f) this Prospectus.

Dated: 10 March 2015

PART XXI
DEFINITIONS AND INDUSTRY TERMS

Definitions

The following definitions apply throughout this Prospectus unless the context requires otherwise:

Act or **Companies Act**	the Companies Act 2006, as such act may be amended, modified or re-enacted from time to time
Admission	the admission of the Ordinary Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities becoming effective in accordance with, respectively the Listing Rules and the Admission and Disclosure Standards
Admission and Disclosure Standards	the requirements contained in the publication "Admission and Disclosure Standards" dated 16 April 2013 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities
AGM	annual general meeting
ALCO	the asset and liability committee
Aldermore	Aldermore Group PLC and its subsidiaries and any of them as the context may require
Aldermore Managed Rate	a variable interest rate set by Aldermore that is linked to LIBOR
AnaCap	AnaCap Financial Partners LLP
Articles	the articles of association of the Company to be adopted upon Admission
Asset Finance	the asset finance division of Aldermore
AT1 Securities	the £75 million in aggregate principal amount Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities issued by Aldermore, in December 2014 and listed on the Irish Stock Exchange
Audit Committee	the audit committee of the Board
Auditors	KPMG LLP
Bank Recovery and Resolution Directive or **BRRD**	Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms
Banking Act	the UK Banking Act 2009, as may be amended, modified or re-enacted from time to time
Banking Reform Act	the UK Financial Services (Banking Reform) Act 2013
Banking Reform Bill	the draft Financial Services (Banking Reform) Bill published by the UK Government in October 2012
Base Rate	the Bank of England's base rate, the interest rate that the Bank of England charges banks for secured overnight lending
Basel II Core Tier 1 ratio	Core Tier 1 capital divided by risk weighted assets calculated in accordance with Basel II
Basel II	recommendations on banking laws and regulations originally issued by the Basel Committee in 2004 and now extended, and effectively superseded, by Basel III

Basel III	a package of capital and liquidity requirements published by the Basel Committee intended to establish minimum liquidity standards for credit institutions
Basel Committee	the Basel Committee on Banking Supervision
Board Committees	the Audit Committee, Remuneration Committee, Nomination and Corporate Governance Committee and Risk Committee and any other committees of the Board from time to time
Board	the board of directors of the Company
Breedon Report	Boosting Finance Options for Business—Report of industry-led working group on alternative debt markets, March 2012
CAGR	Compound Annual Growth Rate
Capital Requirements Directive or **CRD**	the Banking Consolidation Directive (2006/28/EC) and the recast Capital Adequacy Directive (2006/49/EC)
Capital Requirements Regulation	the UK Capital Requirements Regulations 2006, implementing in part the Capital Requirements Directive
CCA	the Consumer Credit Act 1974 and its related secondary legislation
CEO	the chief executive officer of the Company
CFO	the chief financial officer of the Company
CET1	common equity tier 1 capital, calculated by the Company in accordance with the requirements of CRD IV
Chairman	the chairman of the Company
City Code	The UK City Code on Takeovers and Mergers (as amended from time to time)
Class Z VFN	variable funding notes issued as part of the RMBS transaction
CMA	the UK Competition and Markets Authority
CML	Council of Mortgage Lenders
Code Staff	staff who have a material impact on the Group's risk profile and are therefore subject to the applicable remuneration structure rules in the Remuneration Code
Co-Lead Managers	Nomura and Numis
Company	Aldermore Group PLC
Company Secretary	the company secretary of the Company
Core Tier 1 Ratio	a Basel II measure of core tier 1 capital expressed as a percentage of the total risk-weighted assets
CRD II	Directive 2009/111/EC
CRD III	Directive 2010/76/EU
CRD IV	the legislative package implementing the Basel III proposals, consisting of: (i) Directive 2013/36/EU on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms; and (ii) Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the European Council of 26 June 2013

CRD IV risk weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with CRD IV
Credit Suisse	Credit Suisse Securities (Europe) Limited
CREST	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear UK & Ireland is the operator
CREST Regulations	the Uncertified Securities Regulations 2001 (SI2001/3755) as amended from time to time
Deutsche Bank	Deutsche Bank AG, London Branch
Directors	the directors of the Company whose names are set out in Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*"
Disclosure and Transparency Rules	the disclosure rules and transparency rules produced by the FCA and forming part of the handbook of the FCA as, from time to time, amended
DRR Regulations	the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008
DWF	the Bank of England's Discount Window Facility, a bilateral on-demand facility that allows participants to borrow highly liquid assets in return for less liquid collateral
EBA	European Banking Authority
ECJ	the European Court of Justice
EEA or **European Economic Area**	the EU, Iceland, Norway and Liechtenstein
EEA State	any state in the EEA
Employee Share Plans	the Aldermore Performance Share Plan, the Aldermore Deferred Share Plan, the Aldermore Restricted Share Plan, the Aldermore Sharesave Plan and the Aldermore Share Incentive Plan
EPS	earnings per share
European Commission	the Commission of the European Union
European Union or **EU**	the European Union first established by the treaty made at Maastricht on 7 February 1992
Eurozone	those member states of the European Union which have adopted the euro
Executive Directors	the executive directors of the Company
Existing Ordinary Shares	the Ordinary Shares in issue immediately prior to Admission;
FCA	the UK Financial Conduct Authority (or any predecessor authority or authorities carrying out banking and/or insurance regulatory functions in the UK prior to the date hereof, including the Financial Services Authority)
FCA Handbook	the handbook of rules and guidance issued by the FCA from time to time
Financial Adviser	Lazard & Co., Limited
FLS or **Funding for Lending Scheme**	the Funding for Lending Scheme launched by the Bank of England and HM Treasury in July 2013
FOS or **Ombudsman**	the Financial Ombudsman Service

