Press release

17 February 2015

Aldermore Group PLC
2014: Another Record Year

Underlying profit before tax doubled
- Underlying PBT(1) of £56m is more than double 2013 result
- Cost/ income ratio(1) improved by 6pts to 60% (2013: 66%)
- Return on equity(1) increased to 15% (2013: 12%)

Accelerating profit trajectory
- Net interest margin of 3.6% for H2 2014 (FY 2014: 3.4%)
- Cost/ income ratio(1) of 57% for H2 2014 (FY 2014: 60%)
- Return on equity(1) increased to 19% for H2 2014 (FY 2014: 15%)

Increased support for UK SMEs and homeowners
- Net loans to customers up by 42% to £4.8bn (2013: £3.4bn)
- Lending to SMEs up by 32% to £2.2bn (2013: £1.7bn)
- Residential Mortgages grew by 53% to £2.6bn (2013: £1.7bn)

Innovative online deposit franchise
- Customer deposits up by 29% to £4.5bn (2013: £3.5bn)
- Excellent growth in SME deposits, up by 97% to £1.0bn (2013: £0.5bn)

Diversified funding and strongly capitalised
- £333m inaugural AAA RMBS further diversifies funding base
- £75m of new Additional Tier 1 capital supports medium term growth
- Total capital ratio of 14.8% (2013: 14.2%) and leverage ratio of 6.3% (2013: 5.3%)

Improved targets reflect confidence in outlook
- 2015 net loans to grow in line with the current nominal run rate
- Cost/ income ratio now to be less than 40% by the end of 2017

Phillip Monks, CEO, commented:
"2014, was another great year with profit before tax on a like for like basis more than double that generated in 2013 and a return on equity approaching 20% for the second six months of the year."

"We continue to support SMEs and homeowners with our straightforward products and granted £2.4bn of new loans in 2014, our highest level to date. Our innovative online savings franchise also goes from strength to strength, with total deposits up by 29% to £4.5bn overall and, within this, SME deposits almost doubling to over £1bn."

"Our confidence in the outlook is reflected in our improved guidance. In 2015, we again expect to grow net loans in line with the current nominal run rate. We will continue to leverage our legacy-free operating platform and I now expect to deliver a cost/ income ratio of below 40% by the end of 2017."

(1) Excluding IPO related costs of £6.0m pre-tax

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CONTENTS	**PAGE**

Note on rounding:
The CEO and Business reviews have been prepared by rounding financial data in £ thousands to the nearest £ million to one decimal place. As a result of rounding, some of the tables may not exactly reconcile to the total shown.

Important disclaimer
Visit www.aldermore.co.uk for more information. This press release may contain ‘forward-looking statements’ with respect to certain of the Group’s plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as “may”, “could”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “aim”, “outlook”, “believe”, “plan”, “seek”, “continue” or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group’s control, including amongst other things, UK economic business conditions, market-related risks such as fluctuations in interest rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group operates. As a result, the Group’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group’s forward-looking statements. Forward-looking statements in this press release are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.

CEO Review

I am delighted with the progress we are making in delivering our vision to support UK SMEs across their business and personal lives as well as homeowners who we believe are underserved by the wider banking sector. We focus on prime credit quality customers across four lending lines chosen for their large market sizes, high levels of tangible asset security and attractive risk adjusted returns.

Six years after establishing Aldermore, I believe that we are uniquely positioned to continue our growing support of these underserved market segments and have demonstrated a strong track record of strategic delivery. 2014, was another great year for the Group with record levels of lending to customers, deposits and profitability.

Our DNA is to be Reliable, Expert, Dynamic and Straightforward and this informs everything we do, forming the basis of our culture and brand. We engage with customers both through intermediaries and directly and aim to differentiate our service by being easy to do business with and making consistent and transparent credit decisions. We enjoy the advantage of modern, legacy-free and scalable systems which we use to support our expert underwriters in making considered decisions rather than adopting a “computer says no” approach.

At the centre of our funding base is our dynamic online proposition which provides both retail and SME customers with innovative savings products. With our modern systems it is possible for a customer to open and fund an account online, usually in less than fifteen minutes.

During 2014, we lent more than ever before to UK SMEs and homeowners with net loans to customers up by 42% to £4.8bn (2013: £3.4bn). Record levels of origination of £2.4bn (2013: £1.7bn), all of it organic, supported this excellent growth in the lending book. We take a robust, consistent approach to credit management and have deliberately constructed a granular portfolio with high levels of tangible asset security.

We remain predominantly deposit-funded and grew our deposit base by 29% during the year to almost £4.5bn (2013: £3.5bn).

As expected, our balance sheet growth has driven a significant increase in interest income, which, in 2014, was up by 46% to £227.8m (2013: £156.4m). Our cost of funds continued to benefit from the ongoing diversification of our funding base including the increased amount of SME customers in our deposit base and the success of our inaugural Residential Mortgage-Backed Securitisation (RMBS) issued in April 2014. As a result, our interest expense increased by only 16% to £87.6m (2013: £75.8m) and we grew net interest income by an excellent 74% to £140.2m (2013: £80.6m). This positively impacted the net interest margin which increased by 0.4 percentage points during the year to 3.4% (2013: 3.0%).

With our continued focus on managing costs and leveraging our operating model, we generated operating profit before impairment losses of £59.9m for 2014, an increase of 61% on 2013 of £37.2m. Our cost/ income ratio, excluding costs related to the withdrawn IPO of £6.0m, improved by 6 percentage points to 60% (2013: 66%). In the second six months of 2014, this underlying cost/ income ratio was 57% and as a result of the good progress we are making, we are now targeting a cost/ income ratio of below 40% by the end of 2017.

