Press release

10 March 2016

Aldermore Group PLC

2015: Record profitability and continued strong lending growth

Underlying profit before tax[1] up by 75% to £99m

- Reported profit before tax up by 88% to £95m (2014: £50m)
- Net interest margin increased to 3.6%; in line with management expectations (2014: 3.4%)
- Underlying cost/income ratio[1] improved by 9pts to 51% (2014: 60%)
- Strong credit performance; cost of risk improved by 4bps to 19bps (2014: 23bps)

Delivering strong, sustainable returns

- Earnings per share grew by 75% to 22.7p (2014: 13.0p)
- Return on equity increased to 19.7% (2014: 13.5%)

Net loans up by 28% to £6.1bn; c71,000 customers, up by 27%

- Asset Finance +29%; SME Commercial Mortgages +50%; Buy-to-Let +18%; Residential Mortgages +42%
- Third largest net lender to UK SMEs under Funding for Lending Scheme in 2015
- Record origination of £2.6bn; up by 10% on prior year (2014: £2.4bn)

Innovative online deposit franchise funds lending growth; c124,000 customers, up by 18%

- Total deposits up by 29% to £5.7bn (31 December 2014: £4.5bn)
- SME deposits within this, up by 37% to £1.4bn (31 December 2014: £1.0bn)

Strong capital position maintained

- Total capital ratio of 15.1% (31 December 2014: 14.8%)
- CET1 capital ratio of 11.8% (31 December 2014: 10.4%)
- Leverage ratio of 7.3% (31 December 2014: 6.3%)

Confident of continued strong delivery

- Nominal net loan growth expected to continue to be in line with recent run rates
- Return on equity percentage expected to be in the high-teens following introduction of UK bank tax surcharge
- Fully loaded CRD IV CET1 capital ratio to remain around 11%

Phillip Monks, CEO, commented:

"It has been an excellent year, both operationally and financially, for the Group. We have delivered record levels of profitability with our profit before tax up by 88%. Today's results clearly demonstrate our continued focus on delivery across a range of key metrics, with our net interest margin exactly as expected, continued improvement in our cost/income ratio and another strong credit performance.

"We are serving more customers than ever. Net lending is up to £6.1bn driven by strong double digit growth in Asset Finance and all our Mortgage portfolios. We continue to support UK businesses and were pleased to be the third largest net lender to SMEs under the Bank of England's Funding for Lending Scheme in 2015. Our online deposit business grew in line with our lending and continued to enhance our reputation for innovation with the launch of our SME Rate Checker. We aim to deliver exceptional service every time and I'm pleased with our Net Promoter Score of 22, which is well above the UK banking average of 2, and that 97% of customers posting feedback on our website would recommend us to a friend or family member.

"We are committed to supporting the UK's SMEs, homeowners, landlords and savers who are often under- or poorly served by the wider market. We have a clear and differentiated growth strategy and remain both excited about the opportunity in our chosen markets and confident of our ability to deliver continued strong profitable growth and attractive, sustainable returns for shareholders."

(1) Excluding IPO related costs of £4.1m pre-tax and £3.4m post-tax in 2015 (2014: £6.0m and £4.6m).

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A live webcast of the analyst presentation, including the question and answer session, will be broadcast on our IR website www.investors.aldermore.co.uk at 9:30am today and is available via a listen only conference call by dialling + 44 (0) 20 3059 8125. An indexed version of the webcast will be available on the website by the end of the day and copies of the slides to be presented at the analyst meeting will be available on the website from 9.00am today.

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Note on rounding and % movements
In preparing the 2015 financial statements, the 2014 comparative numbers were restated from the original £ thousands to £ millions to one decimal place. As a result of rounding issues arising from this change, the presentation of some of the comparative numbers may differ slightly to the 2014 financial statements. All percentage movements shown are calculated using the financial data in £ millions to one decimal place as shown in the consolidated financial statements. We have adopted the convention of favourable movements being shown as a positive, e.g. a reduced expense is shown as a positive variance.

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.

Aldermore
Aldermore Group PLC is a specialist lender and savings bank offering straightforward products to Small and Medium-sized Enterprises (SMEs), homebuyers and individuals, who we believe are often under- or poorly served by the wider market. Aldermore has no branch network but serves customers and intermediary partners online, by phone and face to face through its network of regional offices located around the UK. Building on its core values of being reliable, expert, dynamic and straightforward, Aldermore aims to deliver banking as it should be. Established in 2009, Aldermore has grown significantly. At the end of December 2015, lending to customers stood at £6.1 billion and customer deposits totalled £5.7 billion. For more information, please visit www.aldermore.co.uk.

Aldermore Bank PLC is an operating entity of Aldermore Group PLC. In March 2015, Aldermore Group PLC's shares (ALD.L) listed on the Main Market of the London Stock Exchange. Aldermore Bank PLC is regulated by the Prudential Regulation Authority and the Financial Conduct Authority and is registered under the Financial Services Compensation Scheme.

Summary balance sheet

	31 December 2015 £m	31 December 2014 £m	Movement %
Net loans	6,144.8	4,801.1	28%
Cash and investments	805.6	706.7	14%
Intangible assets	24.0	22.6	6%
Fixed and other assets	34.1	34.8	(2)%
Total assets	**7,008.5**	**5,565.2**	**26%**
Customer deposits	5,742.0	4,459.0	29%
Wholesale funding(1)	635.8	620.7	2%
Other liabilities(1)	97.1	106.6	(9)%
Total liabilities	**6,474.9**	**5,186.3**	**25%**
Ordinary shareholders' equity	459.6	305.2	51%
AT1 capital	74.0	73.7	- %
Equity	**533.6**	**378.9**	**41%**
Total liabilities and equity	**7,008.5**	**5,565.2**	**26%**
Key ratios (%)			
Non-performing loans (NPL) ratio	0.37%	0.43%	0.06%
Loans to deposits ratio	107%	108%	(1)%
Fully loaded CRD IV CET1 ratio	11.8%	10.4%	1.4%
Fully loaded CRD IV total capital ratio	15.1%	14.8%	0.3%
Fully loaded CRD IV leverage ratio	7.3%	6.3%	1.0%

(1) The 2014 comparative has been restated to transfer £1.1m from wholesale funding into other liabilities

Summary income statement

	2015 £m	2014 £m	Movement %
Interest income	300.4	227.8	32%
Interest expense	(101.5)	(87.6)	(16)%
Net interest income	**198.9**	**140.2**	**42%**
Net fee and other operating income	25.6	26.0	(2)%
Net derivatives income and gains on disposal of debt securities	0.2	(1.2)	-
Operating income	**224.7**	**165.0**	**36%**
Underlying expenses, depreciation and amortisation	(115.5)	(99.1)	(17)%
IPO costs	(4.1)	(6.0)	32%
Operating profit before impairment losses	**105.1**	**59.9**	**75%**
Impairment losses	(10.4)	(9.6)	(8)%
Profit before tax	**94.7**	**50.3**	**88%**
Tax	(16.4)	(11.9)	(38)%
Profit after tax	**78.3**	**38.4**	**104%**
Basic earnings per share (pence)	22.7p	13.0p	75%
Diluted earnings per share (pence)	22.6p	12.9p	75%
	£m	**£m**	
Underlying profit before tax(1)	**98.8**	**56.3**	**75%**
Underlying profit after tax(1)	**81.7**	**43.0**	**90%**

Key ratios	2015 %	2014 %	Movement %
Gross interest margin	5.5	5.6	(0.1)%
Cost of funding	1.9	2.1	0.2%
Net interest margin	3.6	3.4	0.2%
Cost/income ratio	53	64	11%
Underlying cost/income ratio(1)	51	60	9%
Cost of risk	19bps	23bps	4bps
Return on equity	19.7	13.5	6.2%
Underlying return on equity(1)	20.6	15.1	5.5%
Effective tax rate(2)	17.3	23.7	6.4%

(1) Excluding IPO related costs of £4.1m pre-tax and £3.4m post-tax in 2015 (2014: £6.0m and £4.6m)

(2) The effective tax rate for 2015 benefits from a one-time revaluation of deferred tax assets following the introduction, from 1 January 2016, of the 8% UK bank tax surcharge levied on profits above £25m

CEO review

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

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

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

Market environment

During 2015, despite global headwinds, UK macro-economic and credit conditions remained relatively benign and our target market segments have grown.

Across the asset finance market, loan originations in the year totalled £28bn(1) and were up by 12% on 2014 levels. I’m delighted that we grew our Asset Finance origination by 21%, increasing our market share. The invoice finance market was broadly stable with advances remaining at c£20bn(2). Our Invoice Finance portfolio is the smallest part of the business and balances at the end of the year were c£0.2bn. Across the commercial mortgages market, estimated loan originations of £48bn(3) were up by 9%. Aldermore’s SME Commercial Mortgages business had an excellent year with loan origination up by 42% as we drove significant growth within our Commercial Investment and Property Development portfolios. Buy-to-let market origination reached £38bn(4) in 2015, an increase of 39% as underlying demand for buy-to-let properties continued to be driven by a number of factors including mortgage affordability issues as house prices rise, changing UK demographics, changes to pensions legislation and investors desire for stronger yields and capital growth in a low interest rate environment. Our Buy-to-Let origination remained robust at £673m but was down by 7% and our market share was just under 2%. The residential owner-occupied mortgage market originated new loans of £182bn(4) during 2015, up by 4% on 2014. We continued to focus on supporting customers such as first time buyers and the self-employed and grew our origination in line with the market at 4%.

Differentiating ourselves by delivering exceptional service, every time, remains a priority and we continue to invest in technology to improve our brokers’ and customers’ experience. This approach is working and, as described below, we held our overall gross margin broadly stable while growing net lending to £6.1bn.

