Financial statements

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Statement of Directors' responsibilities in respect of the Annual Report and Accounts and the financial statements

The Directors are responsible for preparing the Annual Report and Accounts and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' Report, Remuneration Report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Phillip Monks,

Chief Executive Officer

1 March 2017

Financial statements

Independent auditor's report to the members of Aldermore Group PLC only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Aldermore Group PLC for the year ended 31 December 2016 set out on pages 148 to 204. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Overview

The starting point for our audit was our experience as auditors of the Group since formation, including our assessment of the control environment and capital and liquidity positions, and we combined that with a consideration of external and internal developments and the risks they present to the Group's business model and how these risks are mitigated. These were considered in June 2016, were refreshed following the results of the EU referendum and the half year review, and have been continually reassessed through our interim and final audits. That consideration includes conversations not only with management and the Board, and ongoing knowledge gained through reading pertinent management information, but also reflected the views of the Prudential Regulatory Authority, market analysts, specialists within the firm, and peer comparisons.

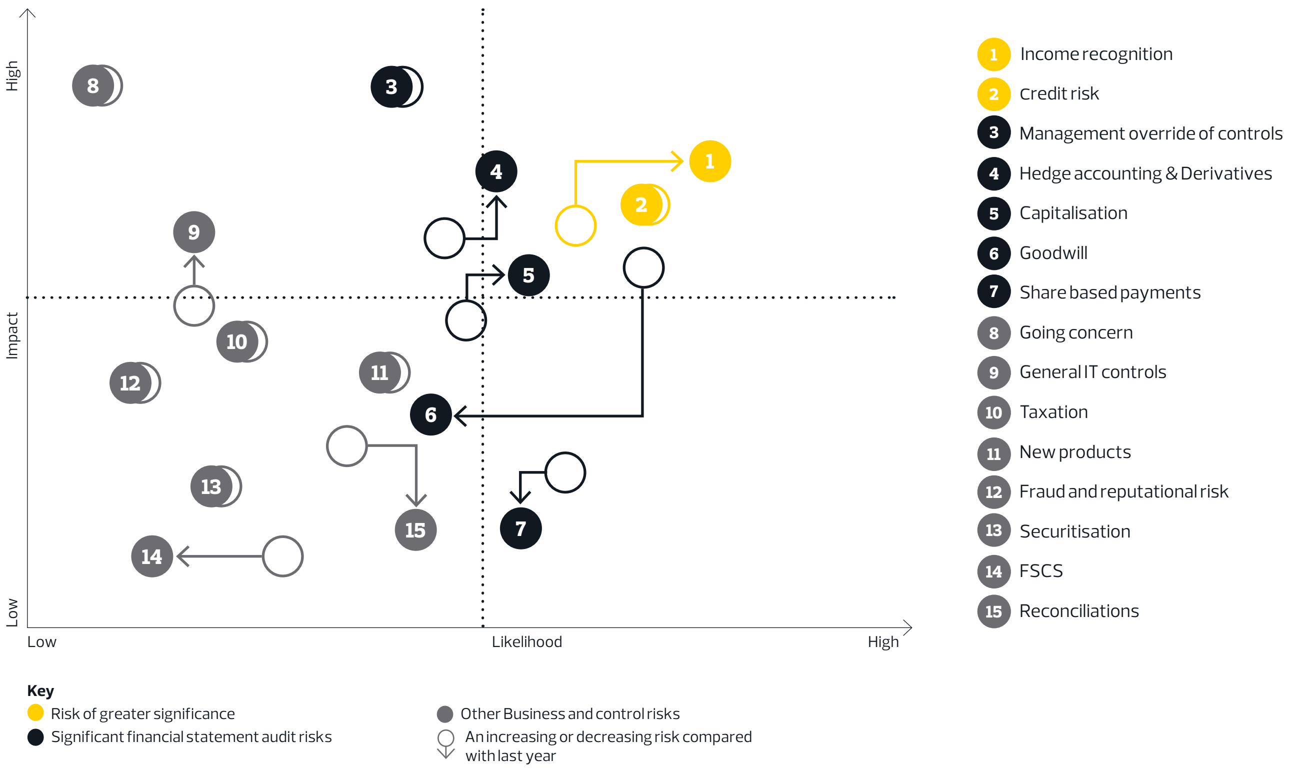
We considered that the impact of regulatory change, the greater competition within some of the Group's markets impacting redemptions, the data migrations due to core system upgrades and the challenge of meeting market expectations would increase the audit risk in the area of income recognition.

We considered that the continued strong loan growth, the challenge of meeting market expectations, the regulatory and tax challenges to the Buy-to-Let market and the impact of the result of the EU referendum could all increase the audit risk in the area of loan impairment. We note, however, that the risk continues to be mitigated through a lower interest rate environment and a relatively benign albeit uncertain credit outlook.

We considered that the audit risk in relation to goodwill has been substantially reduced, given that the Group have fully impaired the goodwill relating to the Invoice Finance Cash Generating Unit at the half year, due to a deterioration in the value of financial services companies following the result of the EU referendum.

Other factors we have considered in assessing the audit risks include the substantial project spend required in relation to systems projects, the emergence of digital and technological disrupters, increased regulation including the need to prepare for major financial reporting changes such as IFRS 9 and the Group's capital raising in October 2016.

The final result of our risk consideration is shown in the table, and we have shown those which have increased or decreased in risk. We are of the view that there are seven areas of significant risk, but two – income recognition and credit risk – represent the greatest significance.



3. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Income Recognition: Effective Interest Rate asset of £34.8 million and offsetting liability of (£31.5 million) (2015: £23.9 million and (£21.5 million) respectively)

Refer to page 65 (Audit Committee Report), page 156 (accounting policy), page 168 (Use of estimates and judgements) and Note 5 (financial disclosures)

The Risk – Measuring interest income on loans and advances to customers under the effective interest rate method (Note 2(a)) requires the Directors to apply judgements, with the most critical being the expected life assumption.

The Group has a number of portfolios (including organic and acquired loans) across a variety of sectors and products which results in a large number of expected life assumptions. The sensitivity to a change in expected life can vary greatly over the portfolios depending on the underlying borrower and the other parameters also included in the effective interest rate calculation such as reversionary interest rates at the end of the fixed term, transaction costs and discounts or premium in place at inception.

The expected life assumptions utilise repayment profiles which represent how customers are expected to repay. The Group has limited historical experience to support these profiles due to the relatively unseasoned nature of its lending. Consequently, the Group makes its expected life assumptions based on its forecasting process which takes into account historical data but also, for the forecast period, the Group's expertise and experience in the sector. As such, any change in the expected life assumptions depend on the Directors' assessment of whether there is any emerging experience or market information that indicates a different repayment profile and by how much. As the forecast profiles extend significantly into the future this creates a high level of estimation uncertainty.

Financial statements

Independent auditor's report to the members of Aldermore Group PLC only continued

This has the greatest impact on the acquired loan portfolios (current balance: £113.4 million) because these were acquired at an upfront discount (unamortised balance: £7.0 million) and repayments are linked to the bank base rate with minimal incentive for the borrowers to remortgage until there is a change in interest rate expectations. This means any change in the repayment profile causes the discount received on purchase of the acquired portfolios to be adjusted and spread over the revised expected life.

In addition, repayment profiles will be affected by future changes in the market – for example, market pricing and the ability of borrowers to remortgage

The models used to measure revenue recognition rely on manual processes and controls which increase the risk associated with model stability and the completeness and accuracy of input data.

Our response – our audit procedures included:

- We tested the design, implementation and operating effectiveness of key controls over the completeness and accuracy of model inputs and the reconciliation of model outputs to the financial statements;
- We performed a reconciliation of data inputs used to measure interest income, including the loans split by product type, to reports from the Group reporting system;
- We tested application controls, with the involvement of our IT specialists, over the completeness and accuracy of the source loan input reports;
- We assessed the accuracy of the models by re-performing a sample of calculations and comparing the methodology used to our interpretation of the requirements of the relevant accounting standard;
- We tested the stability and integrity of the models with the involvement of our IT specialists;
- We challenged the appropriateness of key assumptions, including the expected lives and repayment profiles, by comparing these to the available historical customer trends within the Group, internal forecasts, and to our own expectations based on our knowledge of the Group and experience of the industry in which it operates, including the ability of customers to remortgage based on the current offerings in the market;
- For comparable lending and where available, we benchmarked the Group's expected life assumptions to peer data and/or market information; and
- We also considered the adequacy of the Group's disclosures about the changes in estimate that occurred during the period and the sensitivity disclosures across the key loan books.

Credit Risk: Impairment of loans and advances to customers £15.5 million (2015: £10.4 million)

Refer to page 64 (Audit Committee Report), page 160 (accounting policy), page 166 (Use of estimates and judgements) and Note 22 (financial disclosures)

The Risk – The impairment provision relating to the Group's loan portfolios requires the Directors to make significant judgements and assumptions over the recoverability of loan balances.

The Group performs an assessment of its loans for impairment as described in Note 2(g). The loan provision is most sensitive to assumptions made when assessing the collective provision, in particular in respect of the probability of default and the emergence period. This is because the Group has limited historical experience to support the assumptions made due to the relatively unseasoned nature of its loan portfolios underwritten during a relatively benign economic period.

To assess the probability of default, the Group uses a credit bureau to provide it with probabilities of default based on all available credit data for comparable borrowers. These probabilities are then adjusted (in almost all cases downwards) to reflect the Group's actual borrowers and the nature of its lending. The adjustments ('scalars') are based on the Group's internal data, which would not have been taken into account by the credit bureau. Management also apply overlays to the resultant modelled results to take into account both model risk and emerging risks that may not be otherwise appropriately factored in by the credit bureau.