Our cost of risk improved by 19bps to 23bps (2013: 42bps) reflecting both the actions taken to enhance our credit risk management processes and the benefit of our in-house management of recoveries. The underlying cost of risk, excluding three large recoveries totalling £3.8m was 33bps and broadly in line with our medium term expectations of a normalised cost of risk in the mid to high 30's basis points.

Profit before tax for 2014 on a reported basis of £50.3m was almost double the £25.7m generated in 2013 and, excluding the costs related to the withdrawn IPO, the underlying profit before tax of £56.3m was 2.2 times 2013 levels. During 2014, the Group became a tax payer for the first time and profit after tax as reported was £38.4m, up by 50% on 2013 where no tax was incurred due to the utilisation of brought forward tax losses.

Excluding IPO related costs, the Group generated an underlying return on equity of 15.1% for the year, an increase of 3.5 percentage points compared to the 2013 return on equity of 11.6%. On a like for like basis, had 2013 profits not benefitted from losses carried forward and been taxed at the 2014 effective tax rate, the 2013 return on equity would have been around 8.8%, equivalent to an underlying improvement of 6.3 percentage points during 2014. We are driving an accelerating trajectory of profitability with the underlying return on equity for the second six months of 2014 approaching 20%.

In the second half of 2014, we actively pursued a listing on the London Stock Exchange. However, subsequent to the announcement of our intention to float on 22 September 2014, global financial markets suffered significant falls, exhibiting unusually high levels of volatility and on 15 October 2014, we announced our decision to withdraw our offering.

We created a Capital Requirements Regulation (CRR) compliant capital structure appropriate for a more mature bank and strengthened our overall capital position with the issue of £75m of Additional Tier 1 capital in December 2014. As at 31 December 2014, our total capital ratio had improved to 14.8% (2013: 14.2%). Our leverage ratio of 6.3% was also very strong and well above the expected regulatory minimum requirement for the industry which the regulator is currently finalising but which is anticipated to be between 3% and 4%.

2015 Outlook

Our continued strong performance in 2014 provides an excellent base for the future. We look forward with confidence and this is reflected in the stretching targets we have set. We expect to grow net lending in 2015 in line with the current nominal run rate. We will continue to leverage our legacy-free operating platform and are now targeting a cost/ income ratio of less than 40% by the end of 2017.

Phillip Monks
CEO

Business review

Balance Sheet

- **Assets**

Net loans to customers	31 December 2014 £m	31 December 2013 £m	Movement %
Asset Finance	1,044.3	720.2	45%
Invoice Finance	180.6	212.0	(15)%
SME Commercial Mortgages	1,011.3	762.0	33%
Net loans to SMEs	**2,236.2**	**1,694.2**	**32%**
Residential Mortgages	2,564.9	1,679.7	53%
Net loans to customers	**4,801.1**	**3,373.8**	**42%**

We further increased our support to UK SMEs and homeowners during 2014 with net loans to customers growing by 42% to £4.8bn (2013: £3.4bn).

Net loans to SMEs increased by 32% to £2.2bn (2013: £1.7bn) and we generated strong growth across both Asset Finance and SME Commercial Mortgages with these divisions growing by 45% and 33% respectively and both portfolios now exceeding £1bn. As expected, Invoice Finance remains a small part of the portfolio and net loans at the end of 2014 decreased by 15% to £180.6m (2013: £212.0m) as we continued to refocus the portfolio towards smaller clients. Given the short-term nature of Invoice Finance with balances converting to cash receipts within 60 days, in effect we provided around £1.4bn of working capital financing to UK SMEs during 2014 highlighting why we believe this is an important part of our SME proposition.

Our Residential Mortgages business had another excellent year, generating growth of 53% with net loans to customers at the end of 2014 of £2.6bn (2013: £1.7bn).

- **Liabilities**

Total funding base	31 December 2014 £m	31 December 2013 £m	Movement %
Deposits	4,459.0	3,464.0	29%
Wholesale funding	621.8	421.5	48%
Total funding base	**5,080.8**	**3,885.5**	**31%**

As expected, we remain predominantly deposit-funded.

Customer deposits	31 December 2014 £m	31 December 2013 £m	Movement %
Retail	3,411.3	2,945.0	16%
SME	1,024.4	519.0	97%
Corporate deposits	23.3	-	n/a
Total customer deposits	**4,459.0**	**3,464.0**	**29%**
Loans to deposits ratio (%)	**108%**	**97%**	**11%**

Our innovative online savings franchise delivered strong growth with total customer deposits up by almost £1bn or 29% from £3.5bn to £4.5bn at the end of 2014. Retail deposits grew by 16% to £3.4bn (2013: £2.9bn). Increasing SME deposits is a key element of our funding diversification strategy and we almost doubled this business during the year, with SME deposits up by 97% and now exceeding £1.0bn (2013: £0.5bn). Toward the end of 2014, we launched a corporate deposit programme which although small today will contribute to further diversification of the deposit base in 2015 and beyond.

The loans to deposits ratio was in line with management expectations at 108% (2013: 97%) as a result of increasing the proportion of wholesale funding within the overall funding base. Going forward, we would expect the loans to deposits ratio to remain above 100% reflecting the anticipated mix of deposits and wholesale funding.