Excellent full year performance

2015 was another excellent year, both operationally and financially, for the Group. We have generated a strong increase in earnings with our profit before tax, excluding IPO costs, up by 75% to £99m. Today’s results clearly demonstrate our continued focus on delivery, with the net interest margin exactly where we expected it to be at 3.6%, a 9 percentage point improvement in our underlying cost/income ratio and, in what was a relatively benign credit environment, another strong credit performance leading to a cost of risk of 19bps.

(1) Source: Finance and Leasing Association (FLA)
(2) Source: Asset Based Finance Association (ABFA), Loan advances as at September 2015.
(3) Source: H1 2015 DeMontfort University study annualised
(4) Source: Council of Mortgage Lenders (CML)

Continued strong lending growth

As at 31 December 2015, we are supporting more UK SMEs, homeowners and landlords than ever before with lending customer numbers up by 27% to around 71,000. Net loans to customers were up by £1.3bn or 28% to £6.1bn (31 December 2014: £4.8bn) which, although marginally below our target of around £1.4bn, represents a very strong performance.

In line with our business model and to provide additional transparency, we have restructured our segmental reporting creating a "Buy-to-Let" segment which brings together buy-to-let loans on residential property which were previously split across SME Commercial and Residential Mortgages. Our total loan portfolio is well diversified with 22% of net lending related to Asset Finance, 13% SME Commercial Mortgages, 39% Buy-to-Let and 23% Residential Mortgages. As previously highlighted, Invoice Finance remains a small part of the overall portfolio at 3%.

Our ability to drive targeted net loan growth in our different segments is proven as we delivered 29% growth in Asset Finance to £1.3bn (2014: £1.0bn), 50% growth in SME Commercial Mortgages to £0.8bn (2014: £0.6bn), Buy-to-Let grew by 18% to £2.4bn (2014: £2.0bn) and Residential Mortgages was up by 42% to £1.4bn (2014: £1.0bn).

Growth was driven by record loan origination, all of it organic, which was up by 10% compared with 2014 to £2.6bn (2014: £2.4bn). We generated excellent origination in Asset Finance and, across the mortgages division, focused on driving SME Commercial and Residential Mortgages as we continued to manage a balanced portfolio. We adopt a multi-channel distribution approach and have a broad intermediary network. At the same time, we continue to extend our direct distribution which grew by 35% compared to 2014 and now accounts for 20% of total origination (2014: 16%).

We actively manage our funding base, balancing the ongoing diversification of funding sources with maintaining a prudent loan to deposit ratio. We remain predominantly deposit-funded and have grown deposits by 29% to £5.7bn (31 December 2014: £4.5bn). Within this, SME deposits have grown by 37% to £1.4bn (31 December 2014: £1.0bn). We continue to provide innovative products to customers and, in response to research we conducted showing that approximately a quarter of SMEs did not know what rate they were receiving on deposits, launched our SME Rate Checker which allows SMEs to compare rates from over 90 providers. I am delighted that the customer feedback to date on this new service has been excellent.

Record profitability

We are a straightforward business; prudent lending growth drives increased net interest income and we continue to leverage our cost base to deliver accelerating profitability. Our results clearly demonstrate this, as our ongoing momentum drove net interest income up by 42% to £198.9m (2014: £140.2m) and our net interest margin expanded, as expected, to 3.6% (2014: 3.4%). Whilst continuing to invest in the business, we improved our underlying cost/income ratio(1) by 9 percentage points to 51% (2014: 60%). As a result, we delivered a 75% increase in operating profit before impairment losses to £105.1m (2014: £59.9m).

We take a rigorous and prudent approach to credit management, constructing a granular and highly secured portfolio. Our cost of risk was 19bps (2014: 23bps) and was a strong performance aided by low arrears across the business, as well as being reflective of where we are in the current economic cycle. We stress test affordability at origination and re-score the portfolio each month which gives us early sight of any emerging issues.

We are committed to delivering strong and sustainable returns for our shareholders. Profit before tax on a reported basis increased by 88% to £94.7m (2014: £50.3m). Excluding IPO related costs, the underlying profit before tax(1) increased by 75% to £98.8m (2014: £56.3m).

A side-effect of the introduction of the 8% UK bank corporation tax surcharge from 1 January 2016, meant we benefited from a one-off revaluation of our deferred tax asset which resulted in an unusually low effective tax rate of 17.3% for 2015 with the tax charge for the year up by 38% to £16.4m (2014: £11.9m). Profit after tax more than

(1) Excluding IPO related costs of £4.1m pre-tax and £3.4m post-tax in 2015 (2014: £6.0m and £4.6m)

doubled to £78.3m (2014: £38.4m) with our return on equity (RoE) increasing by 6.2 percentage points to 19.7% (2014: 13.5%). Our underlying RoE[(1)], excluding the impact of IPO-related costs, improved by 5.5 percentage points to 20.6% (2014: 15.1%).

Strong capital position

In March 2015, we listed on the London Stock Exchange raising £75m of gross primary capital to support our growth plans. We remain strongly capitalised and as at 31 December 2015, the Group had a fully loaded CRD IV total capital ratio of 15.1% (31 December 2014: 14.8%), a fully loaded CRD IV CET1 capital ratio of 11.8% (31 December 2014: 10.4%) and a leverage ratio of 7.3% (31 December 2014: 6.3%).

Evolving regulatory environment

Along with the rest of the banking sector, we face an evolving regulatory environment. The 2015 Summer Budget introduced an 8% corporation tax surcharge on UK banking profits above £25m, effective from 1 January 2016, which will increase our overall corporate tax rate and impact shareholder returns going forward.

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

Additionally, in December 2015, the Basel Committee on Banking Supervision issued a further consultation paper on risk weights which, if implemented in 2019 as is currently expected, would increase the standardised capital risk weights for a buy-to-let mortgage on a residential property from 35% to 70% for transactions with a loan to value of below 60% and 90% for transactions with a loan to value of between 60% and 80%. Although we believe the Prudential Regulation Authority will continue to determine the appropriate standardised risk weight for UK buy-to-let lending at a national level, we intend to pursue an internal ratings-based capital approach (IRB). Subject to regulatory approval, this would allow us to use our own internal credit models rather than standardised risk weights.

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

Confident outlook

Set against an increasingly uncertain outlook globally, the UK economy looks to be one of the more resilient developed economies and business confidence remains positive at the time of writing. More recently, the Brexit referendum introduces risk and uncertainty and we have seen sterling under pressure as a result.

We are a purely UK focused bank and, at present, our customer base remains positive. SME confidence continues to be resilient, with recent market surveys showing that almost half of SMEs intend to grow in the next 12 months[(2)]. In the buy-to-let market, underlying demand for privately rented housing is rising and an additional 1.1 million households[(3)] are expected to be living in privately rented accommodation by 2021 even assuming the government achieves its target of an additional 400,000 new homes over the same period. In the residential mortgages market, the UK government is supporting various initiatives to encourage first time buyers which should stimulate further growth in this segment.

(1) Excluding IPO related costs of £4.1m pre-tax and £3.4m post-tax in 2015 (2014: £6.0m and £4.6m)
(2) BDRC Continental, SME Finance Monitor Q3 2015
(3) Savills world research – Spotlight Rental Britain report, February 2016

We focus on balancing risk and return and remain committed to delivering profitable growth and strong, sustainable returns to shareholders while maintaining our prudent and disciplined approach to risk management. Our proven ability to capture additional market shares in our current and adjacent market segments translates into a significant growth opportunity and we continue to expect to deliver nominal net loan growth in line with recent run rates.

The UK is experiencing a period of stable low interest rates with current market expectations for the first interest rate rise now pushed out to 2018. Our net interest margin will reflect this environment and we expect a flattening of the net interest margin in 2016.

In 2015, the cost of risk benefitted from a relatively benign credit environment as well as low levels of arrears across the portfolio. However, we continue to believe that the normalised cost of risk for the portfolio over the medium term is in the mid to high 30s basis points.

As a result of the UK bank corporation tax surcharge and the one-off nature of the deferred tax asset revaluation in 2015, we now expect our return on equity percentage to be in the high-teens.

Finally, we will continue to maintain our fully loaded CRD IV CET1 ratio at around 11% which, we believe, is the appropriate level for the Group.

I would like to thank our customers, colleagues and shareholders for their ongoing strong support. We are committed to supporting UK SMEs, homeowners, landlords and savers who we believe are under- or poorly served by the wider market. We remain excited about the opportunity in our chosen markets and confident of our ability to deliver continued strong profitable growth and attractive, sustainable returns for shareholders.

Phillip Monks
CEO

Financial review

Balance sheet

Assets

- **Net loans to customers**	**31 December 2015 £m**	**31 December 2014 £m**	**Movement %**
Asset Finance	1,346.7	1,044.3	29%
Invoice Finance	160.8	180.6	(11)%
SME Commercial Mortgages	829.2	552.4	50%
Buy-to-Let	2,417.9	2,044.1	18%
Residential Mortgages	1,390.2	979.7	42%
	6,144.8	**4,801.1**	**28%**

We continued to support UK SMEs, homeowners and landlords with net loans to customers increasing by 28% in 2015 to £6.1bn (31 December 2014: £4.8bn) and customer numbers up by 27% to c71,000. We manage a balanced and diversified portfolio and delivered strong double digit growth in each of our major portfolios.

- **Gross loans analysis**	**31 December 2015 £m**	**31 December 2014 £m**	**Movement %**
Neither past due nor individually impaired	6,106.4	4,760.1	28%
Past due but not individually impaired	36.3	42.7	15%
Individually impaired	22.8	20.8	(10)%
Gross loans	**6,165.5**	**4,823.6**	**28%**
Impairments	(20.7)	(22.5)	8%
Net loans to customers	**6,144.8**	**4,801.1**	**28%**
Non-performing loans ratio	**0.37%**	**0.43%**	**0.06%**
Allowance for losses – individual provisions	£10.2m	£14.0m	(27)%
Coverage ratio	**44.74%**	**67.40%**	**(22.66)%**

We take a rigorous and prudent approach to credit management and have deliberately constructed a granular and highly secured portfolio. We have also maintained our prudent risk appetite as we have grown the portfolio by 28% since the start of the year. This approach, along with the current benign credit environment, has led to continued low levels of arrears and an improvement in the non-performing loans ratio of 6 basis points to 0.37%. We continue to stress test affordability at origination and re-score the portfolio on a monthly basis to give us early sight of any emerging issues.