The emergence period is assessed based on loans for which the Group is able to reliably measure the time between the trigger event occurring and the loans being identified as impaired. As the Group has limited historical data available, particularly in Asset Finance, the estimated emergence period is adjusted upwards (in the form of an overlay) and is based on market insight.

The Group's individual provisions can also require judgement, particularly in SME Commercial Mortgages and Asset Finance, where the valuation of collateral can be difficult to establish due to its specialised nature; as well as the exit strategy adopted, which can significantly impact the timing and value of the cash flows.

There continues to be regulatory focus on lending institutions factoring of forbearance arrangements adequately into their provisioning models.

The impact of the EU referendum result has also been assessed in regards to the potential impairment of collateral prices, uncertainties surrounding the House Price Index and potential increase in emergence periods as property markets have the potential of a slow down due to increased volatility in the funding markets.

Our response – our audit procedures included:

- We tested the design, implementation and operating effectiveness of key controls over the capture, monitoring and reporting of loans and advances to customers;
- We assessed the accuracy of the impairment model for collectively assessed loans, with assistance from our IT specialists, by re-performing a sample of calculations produced by the impairment model and compared the methodology used to our interpretation of the requirements of the relevant accounting standards;
- For loans assessed collectively for impairment we:
  - assessed the competency, reputation and objectivity of the credit bureau that provides the probabilities of default;
  - critically assessed the assumptions made in respect of the probabilities of default (inclusive of the scalars) and the emergence periods against our understanding of the Group as well as our knowledge of the wider market;
  - assessed the reasonableness of the methodology and accuracy of loss given default models;
  - assessed the consistency of the probabilities of default (inclusive of the scalars) and the emergence periods with the limited historic internal data available; assessed and challenged management overlays within the model for completeness and accuracy; and
  - assessed the accuracy of previous estimates of the collective provision.
- For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the financial statements, we specifically challenged the Group's assumptions on the expected future cash flows, including the value of realisable collateral, based on our own understanding of the industry and reviewing latest correspondence on the loan and third party valuations or property indexes;
- Challenged management's assessment of identified cases of concern with material exposure;
- We assessed the performing loan book by using data analytics techniques to identify loans with characteristics that could indicate unidentified impairment;
- We benchmarked the Group's key metrics, such as arrears trends and provision coverage, to externally available data, with particular focus on similar lending; and
- We also considered compliance with the relevant accounting standards including the adequacy of the Group disclosures in relation to impairment.

Financial statements

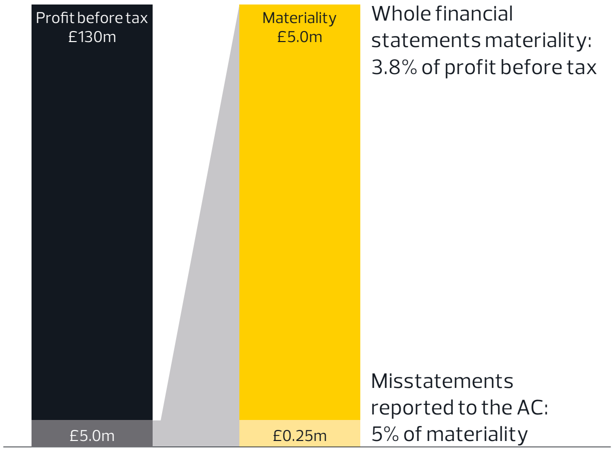
Independent auditor's report to the members of Aldermore Group PLC only continued

4. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £5.0 million (2015: £3.0 million), determined with reference to a benchmark of the Group profit before tax of £130.0 million (2015: £95 million), of which it represents 3.9% (2015: 3.1%).

The benchmark percentage has been increased from 3.1% to 3.9% due to an improved control environment, resulting from increased stability in controls and processes over risks as a listed entity.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.25 million (2015: £0.15 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.



The Group audit team performed the audit of the Group and its only material component as if it were a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets.

5. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the strategic report and the Directors' Report for the financial year is consistent with the financial statements; and
- the information given in the corporate governance statement set out on page 31 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures ("the specified corporate governance information") is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report, the Directors' Report and the corporate governance statement:

- we have not identified material misstatements in the strategic report, the Directors' Report, or the specified corporate governance information;
- in our opinion, the strategic report and the Directors' Report have been prepared in accordance with the Companies Act 2006; and
- in our opinion, the corporate governance statement has been prepared in accordance with rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority.

6. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of risk management on pages 31 to 35, internal control on page 31 and viability reporting on page 31 concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2019; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

7. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; and
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 103 and 31, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on page 40 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 141, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Michael Peck (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

1 March 2017

Financial statements

Consolidated income statement
For the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Interest income	5	358.2	300.4
Interest expense	6	(118.8)	(101.5)
Net interest income		**239.4**	**198.9**
Fee and commission income	7	30.0	25.2
Fee and commission expense	8	(7.5)	(7.0)
Net expense from derivatives and other financial instruments at fair value through profit or loss	9	(4.4)	(2.1)
Gains on disposal of available for sale debt securities		3.8	2.3
Other operating income	10	6.2	7.4
Total operating income		**267.5**	**224.7**
Provisions	33	(0.8)	(2.3)
Costs in respect of initial public offering		–	(4.1)
Impairment of goodwill	11	(4.1)	–
Other administrative expenses		(113.1)	(107.9)
Administrative expenses	11	(118.0)	(114.3)
Depreciation and amortisation	15	(5.3)	(5.3)
Operating profit before impairment losses		**144.2**	**105.1**
Impairment losses on loans and advances to customers	22	(15.5)	(10.4)
Profit before taxation		**128.7**	**94.7**
Taxation	17	(35.2)	(16.4)
Profit after taxation – attributable to equity holders of the Group		**93.5**	**78.3**

Basic earnings per share (pence)	18	25.2p	22.7p
Diluted earnings per share (pence)	18	25.2p	22.6p

The notes and information on pages 153 to 198 form part of these financial statements.

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

Consolidated statement of comprehensive income
For the year ended 31 December 2016

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Profit after taxation	**93.5**	**78.3**
Other comprehensive income/(expense):		
Items that may subsequently be transferred to the income statement:		
Available for sale debt securities:		
Fair value movements	7.6	(0.9)
Amounts transferred to the income statement	(3.8)	(2.1)
Taxation	(1.0)	0.6
Total other comprehensive income/(expense)	**2.8**	**(2.4)**
Total comprehensive income attributable to equity holders of the Group	**96.3**	**75.9**

The notes and information on pages 153 to 198 form part of these financial statements.

Financial statements

Consolidated statement of financial position
As at 31 December 2016

	Note	**31 December 2016 £m**	31 December 2015 £m
Assets			
Cash and balances at central banks		116.4	105.3
Loans and advances to banks	19	67.2	94.2
Debt securities	20	664.5	606.1
Derivatives held for risk management	21	12.4	6.7
Loans and advances to customers	22	7,477.3	6,144.8
Fair value adjustment for portfolio hedged risk		(3.5)	1.1
Other assets	24	3.1	1.4
Prepayments and accrued income	25	3.4	5.1
Deferred taxation	26	11.2	16.4
Property, plant and equipment	27	3.1	3.4
Intangible assets	28	26.1	24.0
Total assets		**8,381.2**	**7,008.5**
Liabilities			
Amounts due to banks	29	753.8	405.1
Customers' accounts	30	6,673.7	5,742.0
Derivatives held for risk management	21	35.8	35.4
Fair value adjustment for portfolio hedged risk		(1.2)	(0.8)
Other liabilities	31	25.0	21.9
Accruals and deferred income	32	27.0	25.7
Current taxation		9.7	12.5
Provisions	33	0.8	1.1
Debt securities in issue	34	130.6	193.9
Subordinated notes	35	100.0	38.1
Total liabilities		**7,755.2**	**6,474.9**
Equity			
Share capital	36	34.5	34.5
Share premium account		73.4	73.4
Contingent convertible securities	38	74.0	74.0
Capital redemption reserve		0.1	0.1
Available for sale reserve		1.8	(1.0)
Retained earnings		442.2	352.6
Total equity		**626.0**	**533.6**
Total liabilities and equity		**8,381.2**	**7,008.5**

The notes and information on pages 153 to 198 form part of these financial statements.

These financial statements were approved by the Board and were signed on its behalf by:

Phillip Monks
Director
1 March 2017

James Mack
Director
1 March 2017

Registered number: 06764335

Consolidated statement of cash flows
For the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Cash flows from operating activities			
Profit before taxation		128.7	94.7
Adjustments for non-cash items and other adjustments included within the income statement	39	11.3	9.1
Increase in operating assets	39	(1,332.8)	(1,317.9)
Increase in operating liabilities	39	1,284.5	1,368.1
Income tax paid		(31.5)	(20.2)
Net cash flows generated from operating activities		**60.2**	**133.8**
Cash flows from investing activities			
Purchase of debt securities		(298.4)	(414.0)
Proceeds from sale and maturity of debt securities		161.7	279.0
Capital repayments of debt securities		87.5	32.9
Interest received on debt securities		12.9	10.5
Purchase of property, plant and equipment and intangible assets		(11.2)	(7.3)
Net cash used in investing activities		**(47.5)**	**(98.9)**
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
Proceeds from the issue of subordinated debt		60.0	–
Issuance costs of subordinated debt		(0.6)	–
Capital repayments on debt securities issued		(63.6)	(85.7)
Purchase of own shares by Employee Benefit Trust		(0.9)	–
Coupon paid on contingent convertible securities		(8.9)	(3.5)
Interest paid on debt securities		(2.0)	(3.0)
Interest paid on subordinated notes		(5.2)	(5.2)
Net cash used in financing activities		**(21.2)**	**(19.5)**
Net (decrease)/increase in cash and cash equivalents		**(8.5)**	**15.4**
Cash and cash equivalents at start of the year	39	149.4	134.0
Movement during the year		(8.5)	15.4
Cash and cash equivalents at end of the year	39	**140.9**	**149.4**

Financial statements

Consolidated statement of changes in equity
For the year ended 31 December 2016

	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 2016									
As at 1 January		34.5	73.4	74.0	0.1	–	(1.0)	352.6	533.6
Total comprehensive income		–	–	–	–	–	2.8	93.5	96.3
Transactions with equity holders:									
– Share-based payments, including tax reflected directly in retained earnings	37	–	–	–	–	–	–	3.6	3.6
– Own shares adjustment	36	–	–	–	–	–	–	(0.9)	(0.9)
– Coupon paid on contingent convertible securities, net of tax		–	–	–	–	–	–	(6.6)	(6.6)
As at 31 December		**34.5**	**73.4**	**74.0**	**0.1**	**–**	**1.8**	**442.2**	**626.0**

	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	36	3.9	71.1	–	–	–	–	–	75.0
– Share issuance costs		–	(2.7)	–	–	–	–	–	(2.7)
– Share-based payments, including tax reflected directly in retained earnings	37	–	–	–	–	–	–	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	36	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**

Notes to the consolidated financial statements

1 Basis of preparation

a) Accounting basis

The consolidated financial statements of Aldermore Group PLC (the "Company") and its subsidiary undertakings (together, the "Group") include its principal subsidiary, Aldermore Bank PLC (the "Bank").