Wholesale funding	**31 December 2014 £m**	**31 December 2013 £m**	**Movement %**
Funding for Lending Scheme	304.2	383.1	(21)%
RMBS	279.1	-	n/a
Tier 2 capital	36.8	35.6	3%
Other	1.7	2.9	(41)%
Total wholesale funding	**621.8**	**421.5**	**48%**

As part of our deliberate strategy to diversify our funding base and reduce costs, we further expanded our use of wholesale funding which grew by 48% during the year to £621.8m (2013: £421.5m) and now represents 12% of our overall funding base (2013: 11%).

We continued to utilise the Bank of England's Funding for Lending Scheme and were the third largest lender to SMEs under this programme during 2014. As at 31 December 2014, we had on-balance sheet funding via repurchase agreements of £304.2m which is down 21% compared with the end of 2013 balance of £383.1m. The Bank of England has recently extended this scheme by a year for those continuing to support SME lending and, as a result, we may increase our use of this flexible, cost-effective funding source during 2015.

In April 2014, we completed our inaugural RMBS issuing securities with a face value of approximately £333m. We were pleased with the interest we saw in this transaction which priced at LIBOR + 67bps, providing an attractive source of funding.

The Tier 2 capital is a historical instrument with a nominal value of £40m issued in May 2012, before the company was profitable, with an effective interest rate of c18% and a first call date in May 2017.

- Movements in net assets	**Shareholders' equity £m**	**Additional Tier 1 capital £m**	**Total £m**
1 January 2014	**265.4**	**-**	**265.4**
Profit after tax	38.4	-	38.4
Total other comprehensive income	0.8	-	0.8
Securities issued during year	-	73.7	73.7
Share based payments	0.6	-	0.6
31 December 2014	**305.2**	**73.7**	**378.9**

Net assets increased to £378.9m (2013: £265.4m) as a result of an increase in shareholders' equity and Additional Tier 1 capital issued in the year.

Shareholders' equity increased from £265.4m at 1 January 2014 to £305.2m at 31 December 2014 as a result of organic capital generation.

On 9 December 2014, the Group issued £75m Fixed Rate Reset Additional Tier 1 (AT1) Perpetual Subordinated Contingent Convertible Securities. Net proceeds arising from the issuance, after deducting issue costs totalled £73.7m. The securities are listed on the Irish Stock Exchange, pay interest at a rate of 11.875% annually on 30 April and convert to equity if Group's CET1 ratio falls below 7%. The first call date is 30 April 2020. From an accounting perspective, the securities are classified as equity with the interest payments treated like dividends and deducted from retained earnings when paid. The AT1 capital is not included within the equity base for return on equity calculations.

- **Capital position**

The fully loaded regulatory capital position of the Group under CRD IV is set out below:

	31 December 2014 %	**31 December 2013 %**	**Movement %**
Fully loaded CRD IV CET 1 ratio	**10.4**	**12.1**	**(1.7)**
Fully loaded CRD IV Tier 1 capital ratio	13.1	12.1	1.0
Tier 2 capital ratio	1.7	2.1	(0.4)
Fully loaded CRD IV Total capital ratio	**14.8**	**14.2**	**0.6**

On 9 December 2014, the Group issued £73.7m of CRD IV compliant Additional Tier 1 capital, net of issue costs, which, although partially offset by the growth in RWAs, drove an increase in both the Tier 1 and total capital ratios.

- **Leverage ratio**

The Group's leverage ratio under CRD IV is set out below:

	31 December 2014 %	**31 December 2013 %**	**Movement %**
Leverage ratio	**6.3**	**5.3**	**1.0**

The Group's leverage ratio improved by 1 percentage point to 6.3% (2013: 5.3%) mainly due to the issue of £75m (£73.7m net of costs) of Additional Tier 1 capital in December 2014.

Income Statement

	2014 £m	2013 £m	Movement %
Interest income	227.8	156.4	46%
Interest expense	(87.6)	(75.8)	(16)%
Net interest income	**140.2**	**80.6**	**74%**
Fee and commission income	26.4	23.6	12%
Fee and commission expense	(7.8)	(7.5)	(4)%
Net (expense)/ income from derivatives	(4.1)	3.3	(224)%
Gains on disposals of debt securities	2.9	1.9	58%
Other operating income	7.4	6.5	13%
Operating income	**165.0**	**108.3**	**52%**
Provisions	(3.6)	(2.1)	(71)%
IPO costs	(6.0)	-	n/a
Other administrative expenses	(91.6)	(65.3)	(40)%
Administrative expenses	**(101.2)**	**(67.4)**	**(50)%**
Depreciation and amortisation	(3.9)	(3.8)	(2)%
Operating profit before impairments	**59.9**	**37.2**	**61%**
Impairment losses	(9.6)	(11.5)	17%
Profit before tax	**50.3**	**25.7**	**96%**
Tax	(11.9)	-	n/a
Profit after tax	**38.4**	**25.7**	**50%**

Key ratios	2014 %	2013 %	Movement %
Gross interest margin	5.6	5.8	(0.2)
Cost of funds	2.1	2.8	0.7
Net interest margin	3.4	3.0	0.4
Cost/ income ratio (ex IPO costs)	60	66	6
Cost of risk	23bps	42bps	19bps
Return on Equity (reported)	13.5	11.6	1.9
Return on Equity (ex IPO costs)	15.1	11.6	3.5

Net interest income

During 2014, we grew interest income by 46% to £227.8m (2013: £156.4m). This increase is driven directly by the 42% growth in the loan book with the gross interest margin remaining relatively stable at 5.6% (2013: 5.8%).