The coverage ratio measures the impairment allowance relating to individual loan balances as a percentage of total individually impaired balances. As a result of a number of fully provided loans being written off during the year, as at 31 December 2015, this ratio had reduced to 44.74% (31 December 2014: 67.40%).

Liabilities

Our funding strategy remains predominantly deposit-led whilst actively managing wholesale sources including the Funding for Lending Scheme (FLS) and our Residential Mortgage Backed Securitisation (RMBS) to drive an efficient cost of funds. As at 31 December 2015, our loans to deposits ratio was in line with management expectations at 107% (31 December 2014: 108%).

- **Deposits**	**31 December 2015 £m**	**31 December 2014 £m**	**Movement %**
Retail	4,186.3	3,411.3	23%
SME	1,399.4	1,024.4	37%
Corporate deposits	156.3	23.3	571%
	5,742.0	**4,459.0**	**29%**

Our dynamic and innovative online savings franchise provides award winning savings products to customers and grew by 29% to £5.7bn (31 December 2014: £4.5bn) supporting our growth in net lending.

We are particularly pleased with further growth in SME deposits, up by 37% to £1.4bn (31 December 2014: £1.0bn) which now form almost a quarter of our total customer deposit base.

Corporate deposits, launched in December 2014, are another element in our ongoing funding diversification, have grown rapidly, and now total £156.3m (31 December 2014: £23.3m).

- **Wholesale funding**	**31 December 2015 £m**	**31 December 2014[(1)] £m**	**Movement %**
FLS	398.6	304.2	31%
RMBS	193.9	279.1	(31)%
Other wholesale funding	43.3	37.4	16%
	635.8	**620.7**	**2%**

Wholesale funding grew by 2% to £635.8m (31 December 2014: £620.7m) and predominantly consists of on-balance sheet funding via repurchase agreements of FLS drawings and our RMBS.

We took advantage of the cost-effective funding available under the Bank of England's extension of FLS for SME lending, increasing our funding to £398.6m (31 December 2014: £304.2m). We were pleased to be the third largest net lender to SMEs under this scheme in 2015, highlighting our continued support for this important customer group.

In April 2014, we issued our inaugural £333m RMBS transaction priced at LIBOR + 67bps. The outstanding balance as at 31 December 2015 stood at £193.9m (31 December 2014: £279.1m) with the reduction on 2014 reflecting capital repayments on the underlying mortgages within the securitised portfolio.

Other wholesale funding includes Tier 2 capital of £38.1m (31 December 2014: £36.8m) which has a nominal value of £40m and is callable in May 2017.

(1) The 2014 comparative has been restated to transfer £1.1m from wholesale funding into other liabilities

Equity

- **Movements in ordinary shareholders' equity**	**£m**
31 December 2014	**305.2**
Profit after tax	78.3
Total other comprehensive income	(2.4)
Net equity raised at IPO	72.3
Share based payments	3.4
Exercise of share warrants	5.6
AT1 coupon (net of tax)	(2.8)
31 December 2015	**459.6**

Ordinary shareholders' equity increased to £459.6m (31 December 2014: £305.2m) predominantly as a result of £78.3m of profit after tax for the period, £72.3m of net equity raised during the IPO in March 2015 and £5.6m on the exercise of warrants in September partially offset by the post-tax coupon paid on the Additional Tier 1 instrument of £2.8m.

- **AT1 Capital**

On 9 December 2014, the Group issued £75m Fixed Rate Reset Additional Tier 1 (AT1) Perpetual Subordinated Contingent Convertible Securities. The securities are listed on the Irish Stock Exchange, pay a coupon of 11.875% annually on 30 April, subject to Board approval, and convert to equity if the 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 coupon payments treated like dividends and deducted from retained earnings when paid.

Financial Performance

- Net interest income

During 2015, interest income grew by 32% to £300.4m (2014: £227.8m), driven by continued growth in net loans with the gross interest margin remaining broadly stable at 5.5% (2014: 5.6%).

We continued to benefit from our strategy of diversifying our funding base and interest expense increased by only 16% to £101.5m (2014: £87.6m) as we drove the cost of funding down to 1.9% (2014: 2.1%).

As a result, the Group's net interest income increased by 42% to £198.9m (2014: £140.2m) while, as expected, the net interest margin improved by 0.2 percentage points to 3.6% (2014: 3.4%).

- **Net fee and other operating income**	**2015 £m**	**2014 £m**	**Movement %**
Fee and commission income	25.2	26.4	(5)%
Fee and commission expense	(7.0)	(7.8)	10%
Other operating income	7.4	7.4	-%
	25.6	**26.0**	**(2)%**

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

- **Net derivatives income and gains on disposal of debt securities**	**2015 £m**	**2014 £m**	**Movement %**
Net (expense)/income on derivatives	(2.1)	(4.1)	n/a
Gains on disposal of debt securities	2.3	2.9	n/a
	0.2	**(1.2)**	**n/a**

Net income from derivatives and gains on disposal of debt securities was £0.2m (2014: expense of £1.2m) with the net expense from derivatives offset by the gains on disposal of the related debt securities.

- **Underlying expenses, depreciation and amortisation**	**2015 £m**	**2014 £m**	**Movement %**
Other administrative expenses	107.9	91.6	(18)%
Provisions	2.3	3.6	36%
Depreciation and amortisation	5.3	3.9	(36)%
	115.5	**99.1**	**17%**

Excluding IPO related costs, underlying administrative expenses increased as expected by 17% to £115.5m (2014: £99.1m). The increase in other administrative expenses was mainly due to an increase in staff costs as we invested in further strengthening our central functions ahead of IPO to support life as a listed company and to support the growth of the business. During 2015, on average we employed 845 people, an increase of 12% on the same period in 2014. Provisions include the full year charge for the Financial Services Compensation Scheme (FSCS) levy of £2.2m (2014: £2.6m). Depreciation and amortisation increased to £5.3m mainly due to increased levels of amortisation on computer software reflecting the higher opening balance and additions during the year compared with 2014.

- **Cost/income ratio**

The underlying cost/income ratio measures administration expenses, excluding IPO related costs but including depreciation and amortisation, as a percentage of operating income. We continue to make excellent progress towards achieving our target of a cost/income ratio of less than 40% by the end of 2017 with the underlying cost/income ratio for 2015 improving by 9 percentage points to 51% (2014: 60%).

- **IPO costs**

Total IPO costs incurred in 2015 were £6.8m of which £4.1m was charged to the income statement with the remaining £2.7m charged to equity (2014: £6.0m charged to the income statement).

- **Operating profit before impairments**

Operating profit before impairment losses increased by 75% to £105.1m (2014: £59.9m) with operating income growth of 36% outstripping the growth in our expense base of 17%, excluding IPO related costs.

- **Impairment losses**

Impairment losses increased by 8% to £10.4m (2014: £9.6m), a much lower rate than the growth in the loan book as a result of our rigorous focus on prudent credit management and a relatively benign credit environment. The cost of risk, which measures impairment losses as a percentage of average net loans, improved by 4 basis points to 19bps (2014: 23bps).

- **Profit before tax**

Profit before tax for the year increased by 88% to £94.7m (2014: £50.3m). Excluding pre-tax IPO related costs of £4.1m (2014: £6.0m), the underlying profit before tax increased by 75% to £98.8m (2014: £56.3m).

- **Tax**

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

- **Profit after tax**

Profit after tax increased by 104% to £78.3m (2014: £38.4m). Excluding post-tax IPO related costs of £3.4m (2014: £4.6m), the underlying profit after tax increased by 90% to £81.7m (2014: £43.0m).

- **Return on equity**

Return on equity as reported is 19.7% (2014: 13.5%) and is calculated as the profit after tax attributable to ordinary shareholders expressed in relation to average shareholders' funds attributable to ordinary shareholders, i.e. the AT1 coupon is deducted from profit after tax. Excluding post-tax IPO costs of £3.4m (2014: £4.6m), the underlying return on equity is 20.6% (2014: 15.1%). As a result of the UK bank tax surcharge and the one-off nature of the deferred tax asset revaluation in 2015, going forward, we now expect our return on equity percentage to be in the high-teens.

- **Earnings per share**

Basic earnings per share (EPS) of 22.7p (2014: 13.0p) is calculated as net profit attributable to ordinary shareholders of the Group divided by the weighted average number of ordinary shares in issue during the period. On a fully diluted basis, the EPS was 22.6p (2014: 12.9p). The weighted average number of ordinary shares in issue during the period was 332.4 million (2014: 296.2 million) and 334.7 million (2014: 299.0 million) on a diluted basis.

Regulatory capital position

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

	31 December 2015	31 December 2014	Movement %
Fully loaded CRD IV CET1 ratio (%)	**11.8**	**10.4**	**1.4%**
Fully loaded CRD IV Tier 1 capital ratio (%)	13.8	13.1	0.7%
Tier 2 capital ratio (%)	1.3	1.7	(0.4)%
Fully loaded CRD IV total capital ratio (%)	**15.1**	**14.8**	**0.3%**
Risk Weighted Assets (£m)	**3,693**	**2,702**	**37%**

As at 31 December 2015, the Group's fully loaded CRD IV total capital ratio was 15.1% (31 December 2014: 14.8%) and its CET1 ratio was 11.8% (31 December 2014: 10.4%). These increases were driven by the profit after tax of £78.3m for the year and the issue of £75m of gross primary equity during the IPO partially offset by growth in Risk Weighted Assets (RWAs).