Both the Group consolidated financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"). For IAS 39: "Financial Instruments: Recognition and Measurement" the exclusion regarding hedge accounting (the so called "carve out") decreed by the EU on 19 November 2014 is taken into account.

By including the Company financial statements here together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The principal activity of the Company is that of an investment holding company.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company (jointly referred to as the Group) made up to 31 December each year.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect returns.

If facts and circumstances indicate that there are changes to one or more of the three elements of control listed above, the Company reassesses whether or not it controls an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation.

Securitisation vehicles

The Group has securitised certain loans and advances to customers by the transfer of the beneficial interest in such loans to securitisation vehicles (see Note 22). The securitisation enabled the subsequent issue of debt securities by a securitisation vehicle to investors who have the security of the underlying assets as collateral. The securitisation vehicles are fully consolidated into the Group's accounts as the Group has control as defined above.

The transfer of the beneficial interest in these loans to the securitisation vehicle are not treated as sales by the Group. The Group continues to recognise these assets within its own Statement of Financial Position after the transfer as it continues to retain substantially all the risks and rewards from the assets.

c) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group's forecasts and projections, including a range of stressed scenarios, show that it will be able to operate with adequate levels of both liquidity and capital for the foreseeable future. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its planned expansion. Additionally, the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority ("PRA").

Financial statements

Notes to the consolidated financial statements continued

1. Basis of preparation continued

d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the financial statements:

- derivative financial instruments are measured at fair value through profit or loss;
- certain debt securities which are designated at fair value through profit or loss;
- available for sale debt securities are valued at fair value through other comprehensive income; and
- fair value adjustments for portfolios of financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships, which reflect changes in fair value attributable to the risk being hedged.

e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Note 3.

f) Presentation of risk and capital disclosures

The disclosures required under IFRS 7: "Financial instruments: disclosures" and IAS 1: "Presentation of financial statements" have been included within the audited sections of the Risk Report on page 106. Where information is marked as audited, it is incorporated into these financial statements by this cross reference and it is covered by the Independent Auditor's report on page 142.

g) Future accounting developments

All standards or amendments to existing standards which have been endorsed by the EU and which are available for early adoption for annual periods commencing on or after 1 January 2016 have been adopted by the Group apart from IFRS 9: "Financial Instruments" and IFRS 15: "Revenue from contracts with customers".

There are also a number of standards, amendments and interpretations which have been issued by the IASB but which have not yet been endorsed by the EU. The most significant of these is IFRS 16: "Leases" the planned replacement for IAS 17: "Leases".

IFRS 9: "Financial Instruments" is the comprehensive standard to replace IAS 39 "Financial Instruments: Recognition and Measurement" and was endorsed by the EU on 22 November 2016. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and is required to be applied retrospectively. However, prior periods need not be restated, instead an adjustment may be reflected in opening retained earnings at the start of the period when IFRS 9 is first adopted.

The standard includes requirements for classification and measurement of financial assets and liabilities, hedge accounting and the impairment of financial assets.

Classification and measurement

The classification of financial assets will be based on the objectives of the Group's business model and the contractual cash flow characteristics of the instruments. Financial assets will then be classified as held at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL"). In most instances, the measurement outcomes will be similar to those under IAS 39 and therefore, any changes from the accounting treatment currently followed by the Group under IAS 39 are not expected to be significant. The classification of financial liabilities is essentially unchanged from the treatment under IAS 39.

Impairment of financial assets

Impairment provisions in all financial assets are recognised based on either 12 month expected losses or lifetime expected losses. This will result in the acceleration of the recognition of impairment provisions and will lead to more volatile impairment charges in the income statement. However, whilst IFRS9 represents a significant change compared to IAS 39, the quantum of impairment losses recorded against any one loan over the life of the loan will not change as IFRS 9 alters only the timing of recognition of impairment losses.

IFRS 9 introduces a number of changes to approach as compared to the current methodology under IAS 39. The main changes are:

- Expected credit losses ("ECL") are based on an assessment of the probability of default, loss given default and exposure at default discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted to reflect a range of possible outcomes taking into account all reasonable and supportable information including forward-looking economic assumptions.
- On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of origination, IFRS 9 provisions will be made to reflect ECL arising from expected credit default events within the next 12 months.
- A key requirement of IFRS 9, compared with the existing impairment approach under IAS 39, relates to assets where there has been a significant increase in credit risk since the date of origination. Provisions will be made for those assets expected to default at any point over their lifetime, reflecting the asset's full expected loss.
- For assets where there is evidence of credit impairment, provisions will be made under IFRS 9 for lifetime expected credit losses, taking account of forward looking economic assumptions and a range of possible outcomes. Under IAS 39, provisions are currently based on the asset's carrying value and the present value of the estimated future cash flows.

It is not anticipated that changes in the approach to impairment will have a significant impact on the Group's provisions in respect of specifically impaired loans, as the current provisions on such loans are based on estimates of lifetime expected losses arising based on expected future cash flows, but excluding any future credit losses that have not yet been incurred.

In respect of other loans, against which collective provisions are raised, our current approach, as explained in Note 3(a), is to estimate probabilities of default for the next 12 months. This approach is similar to that which will be required under IFRS 9 except, that in order to measure incurred losses, as required by IAS 39, management currently adjust the calculated 12 month expected loss, which is based on management's current best estimates, for an emergence period based on the nature of the underlying asset enabling management to reflect only the impairment considered to have been incurred at the reporting date. Under IFRS 9, the estimated probabilities of default will need to be probability weighted, based on a range of possible economic scenarios.

While the Group's current approach to calculating collective impairment provisions (as described above) has similarities to the approach required under IFRS 9, it should be noted that IFRS 9 is a complex accounting standard and the Group's detailed credit modelling approach remains under development.

Hedge accounting

The hedge accounting requirements of IFRS 9 are designed to create a stronger link with financial risk management. At present, IFRS 9 does not address the portfolio hedging of interest rate risk currently undertaken by the Group. Pending development of the IASB's proposals for dynamic risk management (macro hedge accounting), to be considered in a separate accounting standard, IFRS 9 allows the option to continue to apply the existing hedge accounting requirements of IAS 39. The Group plans to exercise the accounting policy choice to continue IAS 39 hedge accounting (including the so called "carve out" as described in Note 2(j)).

Financial statements

Notes to the consolidated financial statements continued

1. Basis of preparation continued

Implementation

The Group has established an IFRS 9 programme. The programme is jointly sponsored by the Chief Financial Officer and Chief Risk Officer. The programme is cross-functional with representation from (but not limited to) Finance, Risk and IT. Progress is regularly reported to the IFRS 9 Steering Group and the Audit Committee.

The key features of the programme include defining the IFRS 9 methodology and accounting policies, identifying data, reconciliation and system requirements, and the development and establishment of appropriate and compliant operating models within an appropriate governance framework.

Extensive work is being carried out with regards to technical analysis, the development of the credit models and the design of the required changes to systems, data, business processes, reporting and governance relating to impairment provisions. During 2017, work will include building and testing of credit models and validating outputs, development of management information, implementation of business process changes and a parallel run phase.

The financial impact of IFRS 9 will be quantified once models and systems are further developed. Impacts are expected to be disclosed no later than in the financial statements for the year ending 31 December 2017.

The IASB has also issued IFRS 15: "Revenue from contracts with customers". IFRS 15 provides a principles-based approach to recognise revenue and the concept of recognising revenue for obligations as they are satisfied. The impact for the Group is currently being assessed but may impact our treatment of fees and commissions and other operating income, the majority of which relates to the Invoice Finance business. The Standard was endorsed on 29 October 2016 and will be effective for annual reporting periods beginning on or after 1 January 2018 with retrospective application permitted.

On 13 January 2016, the IASB issued IFRS 16: "Leases" as a replacement for IAS 17: "Leases". The Standard will be effective for annual reporting periods beginning on or after 1 January 2019, with early application being permitted for companies that also apply IFRS 15. The impact for the Group is currently being assessed. A significant change will be the inclusion of a "right of use asset" within the statement of financial position in respect of the benefit the Group receives where it leases assets under operating leases, together with a financial liability in respect of the obligation to make operating lease payments. Within the income statement, an operating charge will be reflected in respect of the use of the asset together with interest expense in relation to the financing, replacing the current operating lease charges included in administrative expenses.

2. Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognised in the income statement on an effective interest rate ("EIR") basis. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider the assets' future credit losses.