We continued to benefit from the ongoing diversification of the funding base and drove a 0.7 percentage point improvement in cost of funds to 2.1% (2013: 2.8%) with interest expense only increasing by 16% to £87.6m (2013: £75.8m).

As a result of our ability to drive an increasing top line while controlling our interest expense, we delivered excellent growth in net interest income, up by 74% to £140.2m (2013: £80.6m) together with a 0.4 percentage point improvement in the net interest margin to 3.4% (2013: 3.0%).

Fee and commission income	2014 £m	2013 £m	Movement %
Invoice finance fees	14.5	14.9	(3)%
Insurance commissions receivable	0.6	1.2	(51)%
Other	11.2	7.4	52%
	26.4	**23.6**	**12%**

Fee and commission income increased by 12% to £26.4m (2013: £23.6m) due to an increase in Other partially offset by small nominal reductions in Invoice finance fees and Insurance commissions receivable. Other contains commitment, arrangement, valuation and early redemption fees related to our mortgages business as well as fees associated with the Asset Finance business and the increase during the year was driven by growth in lending in these portfolios.

Fee and commission expense	2014 £m	2013 £m	Movement %
Introducer commissions	1.9	2.0	2%
Legal and valuation fees	2.5	1.7	(46)%
Company search and other fees	1.8	2.3	21%
Credit protection and insurance charges	1.2	0.8	(51)%
Insurance commissions payable	0.5	0.8	45%
	7.8	**7.5**	**(4)%**

Fee and commission expense of £7.8m (2013: £7.5m) has increased marginally when compared with 2013, 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. The majority of the increase in Legal and valuation relates to increased valuation fees payable on the growing Residential Mortgage book. During 2014, volume discounts were negotiated on credit search fees and bank charges which have positively impacted the Company search and other fees line.

Net (expense)/ income from derivatives and other financial instruments	2014 £m	2013 £m	Movement %
Net (losses)/gains on derivatives	(17.3)	14.0	(223)%
Net gains/ (losses) on assets designated at fair value through profit or loss	9.5	(10.7)	189%
Net gains on AFS assets held in fair value hedges	4.1	-	n/a
Less: realised gains transferred to gains on disposal of debt securities	(0.4)	-	n/a
	(4.1)	**3.3**	**(224)%**

The net result from derivatives and other financial instruments moved from a £3.3m income in 2013 to an expense of £4.1m in 2014. The 2014 expense predominantly comprises a net loss of £17.3m on derivatives due to the weakening yield curve, which was particularly evident during the fourth quarter, partially offset by a £9.5m net gain on assets designated at fair value through profit or loss and £4.1m of net gains on assets held in fair value hedges which applied from 1 January 2014 following first time adoption of IFRS.

Other operating income	2014 £m	2013 £m	Movement %
Disbursements, collect out and other invoice finance income	7.1	6.3	11%
Other	0.3	0.2	56%
	7.4	**6.5**	**13%**

Other operating income increased by 13% to £7.4m (2013: £6.5m) mainly as a result of an increase in Disbursements, collect out and other invoice finance income resulting from the growth of the bad debt protection product in Invoice Finance.

Administrative expenses	2014 £m	2013 £m	Movement %
Staff costs	49.4	38.4	(29)%
Legal and professional and other services	23.5	12.1	(95)%
IT	8.3	4.7	(77)%
Office costs	4.0	3.2	(26)%
Provisions	3.6	2.1	(71)%
Other	12.4	6.9	(81)%
	101.2	**67.4**	**(50)%**

Administrative expenses increased by 50% to £101.2m (2013: £67.4m) including IPO costs of £6.0m. The increase was mainly due to an increase in staff costs and legal and professional costs. Staff costs were up by 29% to £49.4m (2013: £38.4m) as we invested in further strengthening our Risk, Finance and Compliance functions. As at the end of 2014, we employed 876 people, including contractors, compared with 687 staff at the beginning of the year. The increase in legal and professional was driven by costs relating to the IPO and additional irrecoverable VAT linked to the overall growth in the cost base. IT costs of £8.3m (2013: £4.7m) include £1.6m in relation to the write down of an investment in development of asset finance systems following a review of requirements.

Excluding IPO costs of £6.0m (2013: £nil), administrative expenses increased by 41% to £95.2m (2013: £67.4m).

Depreciation and amortisation

Depreciation and amortisation costs remained broadly stable at £3.9m (2013: £3.8m).

Cost/ income ratio

The cost/ income ratio, which measures administrative expenses excluding IPO costs but including depreciation and administration as a percentage of operating income improved by 6 percentage points to 60% (2013: 66%). As a result of our continued progress, we are now targeting a cost/ income ratio of less than 40% by the end of 2017.

Operating profit before impairments

As a result of growing our income whilst managing our expense base carefully we delivered an increase in operating profit before impairment losses of 61% to £59.9m (2013: £37.2m).

Impairment losses

Impairment losses decreased by 17% to £9.6m (2013: £11.5m), despite the growth in the loan book, as a result of the actions taken in Invoice Finance and our in-house management of recoveries. Our cost of risk, which measures impairment losses as a percentage of average net loans, reflects this with an improvement of 19 basis points to 23bps (2013: 42bps). The underlying cost of risk excluding the benefit of three large recoveries totalling £3.8m across Asset Finance and SME Commercial Mortgages was around 33bps which is more in line with ongoing management expectations of a cost of risk of mid to high 30's basis points.