Leverage ratio

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

	31 December 2015 %	31 December 2014 %	Movement %
Leverage ratio	**7.3**	**6.3**	**1.0%**

The Group's leverage ratio improved by 1.0 percentage points to 7.3% (31 December 2014: 6.3%) mainly due to retained earnings generated during the period and the issue of £75m of gross primary equity during the IPO partially offset by growth in lending assets.

Segmental analysis

Asset Finance

	31 December 2015 £m	31 December 2014 £m	Movement %
Net loans to customers	**1,346.7**	**1,044.3**	**29%**
Non-performing loans ratio	0.31%	0.25%	(0.06)%

	2015 £m	2014 £m	Movement %
Organic origination	893	740	21%
Net interest income	51.8	36.9	40%
Net fees and other income	4.3	3.1	39%
Operating income	**56.1**	**40.0**	**40%**
Administrative expenses	(12.0)	(11.9)	(1)%
Impairment losses	(4.8)	(2.7)	(78)%
Segmental result	**39.3**	**25.4**	**55%**
Net interest margin (%)	4.3%	4.2%	0.1%
Cost of risk (bps)	40bps	31bps	9bps

Aldermore supports capital investment in a wide range of business-critical assets from hard assets such as vehicles and agricultural machinery to printing equipment, digital technologies, renewables and a wide array of soft assets. 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.

The Asset Finance business delivered strong growth in 2015, with net loans growing by 29% to £1.3bn (31 December 2014: £1.0bn) as we grew customer numbers by 30% to around 42,000 (31 December 2014: c33,000). This growth was driven by excellent organic origination which increased by 21% to £893m (2014: £740m). We continued our focus on soft assets, which now comprise around 7% of the portfolio and also saw good progress with our stocking proposition which we launched toward the end of 2014.

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

Administrative expenses were also stable at £12.0m (2014: £11.9m) as we continue to invest to support growth and leverage our efficient operating platform.

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

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

Invoice Finance

	31 December 2015 £m	31 December 2014 £m	Movement %
Net loans to customers	**160.8**	**180.6**	**(11)%**
Non-performing loans ratio	1.51%	3.12%	1.61%

	2015 £m	2014 £m	Movement %
Organic origination	35	45	(22)%
Net interest income	5.3	6.0	(12)%
Net fees and other income	15.2	17.5	(13)%
Operating income	**20.5**	**23.5**	**(13)%**
Administrative expenses	(14.5)	(14.7)	1%
Impairment losses	(1.5)	(3.4)	56%
Segmental result	**4.5**	**5.4**	**(17)%**
Net interest margin (%)	3.1%	3.0%	0.1%
Net revenue margin (%)	12.0%	12.0%	-%
Cost of risk (bps)	88bps	173bps	85bps

Invoice Finance is a useful working capital tool for SMEs. Aldermore will usually lend up to 90% of the value of approved outstanding invoices issued by the borrower to its customers. 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. During 2015, we created the Business Finance division, bringing Invoice Finance under the same management as our Asset Finance business. The closer collaboration between the two areas sees Invoice Finance products forming an integral part of Asset Finance's new Dealer Finance customer proposition. Invoice Finance is predominantly distributed via intermediaries and, during the second half of 2015, we restructured the sales team to ensure we continue to provide strong service to our distribution partners.

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

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

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

In addition to a number of fully provided loans being written off, we continue to benefit from actions previously taken to enhance credit and fraud controls and our non-performing loan ratio has reduced by 1.61% to 1.51% since the start of the year. These actions have also led a 56% reduction in impairments to £1.5m (2014: £3.4m) and an 85bps improvement in the cost of risk to 88bps (2014: 173bps).

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

SME Commercial Mortgages

	31 December 2015 £m	31 December 2014 £m	Movement %
Net loans to customers	**829.2**	**552.4**	**50%**
Non-performing loans ratio	0.83%	1.06%	0.23%

	2015 £m	2014 £m	Movement %
Organic origination	428	301	42%
Net interest income	34.2	27.5	24%
Net fees and other income	0.8	1.1	(27)%
Operating income	**35.0**	**28.6**	**22%**
Administrative expenses	(4.8)	(3.0)	(60)%
Impairment losses	(2.0)	(3.0)	33%
Segmental result	**28.2**	**22.6**	**25%**
Net interest margin (%)	5.0%	5.8%	(0.8)%
Cost of risk (bps)	29bps	63bps	34bps

We offer a full range of mortgages from property development through to purchase and refinancing as well as bridging loans. Our SME Commercial Mortgages business focuses on mortgages for shops, warehouses, industrial units and offices. In Property Development, we have created flexible funding solutions for experienced housebuilders working on residential and mixed-use developments. 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.

In 2015, our SME Commercial Mortgage business grew net loans to customers by 50% to £0.8bn (31 December 2014: £0.6bn) as we grew customer numbers by 38% to around 1,500 (31 December 2014: c1,100). Growth was supported by good organic origination, up by 42% to £428m (2014: £301m). We delivered strong growth in the Commercial Investment portfolio where we focus on multi-let developments. We were also pleased by both the growth in the Property Development portfolio, with brokers attracted by our high quality service and national coverage, and our levels of direct distribution, which accounted for c26% of origination and grew by over 200% due to repeat business driven by our small dedicated direct team.

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

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

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

The segmental result was strong, growing by 25% to £28.2m (2014: £22.6m).

Buy-to-Let

	31 December 2015 £m	31 December 2014 £m	Movement %
Net loans to customers	**2,417.9**	**2,044.1**	**18%**
Non-performing loans ratio	0.21%	0.15%	(0.06)%

	2015 £m	2014 £m	Movement %
Organic origination	673	726	(7)%
Net interest income	73.3	57.3	28%
Net fees and other income	3.0	2.9	3%
Operating income	**76.3**	**60.2**	**27%**
Administrative expenses	(9.0)	(9.3)	3%
Impairment losses	(1.3)	0.3	(533)%
Segmental result	**66.0**	**51.2**	**29%**
Net interest margin (%)	3.3%	3.2%	0.1%
Cost of risk (bps)	6bps	(2)bps	(8)bps

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

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

The increase in net interest income, which was up by 28% to £73.3m (2014: £57.3m) is driven by the continued growth of the lending book with the net interest margin remaining broadly flat at 3.3% (2014: 3.2%).

The Mortgages division is run as one business with common platforms and some shared teams. We have allocated expenses to the three portfolios with front office costs allocated using origination activity and back office costs allocated on the basis of average loan balances. The £0.3m reduction in administration expenses shown above therefore predominantly reflects reduced origination compared with 2014 offset by the underlying 15% increase in the overall cost base.

As at 31 December 2015, the non-performing loan ratio was 0.21%. Impairment losses increased by £1.6m to £1.3m (2014: £0.3m benefit) with 2014 benefitting from one unusually large recovery and the cost of risk was 6bps (2014: 2bps benefit).

The segmental result was excellent, growing by 29% to £66.0m (2014: £51.2m).

Residential Mortgages

	31 December 2015 £m	31 December 2014 £m	Movement %
Net loans to customers	**1,390.2**	**979.7**	**42%**
Non-performing loan ratio	0.29%	0.34%	0.05%

	2015 £m	2014 £m	Movement %
Organic origination	582	560	4%
Net interest income	43.8	20.2	117%
Net fees and other income	2.2	1.7	29%
Operating income	**46.0**	**21.9**	**110%**
Administrative expenses	(5.1)	(4.1)	24%
Impairment losses	(0.8)	(0.8)	-%
Segmental result	**40.1**	**17.0**	**136%**
Net interest margin (%)	3.7%	2.7%	1.0%
Cost of risk (bps)	7bps	11bps	4bps

Our Residential Mortgages business targets under- or poorly served prime creditworthy customers including the self-employed, professionals and first time buyers.

As in our other lending lines, 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.

In 2015, Residential Mortgages grew net loans to customers by 42% to £1.4bn (31 December 2014: £1.0bn) as we grew customer numbers by 40% to around 10,000 (31 December 2014: c7,000). Growth was driven by good organic origination, up by 4% to £582m (2014: £560m) and was supported by a strong performance in Help to Buy. We are particularly pleased by the increase in direct distribution, due to repeat business driven by our small dedicated direct team, which accounted for 9% of total origination in 2015 and grew by 33%.

The continued balance sheet momentum is reflected in the increasing net interest income, up by 117% to £43.8m (2014: £20.2m). The net interest margin improved by 1.0 percentage points to 3.7% (2014: 2.7%) due to the increased levels of Help to Buy which, by design, is higher loan to value lending and attracts higher margins.

The Mortgages division is run as one business with common platforms and some shared teams. We have allocated expenses to the three portfolios with front office costs allocated using origination activity and back office costs allocated on the basis of average loan balances. The £1.0m increase in administration expenses shown above therefore reflects increased origination compared with 2014 as well as the increasing scale of the business.

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

The segmental result was excellent, growing by 136% to £40.1m (2014: £17.0m).