At each reporting date, management makes an assessment of the expected remaining life of its financial assets, including any acquired loan portfolios and where there is a change in those assessments, the remaining amount of any unamortised discount or premiums is adjusted so that the interest income continues to be recognised prospectively on the amortised cost of the financial asset at the original EIR. The adjustment is recognised within interest income in the income statement for the current period.

The calculation of the EIR includes all transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premium arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis;
- Interest on available for sale debt securities calculated on an EIR basis;
- Interest income recognised on finance leases where the Group acts as the lessor (see Note 2(o));
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk together with changes in the fair value of the hedged item attributable to the hedged risk; and
- Interest income on financial assets designated at fair value so as to avoid an accounting mismatch with derivatives held as an "economic" hedge and the matching interest component of the derivative.

Interest income includes amounts the Group charges its Invoice Finance clients as interest each day on the balance of their outstanding loans. This interest income is recognised in the income statement on an EIR basis.

(b) Fee and commissions and other operating income

i. Fee and commission income

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

Within the Invoice Finance segment of the Group, customers are charged a factoring fee for managing their sales ledgers. This fee is recognised within fee and commissions income over the period in which the ledger management service is provided.

Other fee and commission income includes fees charged for mortgage services, arrears, and insurance commission receivable. Fee income is recognised as the related services are performed.

Arrangement fees and other fees relating to loans and advances which do meet the criteria for inclusion within interest income are included as part of the EIR.

ii. Fee and commission expense

Fee and commission expense predominantly consists of introducer commissions, legal and valuation fees and company search fees. Where these fee and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable, they are recognised within fee and commission expense as the services are received.

iii. Other operating income

Other operating income predominantly arises from the provision of invoice finance services and includes disbursements and collect out income. This income is recognised within other operating income when the service is provided.

(c) Net income from derivatives and other financial instruments at fair value through profit or loss

Net income from derivatives and other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement and financial assets designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest and foreign exchange differences with the exception of interest income on financial assets designated at fair value and the matching interest component of the hedging derivatives. The assets designated at fair value are treated in this manner so as to avoid an accounting mismatch with derivatives held as an "economic" hedge.

(d) Financial instruments—recognition and derecognition

i. Recognition

The Group initially recognises loans and advances, amounts due to banks, customer accounts and subordinated notes issued on the date that they are originated.

Regular way purchases and sales of debt securities and derivatives are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial statements

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

ii. Derecognition

Financial assets are derecognised when there are qualifying transfers and:

- the rights to receive cash flows from the assets have ceased; or
- the Group has transferred substantially all the risks and rewards of ownership of the assets.

When a financial asset is derecognised in its entirety, the difference between the carrying amount, the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

When available for sale financial assets are derecognised, the cumulative gain or loss, including that previously recognised in reserves, is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through the income statement.

iii. Funding for Lending Scheme (“FLS”)

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the FLS are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership including all cash flows arising from the loans and advances and exposure to credit risk. The treasury bills that the Group borrows against the transferred assets are not recognised in the statement of financial position but, where they are sold to third parties by the Group under agreements to repurchase, the cash received is recognised as an asset within the statement of financial position together with the corresponding obligation to return it which is recognised as a liability at amortised cost within ‘Amounts due to banks’. Interest is accrued over the life of the agreement on an EIR basis.

iv. Term Funding Scheme (“TFS”)

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the TFS are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership including all cash flows arising from the loans and advances and exposure to credit risk. The cash received against the transferred assets is recognised as an asset within the statement of financial position, together with the corresponding obligation to return it, which is recognised as a liability at amortised cost within ‘Amounts due to banks’. Interest is accrued over the life of the agreement on an EIR basis.

(e) Financial assets

i. Overview

The Group classifies its financial assets (excluding derivatives) as either:

- loans and receivables;
- available for sale; or
- financial assets designated at fair value through profit or loss.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount, less impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to banks and customers.

iii. Available for sale

Available for sale financial assets are debt securities that are not held for trading and are intended to be held for an indefinite period of time. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current quoted bid prices in active markets for identical assets that the Group can access at the reporting date. Where there is no active market, or the debt securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment losses are recognised in the income statement. Other fair value changes are recognised in other comprehensive income and presented in the available for sale reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

iv. Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss are assets which have been designated as such to eliminate or significantly reduce a measurement and recognition inconsistency or where management specifically manages an asset or liability on that basis. These assets are measured at fair value based on current quoted bid prices in active markets for identical assets that the Group can access at the reporting date. Gains and losses arising from changes in the fair value are brought into the income statement within 'Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss' as they arise. The Group disposed of all of its financial assets designated at fair value through profit or loss during 2015.

(f) Financial liabilities

i. Overview

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs for financial liabilities other than derivatives. Financial liabilities, other than derivatives, are subsequently measured at amortised cost.

ii. Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the EIR method.

iii. Subordinated notes

Subordinated notes issued by the Group are assessed as to whether they should be treated as equity or financial liabilities. Where there is a contractual obligation to deliver cash or other financial assets, they are treated as a financial liability and measured at amortised cost using the EIR method after taking account of any discount or premium on the issue and directly attributable costs that are an integral part of the EIR. The amount of any discount or premium is amortised over the period to the expected call date of the instrument.

All subordinated notes issued by the Group are classified as financial liabilities.

(g) Impairment—financial assets

i. Assessment

At each reporting date, the Group assesses its financial assets not at fair value through profit or loss as to whether there is objective evidence that the assets are impaired. Objective evidence that financial assets are impaired may include:

- significant financial difficulty of the borrower;
- a breach of contract such as default or delinquency in interest or principal repayments;
- the granting of a concession for economic or legal reasons relating to the borrower's financial condition that the Group would not otherwise grant;
- indications that a borrower or issuer will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a debt security because of the issuer's financial difficulties; or

Financial statements

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

- national or local economic conditions that correlate with defaults within groups of financial assets e.g. increases in unemployment rates or decreases in property prices relating to the collateral held.

The Group considers evidence for the impairment of loans and advances at both the individual asset and collective level. In certain cases, where a borrower is experiencing significant financial distress, the Group may use forbearance measures to assist them and mitigate against default. Any forbearance measures agreed are assessed on a case by case basis.

ii. Scope

The Group considers evidence of impairment of financial assets at both an individual asset and collective level.

Individual impairment

All individually significant financial assets are assessed for individual impairment using a range of risk criteria. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets may be considered to be individually impaired where they meet one or more of the following criteria:

- a default position equivalent to three or more missed monthly repayments (or a quarterly payment which is more than 30 days past due);
- litigation proceedings have commenced;
- act of insolvency, e.g. bankruptcy, administration or liquidation, or appointment of an LPA Receiver;
- invoice finance accounts are classified as in default when there is cessation of additional advances and/or when the facility is in collect out; or
- where there is evidence of fraud.

Collective impairment

All financial assets that are not found to be individually impaired are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

iii. Measurement

Impairment provisions on financial assets individually identified as impaired are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR.

When assessing collective impairment, the Group estimates incurred losses using a statistical model which multiplies the probability of default ("PD") for each class of customer (using external credit rating information) by the loss given default ("LGD") multiplied by the estimated exposure at default ("EaD") to arrive at the projected expected loss. An emergence period is subsequently applied to the projected expected loss to determine the estimated level of incurred losses at each reporting date. In addition, an adjustment is made to discount the imputed cash flows from the model at the assets' original EIR to arrive at the recorded collective provisions. The model's results are adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to differ from those suggested by historical modelling.

In assessing the level of collective impairment provisions, the Group uses statistical modelling of historical trends of probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes to ensure they remain appropriate.

Impairment losses are recognised immediately in the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of a financial asset is deemed uncollectable or forgiven after all collection procedures have been completed and the amount of the loss has been determined. Write-offs are charged against amounts previously reflected in the allowance account or directly to the income statement. Any additional amounts recovered after a financial asset has been previously written-off are offset against the write-off charge in the income statement. Allowances for impairment losses are released at the point when it is deemed that, following a subsequent event, the risk has reduced such that an allowance is no longer required.

Interest on impaired financial assets is recognised at the same EIR as applied at the initial recognition of the financial asset but applied to the book value of the financial asset net of any individual impairment allowance that has been raised.

iv. Impairment of financial assets classified as available for sale

Impairment losses on available for sale debt securities are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to the income statement. The cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value less any impairment loss recognised previously in the income statement. Changes in impairment provisions attributable to the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed.

(h) Financial instruments—fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Where applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing on an ongoing basis.

Where there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimises the use of unobservable inputs. The chosen valuation techniques incorporate factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price. If an asset measured at fair value has a bid and an offer price, the Group measures assets and long positions at the bid price and liabilities at the offer price.

(i) Derivative financial instruments

The Group enters into derivative transactions only for the purpose of reducing exposures to fluctuations in interest rates, exchange rates and market indices; they are not used for proprietary trading purposes.

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties. As the Group's derivatives are covered by master netting agreements with the Group's counterparties, with any net exposures then being further covered by the payment or receipt of periodic cash margins, the Group has used a risk-free discount rate for the determination of their fair values.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative.
Where there is the current legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within 'Amounts due to banks'. Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in 'Loans and advances to banks'.

Financial statements

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

(j) Hedge accounting

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective, the strategy in undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated.

i. Fair value hedge accounting for portfolio hedges of interest rate risk

The Group applies fair value hedge accounting for portfolio hedges of interest rate risk. As part of its risk management process, the Group identifies portfolios whose interest rate risk it wishes to hedge. The portfolios comprise either only assets or only liabilities. The Group analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates as the hedged item an amount of the assets or liabilities from each portfolio that it wishes to hedge.