Profit before tax

Profit before tax for the year increased by 96% to £50.3m (2013: £25.7m) on a reported basis. Excluding the IPO costs of £6.0m (2013: £nil), profit before tax was £56.3m and more than double 2013 profit before tax on a like for like basis.

Tax

Aldermore became a tax payer for the first time during 2014, with an effective tax rate for the year of 23.6%. The effective tax rate for 2013 was nil as the Group utilised the remainder of its tax losses brought forward.

Profit after tax

Profit after tax of £38.4m increased by 50% compared with 2013, for which both profit before and after tax were £25.7m.

Return on equity

Return on equity as reported is 13.5% (2013: 11.6%) and is calculated as the profit after tax attributable to ordinary shareholders expressed in relation to average shareholders' funds attributable to ordinary shareholders.

Excluding post tax IPO costs of £4.6m (2013: £nil), the return on equity is 15.1% in 2014 (2013: 11.6%). On a like for like basis, had 2013 not benefitted from tax losses brought forward and been taxed at the same effective rate as 2014, the 2013 return on equity would have been around 8.8%, equivalent to an underlying improvement of 6.3 percentage points in 2014.

Segmental analysis

Asset Finance	**31 December 2014 £m**	**31 December 2013 £m**	**Movement %**
Net loans to customers	1,044.3	720.2	45%

	2014 £m	**2013 £m**	**Movement %**
Organic origination	740	610	21%
Net interest income	36.9	23.0	60%
Net fees and other income	3.1	2.0	54%
Operating income	**40.0**	**25.0**	**60%**
Administrative expenses	(11.9)	(9.5)	(25)%
Impairment losses	(2.7)	(2.6)	(3)%
Segmental result	**25.5**	**12.9**	**97%**
Net interest margin (%)	4.2%	4.2%	-
Cost of risk (bps)	30bps	47bps	17bps

Aldermore supports capital investment in business-critical assets via hire purchase and lease agreements. We aim to be our partners' "funder of first choice" by being easy to do business with, quick to respond and consistent in our credit decisions.

We employ specialists across key industries, including logistics, manufacturing, construction and agriculture, with an in-depth understanding of our clients' businesses and the assets they require.

Since inception, our focus had been predominantly on hard assets distributed via brokers. During 2014, we expanded the range of assets we finance to include printing equipment, digital technologies, renewables and a wide array of soft assets.

In the second half of 2014, we launched our Asset Finance application for pricing and proposals making it easier for our introducers to get a quote for their clients anytime, anywhere and speeding up the credit approval process. Using a mobile or tablet, registered introducers can obtain a price, even on complicated quotes, within around 60 seconds. Building on our strong track record with our introducers, we also extended our distribution focus to equipment vendors.

The Asset Finance business delivered a strong performance, with net loans growing by 45% and the overall portfolio exceeding £1bn for the first time. This growth was driven by organic origination which increased by 21% to £740m (2013: £610m) and an increase in customers from approximately 20,000 at the end of 2013 to almost 33,000 customers at the end of 2014.

This growth in lending drives the 60% increase in net interest income to £36.9m (2013: £23.0m) as the net interest margin remained stable at 4.2% for both 2013 and 2014.

Administrative expenses increased by £2.4m or by 25% to £11.9m (2013: £9.5m) as we continued to invest to support growth. However, as we continued to leverage the operating platform, revenue growth outpaced cost growth.

We maintained our underwriting discipline and this together with the benefit of one large recovery of £0.8m led to an improvement in the cost of risk by 17bps to 30bps (2013: 47bps) and the segmental result increased by 97% to £25.5m (2013: £12.9m).

Invoice Finance	**31 December 2014 £m**	**31 December 2013 £m**	**Movement %**
Net loans to customers	180.6	212.0	(15)%

	2014 £m	**2013 £m**	**Movement %**
Organic origination	45	68	(34)%
Net interest income	5.9	5.1	18%
Net fees and other income	17.5	17.9	(2)%
Operating income	**23.5**	**22.9**	**2%**
Administrative expenses	(14.7)	(14.0)	(5)%
Impairment losses	(3.4)	(5.7)	40%
Segmental result	**5.4**	**3.3**	**64%**
Net interest margin (%)	3.0%	2.6%	0.4%
Net revenue margin (%)	12.0%	11.7%	0.3%
Cost of risk (bps)	174bps	290bps	116bps

Invoice Finance is an important working capital tool for SMEs. Aldermore will usually lend up to 85% of the value of approved outstanding invoices issued by the borrower to its customers. There are two main products, Factoring and Discounting; with the difference being that with the former, Aldermore often takes control of the borrower's debt collection.

Our customers are typically owner-managed SMEs and we focus on key sectors including Manufacturing, Wholesale, Recruitment and Logistics. We employ specialist service teams that spend time understanding our clients' business and design appropriate financing solutions. Although distributed mainly via intermediaries, direct distribution has grown rapidly in recent years and in 2014, represented around 29% of origination.

Invoice Finance is the smallest part of the business at around 4% of the total loan portfolio. At the end of 2014, net loans outstanding were down by 15% to £180.6m (2013: £212.0m). Given the short term nature of these loans, with the underlying invoices on average converting to cash within 60 days, our average loan balance is equivalent to providing around £1.4bn in working capital finance to UK SMEs during 2014.