FPC	the Financial Policy Committee
FSA 2012	the Financial Services Act 2012
FSCS	the Financial Services Compensation Scheme, a UK compensation fund set up under FSMA to provide compensation to customers of authorised financial services firms if a firm is unable, or likely to be unable, to pay claims against it
FSMA	the Financial Services and Markets Act 2000, as amended
Fully loaded CRD IV CET 1 ratio	A CRD IV regulatory measure of financial (capital) strength. Common Equity Tier 1 ratio is calculated as Common Equity Tier 1 capital as a percentage of total risk weighted assets. Fully loaded represents the adoption of all requirements of CRD IV once the transitional phase has elapsed
GDP	Gross Domestic Product
Government or **UK Government**	the Government of the United Kingdom
Group or **Aldermore Group**	the Company and its consolidated subsidiaries and subsidiary undertakings from time to time
Group Risk	the Company's independent risk management function responsible for ensuring appropriate risk management process, techniques and controls are in place
Help to Buy	UK Government-backed initiative to help individuals purchase a home through mortgage guarantees, equity loans and share ownership
HMRC	HM Revenue & Customs
HMT or **HM Treasury**	the Commissioners of Her Majesty's Treasury
IAS	International Accounting Standards
IASB	the International Accounting Standards Board
ICAAP	internal capital adequacy assessment process
ICB	the Independent Commission on Banking
IFRS-EU or **IFRS**	the International Financial Reporting Standards, as adopted by the European Union
Indexed LTV	Indexed Loan to Value represents the indexed value of the security provided by a customer as a percentage of a customer's total loan value. The value of security is indexed from the value at inception of the loan to the date of reporting using the House Price index
Invoice Finance	the invoice finance division of Aldermore
IRS	the U.S. Internal Revenue Service
ISA	Individual Savings Account, a type of savings product that is exempt from United Kingdom tax
ISIN	International Security Identification Number
Issuer	Oak No. 1 PLC
Joint Bookrunners	Credit Suisse, Deutsche Bank and RBC Capital Markets
Joint Global Co-ordinators	Credit Suisse and Deutsche Bank
Leverage Ratio	a ratio of Tier 1 Capital to total exposures, as calculated by the Company in accordance with the requirements of CRD IV
LIBOR	London Interbank Offered Rates

Listing Rules	the listing rules of the FCA made under section 73A(2) of FSMA
London Stock Exchange	London Stock Exchange plc or its successor(s)
LTV	loan-to-value
MCOB	the FCA's Mortgages and Home Finance: Conduct of Business sourcebook
Member States	member states of the EU
MMR	the FCA's Mortgage Market Review
Mortgage Clubs	organisations that act as conduits into Aldermore for intermediaries who would not otherwise be able to submit business to Aldermore because they are not on Aldermore's panel of approved intermediaries
Net interest income	the difference between interest received on assets and interest paid on liabilities after taking into account the effect of derivatives
Net interest margin	Net interest margin is net interest income as a percentage of average net loans
Net liquid assets	Net liquid assets is calculated as liquid assets less liquid liabilities and represents a measure of the short term liquidity of an organisation
Networks	umbrella organisations for intermediaries
New Ordinary Shares	new Ordinary Shares to be allotted and issued by the Company pursuant to the Offer
Nomination and Corporate Governance Committee	the nomination and corporate governance committee of the Board
Nomura	Nomura International plc
Non-Executive Directors	the non-executive directors of the Company
Numis	Numis Securities Limited
Offer	the issue of Ordinary Shares by the Company and sale of Existing Ordinary Shares by the Selling Shareholders to institutional investors in the United Kingdom and elsewhere described in Part XIX: "*Details of the Offer*"
Offer Price	the price at which each Offer Share is to be issued or sold under the Offer
Offer Shares	the New Ordinary Shares to be issued by the Company and the Existing Ordinary Shares to be sold by the Selling Shareholders pursuant to the Offer as described in Part XIX: "*Details of the Offer*"
Official List	the Official List of the Financial Conduct Authority
Ordinary Shares	ordinary shares of £0.10 each in the capital of the Company
Over-allotment Option	the option granted to Credit Suisse by the Over-allotment Shareholders to purchase, or procure purchasers for, up to 15 per cent. additional Shares as more particularly described in Part XIX: "*Details of the Offer*"
Over-allotment Shares	the Ordinary Shares that are the subject of the Over-allotment Option