The Group measures monthly the change in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as a separate item, 'Fair value adjustment for portfolio hedged risk', either within assets or liabilities as appropriate. This amount is amortised on a straight line basis to the income statement over the remaining average life of the original hedge relationship from the month in which it is first recognised.

The Group measures the fair value of each hedging instrument monthly. The value is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

(k) Embedded derivatives

A derivative may be embedded in another instrument, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on the statement of financial position with 'Derivatives held for risk management' at fair value. Movements in fair value are recognised in the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular asset or liability.

Embedded derivatives contained within equity instruments are considered separately. The embedded derivative on the contingent convertible securities is not separated as the Group has an accounting policy not to separate a feature that has already been considered in determining that the entire issue is a non-derivative equity instrument.

(l) Property, plant and equipment

Items of property, plant and equipment are stated at cost, or deemed cost on transition to IFRSs, less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset or costs incurred in bringing the asset in to use. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of each asset to realisable values on a straight line basis over its expected useful life, as follows:

- Fixtures, fittings and equipment — five years
- Computer hardware — one to five years

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

(m) Intangible assets

i. Goodwill

Goodwill is stated at deemed cost upon transition to IFRSs less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment on an annual basis. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

ii. Computer systems

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Software is amortised on a straight line basis in the income statement over its useful life from the date that it is available for use. The estimated useful life of software is one to five years.

(n) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, i.e. goodwill and other intangible assets, are reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

i. Goodwill

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to operating segments. An impairment loss is recognised if the carrying amount of a segment is less than its recoverable amount.
The recoverable amount of a segment is the greater of its value in use and its fair value less costs to sell. Value in use is calculated from forecasts by management of post-tax profits for the subsequent five years and a residual value discounted at a risk adjusted interest rate appropriate to the cash generating unit. Fair value is determined through review of precedent transactions for comparable businesses.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

ii. Other intangible assets

If impairment is indicated, the asset's recoverable amount, being the greater of value in use and fair value less costs to sell, is estimated. Value in use is calculated by discounting the future cash flows from continuing use of the asset. If the carrying value of the asset is less than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement.

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

(o) Assets leased to customers

Leases of assets to customers are finance leases as defined by IAS 17. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised within interest income in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return ignoring tax cash flows.

(p) Assets leased from third parties

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within administrative expenses or staff costs (in the case of company cars), on a straight line basis over the period of the lease. The Group holds no assets under finance leases.

Financial statements

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

(q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Group has an obligation to contribute to the Financial Services Compensation Scheme ("FSCS") to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and from the point when the Group has an obligation in accordance with IAS 37. The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits. The FSCS provision is recognised at the commencement of the scheme year in line with IFRIC 21.

(r) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities held at the statement of financial position date are translated into sterling using the exchange rates ruling at the statement of financial position date. Exchange differences are charged or credited to the income statement.

(s) Taxation

Taxation comprises current and deferred tax, and is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Pension costs

The cost of providing retirement benefits is charged to the income statement at the amount of the defined contributions payable for each year. Differences between contributions payable and those actually paid are shown as accruals or prepayments.
The Group has no defined benefit pension scheme.

(u) Shareholders' funds

i. Capital instruments

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Company to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, or where the instrument will or may be settled in the Company's own equity instruments but includes no obligation to deliver a variable number of the Company's own equity instruments, then it is treated as an equity instrument. Accordingly, the Company's share capital and contingent convertible securities are presented as components of equity.

Any dividends, interest or other distributions on capital instruments are also recognised in equity. Any related tax is accounted for in accordance with IAS 12.

ii. Share premium

Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of the shares issued.

(v) Capital raising costs

Costs directly incremental to the raising of share capital are netted against the share premium account. Costs directly incremental to the raising of convertible securities included in equity are offset against the proceeds from the issue within equity.

(w) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(x) Investment in group undertakings

Investments in group undertakings are initially recognised at cost. At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired such that the recoverable amount is lower than the carrying value.

(y) Warrants

The Company's subsidiary, Aldermore Bank PLC, previously issued subordinated notes with attached warrants. The warrants gave the holders the right to subscribe for shares in the Company. These warrants were exercised during 2015 resulting in an increase in share capital and share premium. On exercise, the warrant reserve was re-classified to retained earnings.

(z) Share-based payment transactions

Employees (including Senior Executives) of the Group may receive remuneration in the form of equity settled share-based payments to incentivise and reward future strong, long-term business performance and growth.

The grant date fair value is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The grant date fair value is determined using valuation models which take into account the terms and conditions attached to the awards. Inputs into valuation models may include the risk-free interest rate, the expected volatility of the Company's share price and other factors related to performance conditions attached to the awards.

The amount recognised as an expense is adjusted to reflect differences between expected and actual outcomes, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market performance conditions or non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Within the Parent Company standalone financial statements, the share-based payment transactions are recognised as an investment in Group undertakings with an associated credit to the share-based payment reserve.

Employee Benefit Trust ("EBT")

An EBT purchased shares in the Company for the sole purpose of satisfying awards under employee share plans. These shares continue to be held within the acquiring EBT, which is consolidated in these financial statements as the EBT is deemed to be controlled by the Group.

Where an Employee Benefit Trust ('EBT') purchases the Company's share capital, the consideration paid is deducted from shareholders' equity as own shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Financial statements

Notes to the consolidated financial statements continued

3. Use of estimates and judgements

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to loan impairment provisions, EIR, and Invoice Finance goodwill.

(a) Loan impairment provisions

Loan portfolios across all segments of the Group are reviewed on at least a monthly basis to assess for impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and by the reporting date. The calculation of impairment loss is management's best estimate of losses incurred in the portfolio at the statement of financial position date and reflects expected future cash flows based on both the likelihood of a loan or advance being written-off and the estimated loss on such a write-off.

At 31 December 2016, gross loans and advances to customers totalled £7,504.7 million (31 December 2015: £6,165.5 million) against which impairment allowances of £27.4 million (31 December 2015: £20.7 million) had been made (see Note 22). The Group's accounting policy for loan impairment provisions on financial assets classified as loans and receivables is described in Note 2(g). Impairment allowances are made up of two components, those determined individually against specific assets and those determined collectively. Of the impairment allowance of £27.4 million at 31 December 2016, £14.3 million (31 December 2015: £10.2 million) relates to individual provisions and £13.1 million (31 December 2015: £10.5 million) relates to collective provisions. The section below provides details of the critical elements of judgement within the loan impairment calculations. Less significant judgements are not disclosed.

i. Individual

Individual impairment allowances are established against the Group's individual financial assets that are deemed by management to be impaired. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions, the financial status of the customer and the realisable value of the security held. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

ii. Collective

The collective impairment allowance is also subject to estimation uncertainty and, in particular, is sensitive to changes in economic and credit conditions, including house prices, unemployment rates, interest rates, borrowers' behaviour and consumer bankruptcy trends. All of these factors can influence the key assumptions detailed below. However, it is inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance.

The key assumptions used in the collective impairment model are: probability of default ("PD"), the loss given default ("LGD") and the loss emergence period ("EP") (the time between a trigger event occurring and the loans being identified as individually impaired). An additional element is included within the collective provision to reflect fraud losses that are incurred as at the reporting date but are yet to be individually identified.

The Group uses two types of underlying models to calculate the LGD, depending on the availability of default data. For SME Commercial Mortgages, Buy-to-Let and Residential Mortgages the models use a range of key assumptions to derive an expected LGD. The key assumptions are based on management expertise and are validated against available data. For Asset Finance and Invoice Finance, the models are empirical models which use historical loss data to determine the risk drivers behind the loss.

This allows the portfolios to be segmented into homogeneous buckets to derive an LGD. Further details in respect of assumptions and details of the sensitivity of the estimate to changes in significant assumptions are as follows:

Probability of default:

The PD is based on external individual customer credit rating information updated for each reporting date. This external credit rating information gives a PD in the next 12 months where 'default' is defined as loans which are 2 months or more in arrears ("2 MIA") and incorporates credit information from a broad range of financial services products for each customer.

Management make an estimate so as to adjust the external data to reflect both the individual nature of the Group's lending and the Group's policy of classifying loans which are 3 months or more in arrears ("3 MIA") as 'impaired'. This adjustment is achieved by using two management assumptions: firstly a 'conversion rate' that reflects how many of the loans which fall into 2 MIA will also fall into 3 MIA; and secondly a scalar that adjusts the external PDs to reflect the individual nature of the Group's lending.

- A 10 per cent. absolute increase in the 'conversion rate' assumed by management between 2 MIA and 3 MIA (e.g. a PD increasing from 50 per cent to 60 per cent), when the loans are considered to be individually impaired would increase the impairment allowance by £0.5 million.
- A 10 per cent. relative reduction in the scaling factors applied to external data in order to arise at PDs appropriate to the individual nature of lending being undertaken would increase the impairment allowance by £0.7 million.

Loss given default:

The model calculates the LGD from the point of repossession of the asset. Not all cases that are 3 MIA will reach repossession. Management therefore adjust the model by applying an assumption of the percentage of accounts 3 MIA that will reach repossession.

- A 10 per cent. absolute reduction in this assumption would decrease the impairment allowance by £0.5 million.

The LGD is also sensitive to the application of the House Price Index ("HPI") and Forced Sale Discount ("FSD") which affect the underlying value of the collateral which is expected to be received.

- A 10 per cent. relative reduction in the HPI would increase the overall impairment allowance by £2.6 million.
- A 5 per cent. absolute increase in the FSD would increase the overall impairment provision by £2.0 million.

The above assumptions are important factors when calculating the LGD to be applied for the Mortgage business.

For the Asset Finance and Invoice Finance model, the assumption with most judgment is the absolute LGD value calculated.

- A 10 per cent. relative increase in the LGD's applied in Asset Finance and Invoice Finance would increase the overall impairment allowance by £0.9 million.