In 2013, the Invoice Finance business was impacted by a small number of frauds, more than would normally be expected. As a result, during 2014, we have improved controls, processes and policies within Invoice Finance including rebalancing the portfolio towards smaller customers.

Net interest income increased by 18% to £5.9m (2013: £5.1m). The net interest margin improved to 3.0% (2013: 2.6%) with the gross interest margin remaining relatively stable and an improvement in cost of funds.

Fee income is a significant feature of this business and was down marginally year on year in nominal terms. However, the net revenue margin improved by 0.3 percentage points to 12.0% (2013: 11.7%).

The increase in administrative expenses of 5% to £14.7m (2013: £14.0m) reflects the investment in the business and actions taken to improve controls.

As a result of the successful actions taken during the year, we drove the cost of risk down by 116bps to 174bps (2013: 290bps) which is in line with management expectations. The segmental result improved by 64% to £5.4m (2013: £3.3m).

SME Commercial Mortgages	31 December 2014 £m	31 December 2013 £m	Movement %
Net loans to customers	1,011.3	762.0	33%

	2014 £m	2013 £m	Movement %
Organic origination	422	292	45%
Net interest income	41.6	25.3	64%
Net fees and other income	1.5	0.1	n/a
Operating income	**43.1**	**25.4**	**69%**
Administrative expenses	(6.9)	(4.8)	(43)%
Impairment losses	(2.2)	(2.0)	(14)%
Segmental result	**34.0**	**18.7**	**82%**
Net interest margin (%)	4.7%	3.9%	0.8%
Cost of risk (bps)	25bps	30bps	5bps

Our SME Commercial Mortgages business focuses on mortgages for shops, warehouses, industrial units and offices as well as professional buy-to-let, where the customer has more than five properties or is a corporate entity. We offer a full spectrum of products from vanilla buy-to-let mortgages to complex Houses of Multiple Occupancy (HMO) and commercial investments. In 2014, we created a centre of excellence to support the private rental sector to further support growth in this part of the portfolio.

We work closely with our brokers to ensure we are easy to do business with and responsive, providing direct access to our underwriters in more complex cases. We will continue to invest in our online portal technology to support this important distribution channel.

2014, was another good year for our SME Commercial Mortgages business with net lending up by 33% and the portfolio exceeding £1bn (2013: £762m). This growth was primarily driven by an increase in customers from approximately 2,400 at the end of 2013 to around 3,200 by the end of 2014. We also delivered strong growth in organic origination which increased by 45% to £422m (2013: £292m).

This increase in lending is reflected in the net interest income for the year which grew by 64% to £41.6m (2013: £25.3m) and we improved the net interest margin by 0.8 percentage points to 4.7% (2013: 3.9%) as we benefitted from the ongoing diversification of the funding base and a reduced cost of funds.

Administrative expenses increased by £2.1m to £6.9m (2013: £4.8m) to support growth.

We delivered a 5bps improvement in the cost of risk to 25bps (2013: 30bps) which was positively impacted by two large recoveries totalling £3.0m.

As a result, the segmental result was strongly improved, up by 82% to £34.0m (2013: £18.7m).

Residential Mortgages	31 December 2014 £m	31 December 2013 £m	Movement %
Net loans to customers	2,564.9	1,679.7	53%

	2014 £m	2013 £m	Movement %
Organic origination	1,165	740	57%
Net interest income	63.5	31.8	100%
Net fees and other income	4.1	2.9	43%
Operating income	**67.6**	**34.6**	**95%**
Administrative expenses	(9.6)	(6.9)	(38)%
Impairment losses	(1.3)	(1.3)	1%
Segmental result	**56.8**	**26.4**	**115%**
Net interest margin (%)	3.0%	2.4%	0.6%
Cost of risk (bps)	6bps	10bps	4bps

Our Residential Mortgages business provides residential buy-to-let and owner-occupied mortgages with around 62% of the portfolio currently being buy-to-let. In the owner-occupied sector we target underserved prime customers including the self-employed, professionals and first time buyers.

We offer a full product range with both fixed and variable rates and although our maximum loan size is £1 million, the average loan size is much smaller at around £137,000.

As in our other divisions, we aim to be easy to do business with, transparent and quick to respond. We benefit from our modern technology. In Residential Mortgages, our brokers are able to apply via an online portal and obtain a decision in principle within 90 seconds. This portal takes the application and links to external systems, automatically completing basic identity, fraud and credit checks and builds an underwriting file highlighting any specific issues to our underwriters. This technology allows us to use targeted human underwriting in a cost-effective manner to make considered and consistent credit decisions.

The Residential Mortgages business had an excellent year with annual organic origination exceeding £1bn for the first time and net loans growing by 53% to £2.6bn (2013: £1.7bn). The growth was driven by new customers, with customer numbers up from around 13,000 at the end of 2013 to approximately 19,000 at the end of 2014. We saw a strong performance in Help to Buy, a government guarantee scheme to help people buy a property and also extended our direct to customer offering where we doubled origination over the year. In 2014, direct distribution accounted for 12% of origination compared with 9% in 2013.

Net interest income was double that generated in 2013 at £63.5m (2013: £31.8m) as a result of the growth in the loan book and a 0.6 percentage point improvement in the net interest margin to 3.0% (2013: 2.4%) which was mainly due to a reduced cost of funding as the Group benefitted from the ongoing diversification of its funding base.