Central Functions

	2015 £m	2014 £m	Movement %
Net interest income	(9.5)	(7.7)	(23)%
Net fees and other income	0.3	(1.5)	120%
Operating income	**(9.2)**	**(9.2)**	**-%**
Administrative expenses (excluding IPO costs)	(70.1)	(56.1)	(25)%
IPO related costs	(4.1)	(6.0)	32%
Segmental result	**(83.4)**	**(71.3)**	**(17)%**

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

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

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

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

Total IPO costs incurred in 2015 were £6.8m of which £4.1m was charged to the P&L with the remainder charged to equity. The segmental result was a charge of £83.4m (2014: charge of £71.3m)

Reconciliation of 2014 Mortgages analysis:

£m	SME Commercial Mortgages	Residential Mortgages	Total
Net interest income	41.6	63.5	105.1
Net fee income	1.5	4.1	5.6
Total operating income	**43.1**	**67.6**	**110.7**
Admin expenses	(6.9)	(9.6)	(16.5)
Impairments	(2.2)	(1.3)	(3.5)
Segmental result	**34.0**	**56.8**	**90.8**

£m	SME Commercial Mortgages	Buy-to-Let	Residential Mortgages	Total
Net interest income	27.5	57.3	20.2	105.0
Net fee income	1.1	2.9	1.7	5.7
Total operating income	**28.6**	**60.2**	**21.9**	**110.7**
Admin expenses	(3.0)	(9.3)	(4.1)	(16.4)
Impairments	(3.0)	0.3	(0.8)	(3.5)
Segmental result	**22.6**	**51.2**	**17.0**	**90.8**

Rounding differences are due to the use of underlying data in thousands in 2014 and millions to one decimal place as a comparative in the 2015 financial statements

Principal risks

The principal risks and uncertainties faced by the Group and a brief summary of our approach to mitigating these risks are summarised in the table below:

Risk	Mitigation
Strategic and business risk The risks that can affect our ability to achieve our corporate and strategic objectives.	• Remain focused on a sustainable business model which is aligned to the Group's strategy.
Credit risk The risk of financial loss arising from a borrower failing to meet their financial obligations to the Group.	• Focus on business sectors where we have specific expertise; • Limit concentration of exposures by size, geography and sector; • Obtain appropriate level of security cover along with affordability testing; • Detailed lending policies embedded in all business areas; • Portfolio performance against risk appetite regularly reviewed; and • Stress testing.
Liquidity risk The risk that we are not able to meet our financial obligations as they fall due, or can do so only at excessive cost.	• Maintain a liquidity buffer, which is based on requirements under stressed conditions; and • Monitor liquidity buffer on a daily basis to ensure there are sufficient liquid assets at all times.
Market risk The financial impact from movements in market prices on the value of assets and liabilities.	• We do not seek to take or expose the Group to market risk and we do not carry out proprietary trading.
Interest rate risk The risk of financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates.	• Match interest rate structure of assets with liabilities or deposits creating a natural hedge; • Alternatively, we will enter into swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets.
Capital risk The risk that we have insufficient capital to cover regulatory requirements or growth plans.	• Regulate the volume of loan origination; • Monthly forecasting of 12 – 18 month capital outlook; and • Stress testing and sensitivity analysis.
Operational risk The risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime.	• Embed and ensure all staff understand and follow the Operational Risk Management Framework; • Oversight and challenge from Group Risk; • Monitoring of the operational risk profile; and • Strengthened cyber security.
Conduct risk The risk of causing unfair outcomes and detriment to our customers, regulatory censure and/or undermining market integrity as a result of our behaviour, decision making, activities or processes.	• Conduct Risk Framework; • Product Governance Framework; • Conduct Risk built into Risk & Control Self-Assessment process; • Monitor first line conduct risk metrics covering the product lifecycle; and • Oversight and challenge from Group Risk.

Current strategic risks

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

Compliance and competition regulation

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

Buy-to-Let

There have been a number of actual and proposed regulatory and legislative changes related to the buy-to-let sector. Firstly, the Summer Budget introduced plans to restrict relief on mortgage interest for individual landlords to the basic rate of income tax from April 2017. This was followed by the introduction, from April 2016, of an additional 3 per cent stamp duty tax on buy-to-let properties over £40,000. It should also be noted, that around half of all buy-to-let mortgages across the market relate to re-mortgage rather than purchase transactions and attract no stamp duty. We represent a small part of the overall market and, as such, believe that this lending segment remains attractive from a growth and return perspective. In addition to the powers of recommendation already granted, the UK government is currently consulting on whether to grant the Financial Policy Committee (FPC) powers of direction to the PRA/FCA in relation to lending restrictions to the buy-to-let market. We consider our current underwriting criteria to be prudent. We stress all loans at origination to ensure that the mortgage is still affordable in a rising interest rate environment. Additionally, in December 2015, the Basel Committee issued a further consultation paper on risk weights which, if implemented as currently drafted, would, probably from 2019, increase the standardised capital risk weight for a buy-to-let mortgage on a residential property. Although we believe the PRA will continue to press for the right, which it currently exercises, to determine the appropriate risk weight for UK buy-to-let, given it is a mature and efficient market, we intend to pursue an IRB approach.

Interest rates

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

Political risks

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

Economic risks

The UK economic outlook remains relatively benign, with growth expected to continue, a stable property market and very gradually rising interest rates. Although there are some sub-sectors which have some risks (oil and gas and steel sectors), we have only limited exposure to these areas. The international economic and political environment also contains risks. These include structural and deflationary concerns in the EU, worsening geopolitical risks in Russia and the Middle East, and a continued slowing of the economy in China, putting pressure on global financial and commodity markets. To date, the UK economy has remained robust in the face of these global headwinds and as a UK- focused business we have not felt any adverse consequences. The medium term impact is unclear and there remains a possibility that material international events could adversely affect the UK and act as a drag on the UK economy and sectors in which the bank lends. We aim to manage these risks by maintaining a well-diversified product base, and remaining focused on the UK.

Cyber crime

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

Impact of accounting standards

New reporting requirements under IFRS9 introduce forward looking credit models which will lead to changes in the timing of impairment recognition. We continue to assess the impact of IFRS9 and have implemented a project plan to ensure compliance with this new standard well ahead of its proposed implementation date of 1 January 2018.

Competition

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

Consolidated income statement

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest income		300.4	227.8
Interest expense		(101.5)	(87.6)
Net interest income		**198.9**	**140.2**
Fee and commission income		25.2	26.4
Fee and commission expense		(7.0)	(7.8)
Net expense from derivatives and other financial instruments at fair value through profit or loss		(2.1)	(4.1)
Gains on disposal of available for sale debt securities		2.3	2.9
Other operating income		7.4	7.4
Total operating income		**224.7**	**165.0**
Provisions	12	(2.3)	(3.6)
Costs in respect of initial public offering	3	(4.1)	(6.0)
Other administrative expenses		(107.9)	(91.6)
Administrative expenses	3	**(114.3)**	**(101.2)**
Depreciation and amortisation		(5.3)	(3.9)
Operating profit before impairment losses		**105.1**	**59.9**
Impairment losses on loans and advances to customers		(10.4)	(9.6)
Profit before taxation		**94.7**	**50.3**
Taxation	4	(16.4)	(11.9)
Profit after taxation - attributable to equity holders of the Group		**78.3**	**38.4**
Basic earnings per share (pence)	5	22.7	13.0
Diluted earnings per share (pence)	5	22.6	12.9

Consolidated statement of comprehensive income
31 December 2015

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit after taxation	**78.3**	**38.4**
Other comprehensive (expense)/income:		
Items that may subsequently be transferred to the income statement:		
Available for sale debt securities:		
Fair value movements	(0.9)	3.5
Amounts transferred to the income statement	(2.1)	(2.5)
Taxation	0.6	(0.2)
Total other comprehensive (expense)/income	**(2.4)**	**0.8**
Total comprehensive income attributable to equity holders of the Group	**75.9**	**39.2**

Consolidated statement of financial position

For the year ended 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Assets			
Cash and balances at central banks		105.3	79.6
Loans and advances to banks		94.2	117.4
Debt securities		606.1	509.7
Derivatives held for risk management		6.7	8.2
Loans and advances to customers	6	6,144.8	4,801.1
Fair value adjustment for portfolio hedged risk		1.1	7.2
Other assets		1.4	3.3
Prepayments and accrued income		5.1	6.7
Deferred taxation	4	16.4	6.6
Property, plant and equipment	8	3.4	2.8
Intangible assets	7	24.0	22.6
Total assets		**7,008.5**	**5,565.2**
Liabilities			
Amounts due to banks		405.1	305.9
Customers' accounts		5,742.0	4,459.0
Derivatives held for risk management		35.4	54.2
Fair value adjustment for portfolio hedged risk		(0.8)	1.5
Other liabilities		21.9	18.6
Accruals and deferred income		25.7	21.1
Current taxation		12.5	8.1
Provisions	12	1.1	2.0
Debt securities in issue	9	193.9	279.1
Subordinated notes	10	38.1	36.8
Total liabilities		**6,474.9**	**5,186.3**
Equity			
Share capital	11	34.5	23.7
Share premium account	11	73.4	-
Contingent convertible securities		74.0	73.7
Capital redemption reserve		0.1	-
Warrant reserve		-	2.2
Available for sale reserve		(1.0)	1.4
Retained earnings		352.6	277.9
Total equity		**533.6**	**378.9**
Total liabilities and equity		**7,008.5**	**5,565.2**

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium account £m	Contingent convertible securities £m	Capital redemption reserve £m	Warrant reserve £m	Available for sale reserve £m	Retained earnings £m	Total £m
Year ended 31 December 2015									
As at 1 January		23.7	-	73.7	-	2.2	1.4	277.9	378.9
Total comprehensive income		-	-	-	-	-	(2.4)	78.3	75.9
Transactions with equity holders:									
- Capital reorganisation prior to IPO		6.3	-	-	0.1	-	-	(6.4)	-
- Share issue proceeds from IPO		3.9	71.1	-	-	-	-	-	75.0
- Share issuance costs		-	(2.7)	-	-	-	-	-	(2.7)
- Share based payments, including tax reflected directly in retained earnings		-	-	-	-	-	-	3.4	3.4
- Coupon paid on contingent convertible securities, net of tax		-	-	-	-	-	-	(2.8)	(2.8)
- Tax credit on AT1 issue costs		-	-	0.3	-	-	-	-	0.3
- Exercise of share warrants		0.6	5.0	-	-	(2.2)	-	2.2	5.6
As at 31 December		**34.5**	**73.4**	**74.0**	**0.1**	**-**	**(1.0)**	**352.6**	**533.6**
Year ended 31 December 2014									
As at 1 January		23.7	237.3	-	-	2.2	0.6	1.5	265.3
Total comprehensive income		-	-	-	-	-	0.8	38.4	39.2
Transactions with equity holders:									-
- Reduction in share premium		-	(237.3)	-	-	-	-	237.3	-
- Issuance of contingent convertible securities		-	-	75.1	-	-	-	-	75.1
- Issuance costs		-	-	(1.4)	-	-	-	-	(1.4)
- Share based payments		-	-	-	-	-	-	0.7	0.7
As at 31 December		**23.7**	**-**	**73.7**	**-**	**2.2**	**1.4**	**277.9**	**378.9**

During the year ended 31 December 2015, the Company completed its initial public offering (‘IPO’). The Company also undertook a capital reorganisation in advance of admission to the London Stock Exchange (‘LSE’). Further details of both transactions are provided in Note 11.