Emergence period:

The Group's collective models estimate the expected losses for the next 12 months, these are then scaled back using the emergence period to reflect the level of incurred loss as at the reporting date. The emergence period is the time taken from the trigger event (such as a job loss) to the Group identifying the loan as impaired. The emergence period varies by segment and requires management to make judgements because of the limited data available. During the year, management increased the emergence period applied to the Mortgage businesses by three months in order to apply a degree of caution to reflect the potential impact of political and economic uncertainty resulting from the EU referendum. The impact of this change was to increase the collective provisions by £1.6 million.

- A further three month increase in emergence periods for Asset Finance and Invoice Finance would increase the overall impairment allowance by £4.5 million.

Financial statements

Notes to the consolidated financial statements continued

3. Use of estimates and judgements continued

(b) Effective interest rate ("EIR")

IAS 39 requires interest earned from mortgages to be measured under the EIR method. Management must therefore use judgement to estimate the expected life of each type of instrument and hence the expected related cash flows. The accuracy of the EIR would therefore be affected by unexpected market movements resulting in altered customer behaviour and inaccuracies in the models used compared to actual outcomes.

A critical estimate in determining EIR is the expected life to maturity of the Group's SME Commercial, Buy-to-Let and Residential Mortgage portfolios, as a change in these estimates will impact the period over which the directly attributable costs and fees and any discount received on the acquisition of mortgage portfolios are recognised as part of the EIR.

Included within the overall Mortgages book, are a small number of portfolios which were acquired by the Group and, as at 31 December 2016, represent approximately 2 per cent, 2 per cent and 3 per cent of SME Commercial, Buy-to-Let and Residential Mortgages net loans respectively. These portfolios were acquired at a discount which is being recognised under the EIR method. As disclosed below, these portfolios, although representing a small proportion of overall lending, are sensitive to a change in the expected repayment profiles which would impact the periods over which the discount is to be unwound.

As at 31 December 2016 and 31 December 2015 , a reassessment was made of the estimates used in respect of the expected lives of the SME Commercial, Buy-to-Let and Residential Mortgage portfolios and also of those for the Asset Finance portfolios. As a consequence, an overall adjustment of £0.5 million (2015: £0.4 million) was recorded to increase the value of the loan portfolios and the interest income recognised in the current period, so that interest can continue to be recognised at the original effective interest rate over the remaining life of the relevant lending portfolios.

The adjustment made at 31 December is analysed as follows:

	Impact on 2016 interest income £m	Impact on 2015 interest income £m
Asset Finance – organic lending	**(1.8)**	(1.6)
SME Commercial – acquired portfolios	**–**	(0.7)
SME Commercial – organic lending	**0.2**	(0.9)
Buy-to-Let – acquired portfolios	**(1.1)**	(0.6)
Buy-to-Let – organic lending	**0.1**	0.1
Residential – acquired portfolios	**(0.4)**	(1.1)
Residential – organic lending	**3.5**	5.2
	0.5	0.4

A change in the estimated expected lives, after taking account of the above adjustment, to extend the expected lives of the SME Commercial, Buy-to-Let and Residential Mortgage portfolios by six months would have the effect of reducing the cumulative profit before tax recognised as at 31 December 2016 by £1.4 million (31 December 2015: £1.5 million). Included within this sensitivity of £1.4 million, is a £3.1 million cumulative reduction in profit relating to acquired portfolios (31 December 2015: £2.8 million) due to a change in the unwind of the discount which is offset by a £1.7 million cumulative increase in profit relating to the organic portfolios (31 December 2015: £1.3 million).

A 0.5 per cent. increase in the rate of early redemptions, expressed as a percentage of the outstanding balance in respect of the Asset Finance portfolio would have the impact of reducing cumulative profit before tax recognised as at 31 December 2016 by £0.5 million (31 December 2015: £0.3 million).

(c) Share-based payments

The fair value of the share awards is calculated using statistical models. The inputs to these models require management judgement to estimate the probability and timings of events taking place in the future. The significant inputs used in the models include the exercise price, share price, expected volatility, expected life and the risk free rate. The share-based payment recognised can be materially affected by these assumptions. Further information on the key assumptions can be found in Note 37.

(d) Invoice Finance goodwill

IAS 36 requires an assessment of goodwill balances for impairment on at least an annual basis. An impairment charge should be recognised where the recoverable amount from the segment is less than the carrying value of the goodwill.

During 2016, as a result of the general fall in market values of financial services businesses that occurred following the EU referendum, there was an indication of impairment and the Invoice Finance goodwill was fully impaired. An impairment charge of £4.1 million has been recognised in the income statement.

4. Segmental information

The Group has five reportable operating segments as described below which are based on the Group's five lending segments plus Central Functions. Each segment offers groups of similar products and services and are managed separately based on the Group's internal reporting structure.

SME Commercial Mortgages, Buy-to-Let and Residential Mortgages are operated under a single management team and supported by a single IT platform. Shared administrative expenses in the mortgage business have been apportioned across these segments on the basis of business activity levels in each segment.

However, the characteristics of the three segments are sufficiently different, are reported separately to the Board and therefore, they represent separate operating segments in accordance with IFRS 8.

For each of the reportable segments, the Board, which is the Group's Chief Operating Decision Maker, reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Asset Finance – Lease and hire purchase financing for SMEs, focusing on sectors with strong returns and liquid secondary asset markets;
- Invoice Finance – provides UK SMEs with working capital solutions through invoice discounting, factoring and asset based lending;
- SME Commercial Mortgages – Property finance needs of professional, commercial property investors, and owner-occupier SMEs. Targets prime and specialist prime segments with loan sizes generally below £5 million;
- Buy-to-Let – Offers a wide range of standard and specialist buy-to-let mortgages for residential units, multi-unit freehold or houses with multiple-occupation ("HMO") to both individuals and companies; and
- Residential Mortgages – Prime residential mortgages targeting underserved segments of creditworthy borrowers that provide attractive and sustainable margins.

Central Functions includes the reconciling items between the total of the five reportable operating segments and the consolidated income statement. As well as common costs, Central Functions includes the Group's Treasury and Savings functions which are responsible for raising finance on behalf of the operating segments. The costs of raising finance are all recharged by Central Functions to the operating segments, apart from those costs relating to the subordinated notes and the net expense/income from derivatives held at fair value shown in Note 6.

Common costs are incurred on behalf of the operating segments and typically represent savings administration, back office and support function costs such as Finance, Risk and Human Resources. The costs are not directly attributable to the operating segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group is shown below. Performance is measured based on the segmental result as included in the internal management reports.

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Notes to the consolidated financial statements continued

4. Segmental information continued

Segmental information for the year ended 31 December 2016

	Asset Finance £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	87.3	7.0	58.4	135.6	75.7	(5.8)	358.2
Interest expense – external customers	–	–	–	–	–	(118.8)	(118.8)
Interest (expense)/income – internal	(27.9)	(2.2)	(13.0)	(45.2)	(26.1)	114.4	–
Net fees and other income – external customers	4.2	14.2	1.3	6.8	1.9	(0.3)	28.1
Total operating income	**63.6**	**19.0**	**46.7**	**97.2**	**51.5**	**(10.5)**	**267.5**
Administrative expenses including depreciation and amortisation	(12.9)	(10.3)	(3.1)	(10.7)	(4.5)	(81.8)	(123.3)
Impairment losses on loans and advances to customers	(5.6)	(1.7)	(2.9)	(3.4)	(1.9)	–	(15.5)
Segmental result	**45.1**	**7.0**	**40.7**	**83.1**	**45.1**	**(92.3)**	**128.7**
Tax							(35.2)
Profit after tax							**93.5**
Assets	1,573.4	154.1	929.9	3,326.0	1,493.9	903.9	8,381.2
Liabilities	–	–	–	–	–	(7,755.2)	(7,755.2)
Net assets/(liabilities)	**1,573.4**	**154.1**	**929.9**	**3,326.0**	**1,493.9**	**(6,851.3)**	**626.0**

1 Central Functions administrative expenses of £81.8 million includes an impairment charge of £4.1 million in relation to Invoice Finance goodwill.

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[1] £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**

1 Central Functions administrative expenses of £74.2 million includes costs in relation to the Group's Initial Public Offering of £4.1 million.

5. Interest income

	2016 £m	2015 £m
On financial assets not at fair value through profit or loss:		
On loans and advances to customers	364.0	305.4
On loans and advances to banks	0.7	0.7
On debt securities	12.4	11.1
	377.1	**317.2**
On financial assets at fair value through profit or loss:		
Net interest expense on financial instruments hedging assets	(18.9)	(18.5)
Net interest income on debt securities designated at fair value	–	1.7
	358.2	**300.4**

Included within interest income on loans and advances to customers for the year ended 31 December 2016 is a total of £3.4 million (31 December 2015: £3.2 million) relating to impaired financial advances.

Included within net interest expense on financial instruments hedging assets are fair value losses of £0.3 million (31 December 2015: gains of £2.7 million) on derivatives held in qualifying fair value hedging arrangements, together with losses of £4.4 million (31 December 2015: losses of £6.1 million) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on loans and advances to customers.

6. Interest expense

	2016 £m	2015 £m
On financial liabilities not at fair value through profit or loss:		
On customers' accounts	109.8	91.6
On amounts due to banks	2.6	2.8
On debt securities in issue	2.3	3.5
On subordinated notes	7.7	6.5
	122.4	**104.4**
On financial liabilities at fair value through profit or loss:		
Net interest income on financial instruments hedging liabilities	(5.6)	(4.5)
Other	2.0	1.6
	118.8	**101.5**

Included within net interest income on financial instruments hedging liabilities are fair value gains of £2.1 million (31 December 2015: losses of £1.8 million) on derivatives held in qualifying fair value hedging arrangements, together with gains of £0.4 million (31 December 2015: gains of £2.3 million) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on customers' accounts.