Administrative expenses reflect the ongoing investment in the business, including the establishment of a direct sales team, and increased by 38% to £9.6m (2013: £6.9m). The improvement in the cost of risk of 4bps to 6bps (2013: 10bps) reflects our ongoing commitment to underwriting discipline and risk management.

As a result, we more than doubled the segmental result for the year to £56.8m (2013: £26.4m).

Central Functions	**2014 £m**	**2013 £m**	**Movement %**
Net interest income	(7.7)	(4.5)	(70)%
Net fees and other income	(1.4)	4.9	(129)%
Operating income	**(9.2)**	**0.4**	**n/a**
Administrative expenses (excluding IPO costs)	(56.1)	(36.0)	(56)%
IPO related costs	(6.0)	-	n/a
Segmental result	**(71.3)**	**(35.6)**	**(100)%**

Central Functions includes the Group's Treasury and Saving functions as well as common costs which are not directly attributable to the operating segments. Common costs include support function costs such as Finance, Risk and Human Resources.

Net interest income includes the interest expense relating to the subordinated notes and the net interest income or expense from derivatives held at fair value, neither of which are recharged to the segments.

Central administrative expenses, excluding IPO costs increased by 56% to £56.1m (2013: £36.0m) as the Group invested in further strengthening its Risk, Finance and Compliance functions. Also included within central costs are costs of £1.6m (2013: £nil) in relation to the write down of an investment in the development of asset finance systems following a review of requirements.

The segmental result was a charge of £71.3m (2013: charge of £35.6m)

Consolidated income statement for the years ended 31 December 2014 and 2013

	2014 £'000	2013 £'000
Interest income	227,833	156,441
Interest expense	(87,618)	(75,799)
Net interest income	**140,215**	**80,642**
Fee and commission income	26,386	23,555
Fee and commission expense	(7,819)	(7,529)
Net (expense)/ income from derivatives and other financial instruments at fair value through profit or loss	(4,066)	3,277
Gains on disposal of debt securities	2,944	1,869
Other operating income	7,357	6,531
Total operating income	**165,017**	**108,345**
Provisions	(3,605)	(2,111)
Costs in preparation for an initial public offering	(6,014)	-
Other administrative expenses	(91,622)	(65,252)
Administrative expenses	**(101,241)**	**(67,363)**
Depreciation and amortisation	(3,901)	(3,822)
Operating profit before impairment losses	**59,875**	**37,160**
Impairment losses on loans and advances to customers	(9,570)	(11,468)
Profit/(loss) before taxation	**50,305**	**25,692**
Taxation (charge)/credit	(11,871)	14
Profit/(loss) after taxation—attributable to equity holders of the Group	**38,434**	**25,706**

The result for the period is derived entirely from continuing activities.

Consolidated statement of comprehensive income for the years ended 31 December 2014 and 2013

	2014	2013
	£'000	**£'000**
Profit/(loss) after taxation	**38,434**	**25,706**
Other comprehensive income/(expense):		
Items that may subsequently be transferred to the income statement:		
Available for sale debt securities:	793	(2,566)
Fair value movements	3,456	(1,490)
Amounts transferred to the income statement	(2,465)	(1,869)
Taxation	(198)	793
Total other comprehensive income/(expense)	**793**	**(2,566)**
Total comprehensive income/(expense) attributable to equity holders of the Group	**39,227**	**23,140**

Consolidated statement of financial position as at 31 December 2014 and 2013

	Note	31 December 2014	31 December 2013
		£'000	**£'000**
Assets			
Cash and balances at central banks		79,567	192,844
Loans and advances to banks		117,401	237,544
Debt securities		509,684	355,653
Derivatives held for risk management		8,168	8,872
Loans and advances to customers	4	4,801,064	3,373,844
Fair value adjustment for portfolio hedged risk		7,175	—
Other assets		3,344	312
Prepayments and accrued income		6,856	5,109
Deferred taxation		6,598	3,299
Property, plant and equipment		2,815	2,858
Intangible assets		22,571	22,657
Total assets		**5,565,243**	**4,202,992**
Liabilities			
Amounts due to banks		305,907	385,951
Customers' accounts	5	4,458,962	3,464,018
Derivatives held for risk management		54,198	17,867
Fair value adjustment for portfolio hedged risk		1,528	—
Other liabilities		18,634	14,343
Accruals and deferred income		21,107	16,236
Current taxation		8,148	2,492
Provisions		2,008	1,157
Debt securities in issue	6	279,143	—
Subordinated notes		36,758	35,571
Total liabilities		**5,186,393**	**3,937,635**
Share capital		23,737	23,737
Share premium account		-	237,305
Contingent convertible securities		73,657	-
Capital contribution reserve		2	2
Warrant reserve		2,200	2,200
Available for sale reserve		1,375	582
Retained earnings		277,879	1,531
Equity		378,850	265,357
Total liabilities and equity		**5,565,243**	**4,202,992**

Consolidated statement of changes in equity for the years ended 31 December 2014 and 2013

	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	-	(237,305)	-	-	-	-	237,305	**-**
— Issuance of contingent convertible securities	-	-	75,111	-	-	-	-	**75,111**
— Issuance costs			(1,454)	-	-	-	-	**(1,454)**
— Share based payments	-	-	-	-	-	-	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	-	-	-	-	-	-	162	162
As at 31 December	**23,737**	**237,305**	**-**	**2**	**2,200**	**582**	**1,531**	**265,357**

On 9 December 2014, Aldermore Group PLC issued £75m of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities.