Consolidated statement of cash flows

For the year ended 31 December 2015

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash flows from operating activities		
Profit before taxation	94.7	50.3
Adjustments for non-cash items and other adjustments included within the income statement	9.1	(9.4)
(Increase) in operating assets	(1,317.9)	(1,487.8)
Increase in operating liabilities	1,368.1	962.8
Income tax paid	(20.2)	(9.7)
Net cash flows generated from/(used in) operating activities	**133.8**	**(493.8)**
Cash flows from investing activities		
Purchase of debt securities	(414.0)	(531.9)
Proceeds from sale and maturity of debt securities	279.0	346.2
Capital repayments of debt securities	32.9	48.2
Interest received on debt securities	10.5	11.2
Purchase of property, plant and equipment and intangible assets	(7.3)	(5.4)
Net cash (used in) investing activities	**(98.9)**	**(131.7)**
Cash flows from financing activities		
Proceeds from issue of shares	75.0	-
Issuance costs of Initial Public Offering	(2.7)	-
Proceeds from exercise of warrants	5.6	-
Capital repayments on debt securities issued	(85.7)	(52.8)
Debt securities issuance costs	-	(2.1)
Proceeds from issue of debt securities	-	333.3
Issuance costs of contingent convertible securities	-	(1.5)
Proceeds from issue of contingent convertible securities	-	75.1
Coupons paid on contingent convertible securities	(3.5)	-
Interest paid on debt securities	(3.0)	(2.5)
Interest paid on subordinated notes	(5.2)	(5.2)
Net cash from financing activities	**(19.5)**	**344.3**
Net increase/(decrease) in cash and cash equivalents	15.4	(281.2)
Cash and cash equivalents at start of the year	134.0	415.2
Movement during the year	15.4	(281.2)
Cash and cash equivalents at end of the year	**149.4**	**134.0**

Notes to the consolidated financial statements

1. Basis of preparation

The financial information set out in the financial statements on pages 24 to 39 does not constitute the Group's statutory accounts for the years ended 31 December 2015 or 2014. Statutory accounts for 2014 have been delivered to the Registrar of Companies, and those for 2015 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 ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), and as adopted by the European Union ("EU").

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.

2. Segmental information

Segmental information for the year ended 31 December 2015

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Central Functions £m	Total £m
Interest income – external customers	75.7	7.6	44.8	111.0	66.4	(5.1)	300.4
Interest expense – external customers	-	-	-	-	-	(101.5)	(101.5)
Interest (expense)/income – internal	(23.9)	(2.3)	(10.6)	(37.7)	(22.6)	97.1	-
Net fees and other income – external customers	4.3	15.2	0.8	3.0	2.2	0.3	25.8
Total operating income	**56.1**	**20.5**	**35.0**	**76.3**	**46.0**	**(9.2)**	**224.7**
Administrative expenses including depreciation and amortisation	(12.0)	(14.5)	(4.8)	(9.0)	(5.1)	(74.2)	(119.6)
Impairment losses on loans and advances to customers	(4.8)	(1.5)	(2.0)	(1.3)	(0.8)	-	(10.4)
Segmental result	**39.3**	**4.5**	**28.2**	**66.0**	**40.1**	**(83.4)**	**94.7**
Tax							(16.4)
Profit after tax							**78.3**
Assets	1,346.7	160.8	829.2	2,417.9	1,390.2	863.7	7,008.5
Liabilities	-	-	-	-	-	(6,474.9)	(6,474.9)
Net assets/(liabilities)	**1,346.7**	**160.8**	**829.2**	**2,417.9**	**1,390.2**	**(5,611.2)**	**533.6**

Notes to the financial statements continued

2. Segmental Information continued

Segmental information for the year ended 31 December 2014

	Asset Finance [1] £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Central Functions [1] £m	Total £m
Interest income – external customers	56.7	9.3	37.0	91.6	34.5	(1.3)	227.8
Interest expense – external customers	-	-	-	-	-	(87.6)	(87.6)
Interest (expense)/income – internal	(19.8)	(3.3)	(9.5)	(34.3)	(14.3)	81.2	-
Net fees and other income – external customers	3.1	17.5	1.1	2.9	1.7	(1.5)	24.8
Total operating income	**40.0**	**23.5**	**28.6**	**60.2**	**21.9**	**(9.2)**	**165.0**
Administrative expenses including depreciation and amortisation	(11.9)	(14.7)	(3.0)	(9.3)	(4.1)	(62.1)	(105.1)
Impairment losses on loans and advances to customers	(2.7)	(3.4)	(3.0)	0.3	(0.8)	-	(9.6)
Segmental result	**25.4**	**5.4**	**22.6**	**51.2**	**17.0**	**(71.3)**	**50.3**
Tax							(11.9)
Profit after tax							**38.4**
Assets	1,044.3	180.6	552.4	2,044.1	979.7	764.1	5,565.2
Liabilities	-	-	-	-	-	(5,186.3)	(5,186.3)
Net assets/(liabilities)	**1,044.3**	**180.6**	**552.4**	**2,044.1**	**979.7**	**(4,422.2)**	**378.9**

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

3. Administrative expenses

	Note	2015 £m	2014[1] £m
Staff costs		62.1	50.0
Legal and professional and other services		25.8	23.5
Information technology costs		7.3	8.3
Office costs		4.9	4.0
Provisions	12	2.3	3.6
Other		11.9	11.8
		114.3	**101.2**

[1]The prior year comparatives have been re-presented to reclassify £0.6 million, relating to share based payments, from 'Other' to 'Staff costs'.

Included in other administrative expenses are costs relating to temporary staff of £5.0 million (31 December 2014: £4.5 million), travel and subsistence of £3.2 million (31 December 2014: £2.8 million) and staff recruitment of £1.6 million (31 December 2014: £2.1 million).

Information technology costs for the year ended 31 December 2014 included £1.6 million in relation to a write-off of intangible assets.

Costs associated with the IPO

Included within administrative expenses for the year is £4.1 million (31 December 2014: £6.0 million) of costs associated with the IPO. The £4.1 million consists of £0.4 million for a one-off share award to employees and £3.7 million for fees associated with listing.

Incremental costs directly attributable to the issuance of capital, including advisory and underwriting fees, have been charged directly to equity. Other costs associated with the listing have been allocated between administrative expenses and equity, based on the proportion of new shares issued in the IPO compared to the total number of shares. Total costs associated with the listing for the year ended 31 December 2015 are £6.8 million, comprising £4.1 million charged to the income statement and £2.7 million charged to equity.

Notes to the financial statements continued

4. Taxation

a) Tax charge

	2015 £m	2014 £m
Current tax on profits for the year	25.1	15.5
Under/(over) provision in previous periods	1.1	(0.1)
Total current tax	**26.2**	**15.4**
Deferred tax	(5.2)	(3.7)
(Over)/under provision in previous periods	(0.9)	0.2
Effect of change in tax rates (including the Bank surcharge) on the net deferred tax asset	(3.7)	-
Total deferred tax	**(9.8)**	**(3.5)**
Total tax charge	**16.4**	**11.9**

A tax credit of £0.6 million was recognised in other comprehensive income during the year ended 31 December 2015 (31 December 2014: £0.2 million tax charge) in respect of available for sale debt securities. A tax credit of £1.0 million (31 December 2014: £nil) was reflected directly in equity in respect of tax relief for AT1 coupon and issue costs.

b) Factors affecting tax charge for the year

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax in the UK of 20.25 per cent (31 December 2014: 21.5 per cent). The differences are explained below:

	2015 £m	2014 £m
Profit before tax	**94.7**	**50.3**
Tax at 20.25 % (2014: 21.5%) thereon	19.2	10.8
Effects of:		
Expenses not deductible for tax purposes	0.7	0.7
Under provision in previous period	0.2	0.1
Effect of change in tax rates (including the Bank surcharge) on the net deferred tax asset	(3.7)	0.3
	16.4	**11.9**

Notes to the financial statements continued

4. **Taxation** continued

c) Deferred tax asset

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable future taxable profits against which the unwinding of the asset can be offset.

Analysis of recognised deferred tax asset:

	Balance at start of the year £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance at end of the year £m
Year ended 31 December 2015				
Capital allowances less than depreciation	6.5	10.0	-	16.5
Gains on available for sale debt securities recognised through other comprehensive income	(0.3)	0.1	-	(0.2)
Other temporary differences	0.4	(0.8)	-	(0.4)
Share based payment timing differences	-	0.5	-	0.5
	6.6	**9.8**	**-**	**16.4**
Year ended 31 December 2014				
Capital allowances less than depreciation	3.3	3.2	-	6.5
Gains on available for sale debt securities recognised through other comprehensive income	(0.1)	-	(0.2)	(0.3)
Other temporary differences	0.1	0.3	-	0.4
	3.3	**3.5**	**(0.2)**	**6.6**

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In addition, the Chancellor announced the introduction of a corporation tax surcharge applicable to banking companies with effect from 1 January 2016. The surcharge will be levied at a rate of 8% on the profits of banking companies chargeable to corporation tax after an annual allowance of £25 million. These changes, which were all substantively enacted on 26 October 2015, will result in an overall increase in the Group’s tax charge for years commencing from 1 January 2016.