7. Fee and commission income

	2016 £m	2015 £m
Invoice Finance fees	11.9	12.6
Valuation fees	7.0	4.1
Documentation fees	2.8	3.2
Other fees	8.3	5.3
	30.0	**25.2**

Note 2(b) Fee and commissions and other operating income provide further details of items included within Other fees.

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continued

8. Fee and commission expense

	2016 £m	2015 £m
Introducer commissions	1.5	1.7
Legal and valuation fees	3.4	2.7
Company searches and other fees	1.3	1.6
Credit protection and insurance charges	1.3	0.8
Other	–	0.2
	7.5	**7.0**

9. Net expense from derivatives and other financial instruments at fair value through profit or loss

	2016 £m	2015 £m
Net (losses)/gains on derivatives	(6.5)	5.0
Net (losses) on assets designated at fair value through profit or loss	–	(0.2)
Net gains/(losses) on available for sale assets held in fair value hedges	2.1	(6.9)
	(4.4)	**(2.1)**

10. Other operating income

	2016 £m	2015 £m
Disbursements, collect out and other invoice finance income	6.2	6.4
Other	–	1.0
	6.2	**7.4**

11. Administrative expenses

	Note	2016 £m	2015 £m
Staff costs	12	64.3	62.1
Legal and professional and other services		21.8	25.8
Information technology costs		10.9	7.3
Office costs		5.0	4.9
Provisions	33	0.8	2.3
Other		11.1	11.9
Impairment of goodwill		4.1	–
		118.0	**114.3**

Included in other administrative expenses are costs relating to temporary staff of £4.4 million (31 December 2015: £5.0 million), travel and subsistence of £3.0 million (31 December 2015: £3.2 million) and staff recruitment of £1.5 million (31 December 2015: £1.6 million).

Administrative expenses of £114.3 million for the year ended 31 December 2015 included £4.1 million of one-off costs associated with the Group's initial public offering.

12. Staff costs

	2016 £m	2015 £m
Wages and salaries	52.7	50.8
Social security costs	6.4	6.3
Other pension costs	1.7	1.6
Share-based payments	3.5	3.4
	64.3	**62.1**

The analysis above includes staff costs in relation to Executive and Non-Executive Directors.

The average number of persons employed by the Group during the year, including Non-Executive Directors, was 887 (31 December 2015: 845).

13. Remuneration of Directors

	2016 £'000	2015 £'000
Directors' emoluments	2,713.0	2,639.4
Payments in respect of personal pension plans	53.7	26.5
Contributions to money purchase scheme	5.3	20.9
Loan forgiveness	–	139.6
Long term incentive schemes	–	7,784.3
	2,772.0	**10,610.7**

The above disclosure is prepared in accordance with Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Loans to Directors

At 31 December 2016, there is one loan to a Director for the value of £40,000 under normal terms of business (31 December 2015: one loan; for the value of £50,000).

Long-term incentive schemes

The Directors held certain shares pre-IPO which converted into ordinary shares on IPO. The reported gains, at IPO, have been calculated as the market value of shares held at IPO (£1.92) less the actual cost on any shares bought pre-IPO regardless of whether such shares were acquired as an investment or an incentive. The aggregate gains as at 31 December 2015 on such shares held by Directors on IPO were £7.8 million.

The Deferred Share Plan is an equity settled share-based payment and represents the portion of the Annual Incentive Plan that is deferred to align the interests of senior employees and the Executive team with shareholders. The shares granted as part of the Deferred Share Plan are detailed in Note 37.

14. Pension and other post-retirement benefit commitments

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £1.7 million (31 December 2015: £1.6 million) were charged to the income statement during the year in respect of these schemes. The Group made payments amounting to £5,300 (31 December 2015: £26,500) in aggregate in respect of Directors' individual personal pension plans during the year. There were outstanding contributions of £0.3 million at the year end (31 December 2015: £0.3 million).

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Notes to the consolidated financial statements continued

15. Depreciation and amortisation

	Note	2016 £m	2015 £m
Depreciation	27	1.2	1.1
Amortisation of intangible assets	28	4.1	4.2
		5.3	**5.3**

16. Profit on ordinary activities before taxation

The profit on ordinary activities is after charging:

	2016 £m	2015 £m
Operating lease rentals (including service charges)		
– land and buildings	2.6	2.3
– plant and equipment	0.3	0.5
The remuneration of the Group's external auditors, KPMG LLP, and their associates is as follows:		
Fees payable to the Group's auditor for the audit of the annual accounts (excluding VAT)	0.1	0.1
Fees payable to the Group's auditor for the audit of the accounts of subsidiaries (excluding VAT)	0.6	0.4
Audit fees	**0.7**	**0.5**
Fees payable to the Group's auditor and its associates for other services (excluding VAT):		
Audit related assurance services [1]	0.2	0.1
Other taxation advisory services	–	0.2
Corporate finance services	–	0.3
Other assurance services [2]	0.1	0.1
All other services	–	0.1
Non-audit fees	**0.3**	**0.8**
	1.0	**1.3**

1 Audit related assurance services for the year ended 31 December 2016 comprise services provided in relation to interim profit verifications during the year and work in relation to the Group's issuance of subordinated loan notes.

2 Other assurance services for the year ended 31 December 2016 relate to services provided in relation to the audit of the Group's participation in the FLS scheme.

17. Taxation

a) Tax charge

	2016 £m	2015 £m
Current tax on profits for the year	33.1	25.1
(Over)/under provision in previous periods	(2.2)	1.1
Total current tax	**30.9**	**26.2**
Deferred tax	1.9	(5.2)
Under/(over) provision in previous periods	2.4	(0.9)
Effect of new tax surcharge	–	(3.7)
Total deferred tax charge/(credit)	**4.3**	**(9.8)**
Total tax charge	**35.2**	**16.4**

For 2016, the effect of the new banking surcharge is included in the current year tax charge as detailed in Note 26. A tax charge of £1.0 million in respect of the fair value movements in available for sale debt securities has been shown in other comprehensive income during the year ended 31 December 2016 (2015: £0.6 million credit). A tax credit of £2.3 million (31 December 2015: £1.0 million) has been reflected directly in equity in respect of tax relief for contingent convertible securities coupon 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% (31 December 2015: 20.25%). The differences are explained below:

	2016 £m	2015 £m
Profit before tax	**128.7**	**94.7**
Tax at 20% (2015: 20.25%) thereon	25.7	19.2
Effects of:		
Expenses not deductible for tax purposes	1.0	0.7
Under provision in previous period	0.2	0.2
Deferred tax rate adjustment	0.4	(3.7)
Effect of new tax surcharge	7.9	–
	35.2	**16.4**

18. 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.

	2016	2015
Profit after taxation – attributable to equity holders of the Group (£ million)	93.5	78.3
Coupon paid on contingent convertible securities, net of tax relief (£ million)	(6.6)	(2.8)
Profit attributable to ordinary shareholders of the Group (£ million)	**86.9**	**75.5**
Weighted average number of ordinary shares in issue (million)	344.5	332.4
Basic earnings per share (p)	**25.2p**	**22.7p**

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 36.

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 the first half of 2015, were exercised on 9 September 2015 and new shares were issued and listed on the London Stock Exchange.

	2016	2015
Weighted average number of ordinary shares in issue (million) (basic)	344.5	332.4
Effect of share warrants prior to their exercise	–	2.2
Effect of share-based payment awards	0.7	0.1
Weighted average number of ordinary shares in issue (million) (diluted)	345.2	334.7
Diluted earnings per share (p)	**25.2p**	**22.6p**

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Notes to the consolidated financial statements continued

19. Loans and advances to banks

	2016 £m	2015 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	34.1	51.6
Cash collateral on derivatives placed with banks	22.2	31.7
Other loans and advances to banks	10.9	10.9
	67.2	**94.2**

There were no individual or collective provisions for impairment held against loans and advances to banks. £10.9 million is recoverable more than 12 months after the reporting date (31 December 2015: £10.9 million) and relates to cash held by the Group's securitisation vehicle, Oak No.1 PLC.

20. Debt securities

	2016 £m	2015 £m
Available for sale debt securities:		
UK Government gilts and treasury bills	32.3	94.4
Supranational bonds	359.8	267.9
Corporate bonds	29.7	29.9
Asset-backed securities	70.4	74.9
Covered bonds	172.3	139.0
	664.5	**606.1**

At 31 December 2016, £534.5 million (31 December 2015: £566.6 million) of debt securities are expected to be recovered more than 12 months after the reporting date. There were no impairment losses in respect of available for sale debt securities.

The Group disposed of its holding of debt securities designated at fair value through profit or loss during 2015.

21. Derivatives held for risk management

Amounts included in the statement of financial position are analysed as follows:

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Instrument type				
Interest rate (not in hedging relationships)	0.4	1.5	0.8	1.4
Interest rate (fair value hedges)	11.8	34.1	5.9	33.9
Equity	0.2	0.2	–	–
Foreign exchange	–	–	–	0.1
	12.4	**35.8**	**6.7**	**35.4**

All derivatives are held either as fair value hedges qualifying for hedge accounting or are held for the purpose of managing risk exposures arising on the Group's other financial instruments.

a) Fair value hedges of interest rate risk

The Group uses interest rate swaps within qualifying hedge accounting relationships to manage its exposure to changes in market interest rates which would impact the fair values of certain fixed rate lending and savings products and debt securities held.

Further details regarding the Group's approach to hedge accounting, including a description of the Group's exposure to volatility, are provided in the risk report on page 106.

b) Other derivatives held for risk management

The Group uses other derivatives, not designated in qualifying hedge accounting relationships, to manage its exposure to the following:

- interest rate risk on certain debt securities held which are designated at fair value through profit or loss;
- interest rate basis risk on certain mortgage loans;
- equity market risk on equity-linked products offered to depositors; and
- foreign exchange risk on currency loans provided to Invoice Finance customers.