Over-allotment Shareholders	AnaCap Financial Partners L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co-investment (No.1) LP, AnaCap Derby Co-investment (No.2) L.P., partners of and funds managed by Tosca Asset Management LLP and Lansdowne Global Financials Master Fund Limited
Post IPO Conversion Price	the pre-Offer conversion price prevailing at such time (including any applicable adjustment) or, if higher, 66 per cent. of the final price per share at which the relevant Ordinary Shares are offered in connection with the Offer
PPI	Payment Protection Insurance
PRA	the UK Prudential Regulation Authority
PRA Handbook	the handbook of rules and guidance issued by the PRA from time to time
Pre-IPO Awards	one-off awards granted under the Aldermore Performance Share Plan prior to Admission together with any replacement awards as referred in paragraph 9.2.3 of Part X: "*Additional Information—Employee Share Plans and Share Options and Awards—The Performance Share Plan—First Operation of the PSP*"
Pre-IPO Reorganisation	the reorganisation of the Company's share capital undertaken prior to Admission
Principal Shareholders	AnaCap Financial Partners L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co-investment (No.1) LP and AnaCap Derby Co-investment (No.2) L.P.
Prospectus Directive	EU Prospectus Directive (2003/71/EC) (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State and includes any relevant implementing measure in the Relevant Member State, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU)
Prospectus Directive Regulation	EU Prospectus Directive Regulation (No. 2004/809/EC)
Prospectus Rules	the rules for the purposes of Part VI of FSMA in relation to offers of securities to the public and the admission of securities to trading on a regulated market
Qualified institutional buyers or **QIBs**	has the meaning given by Rule 144A under the Securities Act
Qualified Investors	persons who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive
RBC or RBC Capital Markets	RBC Europe Limited, trading as RBC Capital Markets
Register of Members	the register of members of the Company
Registrars	Equiniti Limited
Regulation S	Regulation S under the U.S. Securities Act
Relationship Agreement	the relationship agreement between the Company and the Principal Shareholders dated 10 March 2015
Relevant Member State	an EEA State which has implemented the Prospectus Directive
Remuneration Code	the PRA Remuneration Code at SYSC 19A of the PRA Handbook
Remuneration Committee	the remuneration committee of the Board

Residential Mortgages	the residential mortgages division of Aldermore
Risk Committee	the risk committee of the Board
RMBS	residential mortgage backed securitisation
Rule 144A	Rule 144A under the Securities Act
RWA	Risk-Weighted Assets
SDRT	United Kingdom stamp duty reserve tax
Securities Act	United States Securities Act of 1933, as amended
SEDOL	Stock Exchange Daily Official List
Selling Shareholders	the Principal Shareholders and certain other shareholders who sell Existing Ordinary Shares as part of the Offer
Senior Independent Director	Danuta Gray, the senior independent director of the Company
Senior Management	members of the Company's management team, details of whom are set out in Part X: "*Directors, Senior Management, Corporate Governance and Remuneration Policy*"
Senior Manager	a member of Senior Management
Shareholders or shareholders	the holders of Ordinary Shares in the capital of the Company
SME	small and medium sized enterprises usually with less than £25 million turnover
SME Commercial Mortgages	the SME commercial mortgages division of Aldermore
Sponsor	Deutsche Bank
Stabilising Manager	Credit Suisse
Stock Lending Agreement	the stock lending agreement entered into between the Stabilising Manager and the Over-allotment Shareholders on or around the date of this Prospectus
Subordinated Notes	the £40 million aggregate principal amount subordinated 12.875 per cent. loan notes issued in May 2012
Subsidiary	has the meaning given to it in section 1159 of the Act 2006
SYSC	the FCA's Senior Management Systems and Controls Handbook
Takeover Panel	the Panel on Takeovers and Mergers
TSR	total shareholder return
Total Capital Ratio	tier 1 plus tier 2 capital expressed as a percentage of total risk weighted assets
Treasury Regulations	Treasury (Tax) Regulations, which provide the official interpretation of all the Internal Revenue Code by the U.S. Department of the Treasury
Treaty	the income tax treaty between the United States and the UK
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UK Corporate Governance Code	the UK Corporate Governance Code published by the Financial Reporting Council and dated September 2014, as amended from time to time
UK Listing Authority	the FCA in its capacity as the competent authority for the purposes of Part VI of FSMA
Underwriters	Credit Suisse, Deutsche Bank, Nomura, Numis and RBC

Underwriting Agreement	the underwriting agreement entered into between the Company, the Directors, the Selling Shareholders and the Underwriters described in paragraph 11 of Part XX: "*Additional Information—Underwriting and Selling Shareholder arrangements*" dated 10 March 2015
United States or **U.S.**	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia
VAT	within the EU, such taxation as may be levied in accordance with (but subject to derogations from) the Directive 2006/112/EEC and, outside the EU, any taxation levied by reference to added value or sales
Warrants	the Series A Warrants and the Series B Warrants described in paragraph 15.6 of Part XX: "*Additional Information—Material Contracts—Subordinated Notes and Warrants*"

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