Deferred tax as at 31 December 2015 has been provided for at the revised substantively enacted rates that will apply when deferred tax assets are realised or deferred tax liabilities are settled. The impact of this change increased the net deferred tax asset recognised as at 31 December 2015 by £3.7 million, with a corresponding reduction to the tax charge recognised in the income statement.

There were no unrecognised deferred tax balances at 31 December 2015 (31 December 2014: £nil).

Notes to the financial statements continued

5. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares in issue during the year.

	2015	2014*
Profit after taxation - attributable to equity holders of the Group (£million)	78.3	38.4
Coupon paid on contingent convertible securities, net of tax (£million)	(2.8)	-
Profit attributable to ordinary shareholders of the Group (£million)	75.5	38.4
Weighted average number of ordinary shares in issue (million)	332.4	296.2
Basic earnings per share (p)	22.7	13.0

The ordinary shares in issue used in the denominator in the calculation of basic earnings per share are the ordinary shares of the Company since the share reorganisation that occurred on the Company's admission to the LSE on 13 March 2015. Further details of the share reorganisation are provided in Note 11. Prior to that date, the ordinary shares in issue figure was based on the A1, A2, D and E ordinary shares in issue. The B and C ordinary shares were excluded from the calculation on the basis that they had no entitlement to dividends or other distributions of the Company.

*The calculation of basic and diluted earnings per share in the prior period has been restated to reflect the impact of the bonus share issue that was made to existing shareholders as part of the share reorganisation that occurred on the Company's admission to the LSE on 13 March 2015.

The calculation of diluted earnings per share has been based on the same profit attributable to ordinary shareholders of the Group as for basic earnings and the weighted average number of ordinary shares outstanding after the potential dilutive effect of share based payment awards to Directors and employees. The share warrants, giving rise to dilution for 2014, were exercised on 9 September 2015 and new shares were issued and listed on the London Stock Exchange (for details see Note 11).

	2015	2014*
Weighted average number of ordinary shares in issue (million) (basic)	332.4	296.2
Effect of share warrants prior to their exercise	2.2	2.8
Effect of share based payment awards	0.1	-
Weighted average number of ordinary shares in issue (million) (diluted)	334.7	299.0
Diluted earnings per share (p)	22.6	12.9

6. Loans and advances to customers

	2015 £m	2014 £m
Gross loans and advances	6,165.5	4,823.6
less: allowance for impairment losses	(20.7)	(22.5)
	6,144.8	**4,801.1**
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	5,345.5	4,205.8

At 31 December 2015, loans and advances to customers of £1,445.5 million (31 December 2014: £719.9 million) were pre-positioned with the Bank of England and HM Treasury Funding for Lending Scheme. These loans and advances were available for use as collateral with the Scheme, against which £750.0 million of UK Treasury Bills had been drawn as at the reporting date (31 December 2014: £485.0 million).

6. Loans and advances to customers continued

At 31 December 2015, loans and advances to customers include £206.5 million (31 December 2014: £293.1 million) which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to Oak No. 1 PLC which is a securitisation vehicle consolidated into these financial statements. The carrying value of these loans on 10 April 2014, when the beneficial interest was transferred, was £362.3 million. These loans secured £333.3 million of funding for the Group. All the assets pledged are retained within the statement of financial position as the Group retains substantially all the risks and rewards relating to the loans.

Allowance for impairment losses

	Individual £m	Collective £m	Total £m
Year ended 31 December 2015			
Balance as at 1 January	14.0	8.5	22.5
Impairment loss for the year:			
Charge to the income statement	6.8	3.6	10.4
Unwind of discounting	(1.6)	(1.6)	(3.2)
Write-offs net of recoveries	(9.0)	-	(9.0)
Balance as at 31 December	**10.2**	**10.5**	**20.7**

	Individual £m	Collective £m	Total £m
Year ended 31 December 2014			
Balance as at 1 January	14.7	6.3	21.0
Impairment loss for the year			
Charge to the income statement	6.4	3.2	9.6
Unwind of discounting	(1.0)	(1.0)	(2.0)
Write-offs net of recoveries	(6.1)	-	(6.1)
Balance as at 31 December	**14.0**	**8.5**	**22.5**

Notes to the financial statements continued

7. Intangible assets

	Computer systems £m	Goodwill £m	Total £m
Cost			
1 January 2015	19.2	12.6	31.8
Additions	5.6	-	5.6
31 December 2015	**24.8**	**12.6**	**37.4**
1 January 2014	16.3	12.6	28.9
Additions	4.5	-	4.5
Write-off	(1.6)	-	(1.6)
31 December 2014	**19.2**	**12.6**	**31.8**
Amortisation			
1 January 2015	9.2	-	9.2
Charge for the year	4.2	-	4.2
31 December 2015	**13.4**	**-**	**13.4**
1 January 2014	6.2	-	6.2
Charge for the year	3.0	-	3.0
31 December 2014	**9.2**	**-**	**9.2**
Net book value			
31 December 2015	**11.4**	**12.6**	**24.0**
31 December 2014	10.0	12.6	22.6

Goodwill arose on the acquisitions of Ruffler Holdings Limited (subsequently renamed Aldermore Holdings Limited), Base Commercial Mortgages Holdings Limited and Absolute Invoice Finance (Holdings) Limited. For the purpose of impairment testing, goodwill is allocated to the Group's operating segments. The aggregate amount allocated to each segment is as follows:

	2015 £m	2014 £m
SME Commercial Mortgages	8.5	8.5
Invoice Finance	4.1	4.1
	12.6	**12.6**

No impairment losses on goodwill were recognised during the year ended 31 December 2015 (31 December 2014: £nil).

The value in use ('VIU') for SME Commercial Mortgages and Invoice Finance segment have determined by discounting the future cash flows to be generated from the continuing use of the segment. VIU at 31 December 2015 has been determined in a similar manner as at 31 December 2014.

Key assumptions used in the calculation of VIU were the following:

- Cash flows were projected based on past experience, actual operating results and the five year business plan (31 December 2014: the five year business plan). Cash flows after the planning period were extrapolated using a constant growth rate of 2 per cent (31 December 2014: 3 per cent) into perpetuity.
- Pre-tax discount rates of 13.0 per cent and 14.3 per cent (31 December 2014: 13.0 per cent and 15.0 per cent) respectively were applied in determining the recoverable amounts for the SME Commercial Mortgages and Invoice Finance operating segments. These discount rates were based on the weighted average cost of funding for the segments taking into account the Group's regulatory capital requirement and expected market returns for debt and equity funding, adjusted for risk premiums to reflect the systemic risk of the individual segments.

Notes to the financial statements continued

7. **Intangible assets** continued

The VIU of the SME Commercial Mortgage segment (not including the Buy-to-Let book) is significantly above the carrying value of the attributable goodwill and net assets. The Group estimates that reasonably possible changes in the above assumptions are not expected to cause the recoverable amount of SME Commercial Mortgage (not including the Buy-to-Let book) to reduce below the carrying amount.

Goodwill attributable to Invoice Finance

During 2015, the Invoice Finance business was refocused and management revised their projections for the business while the impact of this is being assessed. Using these updated projections, under the VIU method, the goodwill relating to the Invoice Finance business of £4.1 million would be fully impaired, although management note a reasonably small change in the key assumptions would result in the goodwill balance being supportable.

Under IAS 36, the recoverable amount is the greater of either the VIU of a business or its Fair Value less Costs of Disposal ("FVLCD"). Management has therefore also considered the FVLCD valuation method.

Management considers the goodwill attributable to the Invoice Finance business to be a critical accounting judgement. Under the FVLCD method, the goodwill balance of £4.1 million in relation to the Invoice Finance segment is supportable. The estimated value would be required to fall by approximately 25 per cent before the goodwill balance would be fully impaired. The valuation calculated using the FVLCD method is categorized as level 3 under the fair value hierarchy of IFRS 13.

8. **Property, plant and equipment**

	Fixtures, fittings and equipment £m	Computer hardware £m	Total £m
Cost			
1 January 2015	3.2	3.4	6.6
Additions	0.7	1.0	1.7
31 December 2015	**3.9**	**4.4**	**8.3**
1 January 2014	2.6	3.1	5.7
Additions	0.6	0.3	0.9
31 December 2014	**3.2**	**3.4**	**6.6**
Depreciation			
1 January 2015	1.8	2.0	3.8
Charge for the year	0.5	0.6	1.1
31 December 2015	**2.3**	**2.6**	**4.9**
1 January 2014	1.4	1.5	2.9
Charge for the year	0.4	0.5	0.9
31 December 2014	**1.8**	**2.0**	**3.8**
Net book value			
31 December 2015	**1.6**	**1.8**	**3.4**
31 December 2014	1.4	1.4	2.8

Notes to the financial statements continued

9. Debt securities in issue

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

	2015 £m	2014 £m
In more than one year	193.9	279.1

Debt securities in issue with a principal value of £194.8 million (31 December 2014: £280.5 million) are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicle, Oak No. 1 PLC. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage customers in respect of the underlying assets. There is no obligation for the Group to make good any shortfall.