Consolidated statement of cash flows for the years ended 31 December 2014 and 2013

	2014 £'000	2013 £'000
Cash flows from operating activities		
Profit before taxation	50,305	25,692
Adjustments for non-cash items and other adjustments included within the income statement	(9,422)	18,002
(Increase) in operating assets	(1,487,787)	(1,320,852)
Increase in operating liabilities	962,772	1,571,927
Income tax paid	(9,712)	-
Net cash flows (used in)/generated from operating activities	**(493,844)**	**294,769**
Cash flows from investing activities		
Purchase of debt securities	(531,953)	(89,071)
Proceeds from sale and maturity of debt securities	346,183	41,265
Capital repayments of debt securities	48,226	23,893
Interest received on debt securities	11,229	7,948
Purchase of property, plant and equipment and intangible assets	(5,400)	(5,298)
Net cash used in investing activities	**(131,715)**	**(21,263)**
Cash flows from financing activities		
Proceeds from issue of shares	-	63,165
Capital repayments on debt securities issued	(52,840)	-
Debt securities issuance costs	(2,086)	-
Proceeds from issue of debt securities	333,300	-
Issue costs of contingent convertible securities	(1,454)	-
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)
Net cash from financing activities	**344,368**	**58,015**
Net (decrease) / increase in cash and cash equivalents	**(281,191)**	**331,521**
Cash and cash equivalents at start of the year	415,210	83,689
Movement during the year	(281,191)	331,521
Cash and cash equivalents at end of the year	**134,019**	**415,210**

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information set out in the condensed financial statements on pages 17 to 24 does not constitute the Group's statutory accounts for the years ended 31 December 2014 or 2013. Statutory accounts for 2013 have been delivered to the Registrar of Companies, and those for 2014 will be delivered in due course. The auditor has reported on both sets of accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

These results have been prepared in accordance with International Financial Reporting Standards (IFRS) and on a basis consistent with the accounting policies detailed in full at www.investors.aldermore.co.uk within the Group's IFRS Historical Financial Information 2011 - H1 2014. The comparative figures for the year ended 31 December 2013 have been restated in accordance with IFRS since the statutory accounts for 2013 were prepared in accordance with UK GAAP. The condensed financial information as set out in this report is unaudited and does not comprise statutory accounts for the purposes of the Companies Act 2006.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in presenting and preparing the financial statements.

(a) 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.

2. Related party transactions

In 2014, there have been no related party transactions that have materially affected the financial position of the Group.

3. Segmental information for the year ended 31 December 2014

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	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**

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**

4. Loans and advances to customers

	2014	2013
	£'000	**£'000**
Gross loans and advances	4,823,638	3,394,872
less: allowance for impairment losses	(22,574)	(21,028)
	4,801,064	**3,373,844**
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	4,205,825	2,880,879

At 31 December 2014, loans and advances to customers of £719.9m (31 December 2013: £822.9m) 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 £485.0m of UK Treasury Bills had been drawn as at the reporting date (31 December 2013: £485.0m).

At 31 December 2014, loans and advances to customers include £293.1m (31 December 2013: £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 £362.3m. These loans secured £333.3m (2013: £nil) of funding for the Group. All the assets pledged are retained within the statement of financial position as the Group retains substantially all the risks and rewards relating to the loans.

5. Customer accounts

	2014	2013
	£'000	**£'000**
Amounts repayable within one year	3,438,472	2,728,364
Amounts repayable after one year	1,020,490	735,654
	4,458,962	**3,464,018**

6. Debt securities in issue

Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:

	2014	2013
	£'000	**£'000**
In more than one year	279,143	-
	279,143	-

Debt securities in issue with a principal value of £280.5m 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 on any shortfall.

Aldermore

Aldermore is a British bank providing award-winning savings, mortgages and commercial finance to Small and Medium-sized Enterprises (SMEs), homeowners and savers.

Operating with modern, scalable and legacy free infrastructure, Aldermore has no branch network but serves customers and intermediary partners online, by phone and face to face through its network of twelve regional offices located around the UK.

Building on its core values of being reliable, expert, straightforward and dynamic, Aldermore aims to deliver banking as it should be.

Established in 2009, the Bank has grown significantly and now has almost 900 employees. At the end of December 2014, lending to customers stood at £4.8 billion and customer deposits totalled £4.5 billion.

Aldermore is backed by funds advised by AnaCap Financial Partners LLP, a specialist private equity investor in the financial services sector and other institutional investors.

Aldermore is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is registered under the Financial Services Compensation Scheme.

For more information, please visit www.aldermore.co.uk.

About AnaCap Financial Partners LLP (www.anacapfp.com)

AnaCap Financial Partners is Europe's largest specialist private equity investor in the financial services sector. Based in London and investing across Europe, AnaCap advises funds with €2.3 billion under management across Private Equity and Credit Opportunities vehicles, as well as co-invest.

The name AnaCap, an abbreviation of 'Analytical Capital', forms the bedrock upon which our organisation is built. AnaCap takes a highly analytical approach towards the valuation and due diligence of potential investments, which is facilitated by the use of proprietary tools to price assets and which leverages our best-in-class, in-house capabilities.

AnaCap's extensive financial services sector track record and expertise, as well as the structuring of our funds between separate private equity and credit pools ensures that we are an attractive partner for a broad variety of financial institutions looking to dispose of non-core platforms or portfolios of assets. Our considerable experience of working with regulators makes us a favourable counterparty for many sellers.