10. Subordinated notes

	2015 £m	2014 £m
Subordinated notes	38.1	36.8

During 2012, the Group issued £40 million subordinated 12.875 per cent loan notes, repayable in 2022, with an option for the Group to redeem early after five years. The interest rate is fixed until May 2017. The loan notes were issued at a discount and are carried in the statement of financial position at amortised cost using an EIR of 18.597 per cent. In addition to the loan notes, a warrant was issued by the Group's parent company, Aldermore Group PLC. The warrants were valued at £2.2 million, and this was treated as a warrant reserve within equity. On 9 September 2015, the warrants were exercised resulting in 5.5 million ordinary £0.10 shares being issued (see Note 11).

11. Share capital

	2015 £'000	2014 £'000
Type		
Ordinary shares of £0.10 each	34,474.0	-
A1 ordinary shares of £0.10 each	-	3,569.4
A2 ordinary shares of £0.10 each	-	5,870.4
B ordinary shares of £0.10 each	-	385.5
C ordinary shares of £0.0001 each	-	13.2
D ordinary shares of £0.10 each	-	5,440.5
E ordinary shares of £0.10 each	-	8,458.4
	34,474.0	**23,737.4**

On 13 March 2015, the Company reorganised its share capital in preparation for listing on the LSE. The restructuring can be summarised as follows:

- 1,025,586 A1 ordinary shares, 131,593,114 C ordinary shares and 568,253 E ordinary shares were re-designated as deferred shares.
- 406,886 C ordinary shares (nominal value of £0.0999 per share) were issued and allotted to C ordinary shareholders on a pro-rata basis by way of bonus issue using distributable reserves, resulting in an increase of £40,648 in share capital.
- Each C ordinary share with a nominal value of £0.0999 was consolidated with a C ordinary share with a nominal value of £0.0001, resulting in 406,886 C ordinary shares with a nominal value of £0.10 each being in issue.
- The following shares were re-designated as ordinary shares: 34,668,414 A1 ordinary shares, 58,704,268 A2 ordinary shares, 3,854,632 B ordinary shares, 406,886 C ordinary shares, 54,405,224 D ordinary shares, and 84,016,023 E ordinary shares.

Notes to the financial statements continued

11. Share capital continued

- 63,944,554 ordinary shares were issued and allotted on a pro-rata basis to all shareholders (excluding holders of deferred shares) by way of bonus issue using distributable reserves, resulting in an increase of £6,394,455 in share capital.
- The Company bought back 133,186,953 deferred shares for an aggregate price of £1 using distributable reserves. This resulted in the creation of a capital redemption reserve of £172,543 and a reduction in the Company's share capital of the same amount.

Following the reorganisation, 117,934,783 ordinary shares of £0.10 each were issued in the IPO at a price of £1.92 per share. Of the 117,934,783 shares in the offer, 78,872,283 were sold by existing shareholders, with the remaining 39,062,500 being issued by the Company, resulting in an increase in share capital of £3,906,250 and share premium account of £71,093,750 (excluding costs).

Ordinary shares have full voting rights, dividend rights and distribution rights in the event of sale or wind up.

At 13 March 2015, after completion of the IPO, there were 339,062,500 shares in circulation.

Following the listing, the Company granted 174,920 shares to eligible employees as free share awards under the Share Incentive Plan ('SIP'). The shares vested on 17 April 2015, resulting in an increase of £17,492 in share capital and a reduction in retained earnings of the same amount.

On 9 September 2015, the share warrants attached to the subordinated notes were exercised resulting in the issue of 3,668,110 ordinary £0.10 shares at a price of £0.89 per share and 1,834,054 ordinary £0.10 shares at a price of £1.23 per share. This resulted in an increase in share capital of £550,216 and share premium account of £4,970,288. The warrant reserve of £2,200,000 was transferred within equity to retained earnings.

At 31 December 2015, there were 344,739,584 ordinary £0.10 shares in circulation resulting in share capital of £34,473,958.

12. Provisions

	Financial Services Compensation Scheme £m	Customer redress £m	Total £m
1 January 2015	1.2	0.8	2.0
Utilised during the year	(2.3)	(0.9)	(3.2)
Provided during the year	2.2	0.1	2.3
31 December 2015	**1.1**	**-**	**1.1**
1 January 2014	0.7	0.5	1.2
Utilised during the year	(2.1)	(0.7)	(2.8)
Provided during the year	2.6	1.0	3.6
31 December 2014	**1.2**	**0.8**	**2.0**

Financial Services Compensation Scheme ('FSCS')

In common with all regulated UK deposit takers, the Group's principal subsidiary, Aldermore Bank PLC, pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy, which includes capital and interest levies. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The FSCS provision at 31 December 2015 of £1.1million (31 December 2014: £1.2 million) represents the interest levy for the 2015/2016 scheme year (31 December 2014: interest levy for the 2014/2015 scheme year).

Customer redress

The Group has a small number of loans which are regulated under the Consumer Credit Act ('CCA') and had identified that, following changes to the CCA in 2008, certain letters and statements were sent to customers that did not fully comply with the requirements prescribed by the CCA. Accordingly, these customers were entitled to redress for interest and fees charged on the relevant loans as a result of this technical non-compliance, notwithstanding there is unlikely to have been any customer detriment. During the year ended 31 December 2014, a provision of £1.0 million was recorded in relation to CCA non-compliance. A further provision of £0.1 million has been recorded in the year ended 31 December 2015. Remedial payments to customers affected were all made during the year and accordingly there is £nil provision at 31 December 2015.

13. Commitments and contingencies

At 31 December 2015, the Group had undrawn commitments to lend of £556.0 million (31 December 2014: £404.6 million). These relate mostly to irrevocable lines of credit granted to customers.

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 £m	2014 £m
Land and buildings		
In less than one year	1.9	1.5
Between one and five years	6.0	3.0
More than five years	2.4	0.5
	10.3	**5.0**

	2015 £m	2014 £m
Equipment		
In less than one year	0.4	0.2
Between one and five years	0.2	0.3
	0.6	**0.5**

As a financial services Group, Aldermore Group PLC is subject to extensive and comprehensive regulation. The Group must comply with numerous laws and regulations which significantly affect the way it does business. Whilst the Group believes there are no unidentified areas of failure to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

14. Post balance sheet events

There are no material post balance sheet events.

Credit risk information

Analysis of loans and advances by impairment status

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
2015						
Neither past due nor individually impaired	1,346.0	163.6	820.0	2,403.9	1,372.9	6,106.4
Past due but not individually impaired	3.9	-	6.5	10.9	15.0	36.3
Individually impaired	4.2	2.5	6.9	5.1	4.1	22.8
	1,354.1	**166.1**	**833.4**	**2,419.9**	**1,392.0**	**6,165.5**
2014						
Neither past due nor individually impaired	1,039.7	183.4	540.9	2,029.4	966.7	4,760.1
Past due but not individually impaired	7.2	-	10.1	13.8	11.6	42.7
Individually impaired	2.6	5.9	5.9	3.1	3.3	20.8
	1,049.5	**189.3**	**556.9**	**2,046.3**	**981.6**	**4,823.6**

Impaired loan analysis

Movement in impaired loans is analysed as follows:

2015	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
At 1 January	2.6	5.9	5.9	3.1	3.3	20.8
Classified as impaired during the period	5.7	3.8	5.1	5.3	3.7	23.6
Transferred from impaired to unimpaired	(0.7)	-	(0.1)	(0.8)	(0.7)	(2.3)
Amounts written off	(1.9)	(4.6)	(1.7)	(0.9)	(0.2)	(9.3)
Repayments	(1.5)	(2.6)	(2.3)	(1.6)	(2.0)	(10.0)
At 31 December	**4.2**	**2.5**	**6.9**	**5.1**	**4.1**	**22.8**

2014	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let Mortgages £m	Residential Mortgages £m	Total £m
At 1 January	3.2	7.9	6.2	4.5	3.0	24.8
Classified as impaired during the year	3.5	4.2	3.2	1.0	1.7	13.6
Transferred from impaired to unimpaired	(0.6)	-	(0.5)	(0.4)	(1.0)	(2.5)
Amounts written off	(2.2)	(4.3)	(0.3)	-	(0.1)	(6.9)
Repayments	(1.3)	(1.9)	(2.7)	(2.0)	(0.3)	(8.2)
At 31 December	**2.6**	**5.9**	**5.9**	**3.1**	**3.3**	**20.8**

Impairment coverage ratio

The impairment coverage is analysed as follows:

Coverage ratio	2015 £m	2014 £m
Gross loans and advances	6,165.5	4,823.6
Of which individually impaired	22.8	20.8
Impaired as a % of gross loans and advances	0.37%	0.43%
Allowance for losses - individual provisions	10.2	14.0
Coverage	44.74%	67.40%

The coverage ratio has decreased during the year as a result of writing off a number of loans which had previously been fully provided for (see Note 6).

Credit risk information continued

Loan-to-Value on indexed origination

Information for the Group's mortgage portfolios is show below:

	SME Commercial Mortgages	
	2015	**2014**
	£m	**£m**
100%+	-	-
80 - 100%	-	-
75 - 80%	5.1	1.1
70 – 75%	18.2	22.1
60 – 70%	126.3	72.9
50 – 60%	157.3	115.0
0 – 50%	343.0	275.0
	649.9	**486.1**

The above analysis excludes the Property Development portfolio of £179m.

	Buy-to-Let		Residential Mortgages	
	2015	**2014**	**2015**	**2014**
	£m	**£m**	**£m**	**£m**
100%+	0.6	6.2	6.6	2.8
95 - 100%	5.1	16.9	55.2	65.3
90 - 95%	18.5	13.8	200.5	137.6
85 – 90%	14.5	11.6	166.2	71.0
80 – 85%	51.6	38.5	153.6	80.5
75 – 80%	219.1	162.3	138.9	77.8
70 – 75%	323.5	311.1	121.5	101.7
60 – 70%	735.1	698.5	218.3	186.7
50 – 60%	528.8	459.5	145.5	121.2
0 – 50%	521.1	325.7	183.9	135.1
	2,417.9	**2,044.1**	**1,390.2**	**979.7**