22. Loans and advances to customers

	2016 £m	2015 £m
Gross loans and advances	7,504.7	6,165.5
less: allowance for impairment losses	(27.4)	(20.7)
	7,477.3	**6,144.8**

Amounts include:		
Expected to be recovered more than 12 months after the reporting date	6,466.4	5,345.5

At 31 December 2016, loans and advances to customers of £1,066.2 million (31 December 2015: £1,445.5 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 £650.0 million of UK Treasury Bills had been drawn as at the reporting date (31 December 2015: £750.0 million).

At 31 December 2016, loans and advances to customers of £578.7 million (31 December 2015: £nil) were pre-positioned with the Bank of England and HM Treasury Term Funding Scheme. These loans and advances were available for use as collateral with the Scheme. Details of amounts drawn on the facility are shown Note 29.

At 31 December 2016, loans and advances to customers include £148.7 million (31 December 2015: £206.5 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 2016			
Balance as at 1 January	10.2	10.5	20.7
Impairment loss for the year:			
Charge to the income statement	10.8	4.7	15.5
Unwind of discounting	(1.3)	(2.1)	(3.4)
Write-offs net of recoveries	(5.4)	–	(5.4)
Balance as at 31 December	**14.3**	**13.1**	**27.4**

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22. Loans and advances to customers continued

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**

Finance lease receivables

Loans and advances to customers include the following finance leases where the Group is the lessor:

	2016 £m	2015[1] £m
Gross investment in finance leases, receivable:		
Less than one year	521.5	465.4
Between one and five years	960.3	840.1
More than five years	20.3	20.1
	1,502.1	**1,325.6**
Unearned finance income	(162.4)	(152.7)
Net investment in finance leases	**1,339.7**	**1,172.9**
Net investment in finance leases, receivable:		
Less than one year	448.9	397.3
Between one and five years	871.2	755.8
More than five years	19.6	19.8
	1,339.7	**1,172.9**

[1] The prior year comparatives have been restated to reflect a more granular analysis of the finance lease portfolio.

The Group enters into finance lease and hire purchase arrangements with customers in a wide range of sectors including plant and machinery, cars and commercial vehicles. The accumulated allowance for uncollectable minimum lease payments receivable is £4.5 million (31 December 2015: £3.9 million).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2016.

23. Investment in subsidiaries

The Company has an interest in the total ordinary share capital of the following subsidiaries (except the securitisation vehicles), all of which are registered in England and Wales and operate in the UK. All subsidiary undertakings are included in these consolidated financial statements.

Subsidiary undertakings (direct interest)	Principal activity	Shareholding per cent	Country of incorporation
Aldermore Bank PLC	Banking and related services	100	UK
Dormant subsidiary undertakings (indirect interest)			
Aldermore Invoice Finance (Holdings) Limited	Dormant	100	UK
Aldermore Invoice Finance Limited	Dormant	100	UK
Aldermore Invoice Finance (Oxford) Limited	Dormant	100	UK
AR Audit Services Limited	Dormant	100	UK
Securitisation vehicles			
Oak No.1 Mortgage Holdings Limited	Holding company for securitisation vehicle	*	UK
Oak No.1 PLC	Securitisation vehicle	*	UK

* The share capital of the securitisation vehicles is not owned by the Group but the vehicles are included in the consolidated financial statements as they are controlled by the Group.

24. Other assets

	2016 £m	2015 £m
Amounts recoverable within one year	**3.1**	**1.4**

25. Prepayments and accrued income

	2016 £m	2015 £m
Amounts recoverable within 12 months:		
Prepayments	2.6	3.2
Accrued income	0.8	1.9
	3.4	**5.1**

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26. 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	Recognised in equity £m	Balance at end of the year £m
Year ended 31 December 2016					
Capital allowances less than depreciation	16.5	(5.2)	–	–	11.3
Available for sale debt securities transition adjustment	(0.2)	–	–	–	(0.2)
(Gains)/Losses on available for sale debt securities recognised through other comprehensive income	–	–	(1.0)	–	(1.0)
Other temporary differences	(0.4)	(0.4)	–	–	(0.8)
Share-based payment timing differences	0.5	1.3	–	0.1	1.9
	16.4	**(4.3)**	**(1.0)**	**0.1**	**11.2**
Year ended 31 December 2015					
Capital allowances less than depreciation	6.5	10.0	–	–	16.5
Available for sale debt securities transition adjustment	(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**

Reductions have been enacted in the mainstream UK corporation tax rate from 21% to 20% (effective from 1 April 2015). Further planned reductions have been enacted to reduce the mainstream rate to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020. The 8% corporation tax banking surcharge applicable to banking companies is effective from 1 January 2016. The surcharge is levied on the profits chargeable to corporation tax of banking companies which exceed a £25 million threshold. The net result of these changes will be to increase the Group's effective tax rate for years commencing from 1 January 2016.

Deferred tax has been provided at the revised substantively enacted rates that will apply when the deferred tax assets are realised or the deferred tax liabilities settled in line with the prior year.

There were no unrecognised deferred tax balances at 31 December 2016 (31 December 2015: £nil).

27. Property, plant and equipment

	Fixtures, fittings and equipment £m	Computer hardware £m	Total £m
Cost			
1 January 2016	3.9	4.4	8.3
Additions	0.7	0.2	0.9
31 December 2016	**4.6**	**4.6**	**9.2**
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**
Depreciation			
1 January 2016	2.3	2.6	4.9
Charge for the year	0.5	0.7	1.2
31 December 2016	**2.8**	**3.3**	**6.1**
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**
Net book value			
31 December 2016	**1.8**	**1.3**	**3.1**
31 December 2015	1.6	1.8	3.4

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28. Intangible assets

	Computer Systems £m	Goodwill £m	Total £m
Cost			
1 January 2016	24.8	12.6	37.4
Additions	10.3	–	10.3
Write-off	–	(4.1)	(4.1)
31 December 2016	**35.1**	**8.5**	**43.6**
1 January 2015	19.2	12.6	31.8
Additions	5.6	–	5.6
31 December 2015	**24.8**	**12.6**	**37.4**
Amortisation			
1 January 2016	13.4	–	13.4
Charge for the year	4.1	–	4.1
31 December 2016	**17.5**	**–**	**17.5**
1 January 2015	9.2	–	9.2
Charge for the year	4.2	–	4.2
31 December 2015	**13.4**	**–**	**13.4**
Net book value			
31 December 2016	**17.6**	**8.5**	**26.1**
31 December 2015	11.4	12.6	24.0

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 with the aggregate amount allocated to each segment as follows:

	2016 £m	2015 £m
SME Commercial Mortgages	8.5	8.5
Invoice Finance	–	4.1
	8.5	**12.6**

At 1 January 2016, the Invoice Finance goodwill was fully supported using the Fair Value less Costs of Disposal ("FVLCD") method. During 2016, as a result of the general fall in market values of financial services businesses following the EU referendum, management concluded the goodwill balance was fully impaired and a charge of £4.1 million has been recognised in the income statement.

The Value in Use ("VIU") for SME Commercial Mortgages was determined by discounting the future cash flows to be generated from the continuing use of the segment. VIU at 31 December 2016 has been determined in a similar manner as at 31 December 2015.

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 2015: the five year business plan). Cash flows after the planning period were extrapolated using a constant growth rate of 2 per cent (31 December 2015: 2 per cent) into perpetuity.
- A pre-tax discount rate of 13.0 per cent (31 December 2015: 13.0 per cent) was applied in determining the recoverable amounts for the SME Commercial Mortgages operating segment. These discount rates were based on the weighted average cost of funding for the segment, taking into account the Group's regulatory capital requirement and expected market returns for debt and equity funding, then adjusted for risk premiums to reflect the systemic risk of the segment.

IAS 36 requires an assessment of goodwill balances for impairment on an annual basis, or more frequently if there is an indication of impairment. An impairment charge should be recognised where the recoverable amount from the segment is less than the carrying value of the goodwill. 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").

The VIU of the SME Commercial Mortgages segment 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 Mortgages to reduce below the carrying amount.

29. Amounts due to banks

	2016 £m	2015 £m
Amounts repayable within 12 months:		
Due to banks – repurchase agreements	354.8	398.6
Due to banks – deposits	0.7	5.2
Cash collateral received on derivatives	2.2	1.3
	357.7	**405.1**
Amounts repayable after 12 months:		
Due to banks – central banks – Term Funding Scheme	396.1	–
	753.8	**405.1**

(a) Collateral given under repurchase agreements

The face value of securities sold under agreements to repurchase at 31 December 2016 was £355.0 million (31 December 2015: £400.0 million), all of which were drawn down from the Bank of England under the terms of the Funding for Lending Scheme. The Group conducts these repurchase transactions under the terms of applicable General Master Repurchase Agreement guidelines. Consideration received in return for the collateral is recorded as 'Amounts due to banks' and is accounted for as a financial liability at amortised cost.

(b) Amounts repayable after 12 months

Loans received from the Bank of England against which the Group provides collateral under the Term Funding Scheme are recorded as 'Amounts due to banks' and are accounted for as a financial liability at amortised cost.

Further details of a) and b) can be found in Note 22.

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Notes to the consolidated financial statements continued

30. Customers' accounts

	2016 £m	2015 £m
Retail deposits	4,766.8	4,186.3
SME deposits	1,647.2	1,399.4
Corporate deposits	259.7	156.3
	6,673.7	**5,742.0**

Amounts repayable within one year	5,397.1	4,288.8
Amounts repayable after one year	1,276.6	1,453.2
	6,673.7	**5,742.0**

31. Other liabilities

	2016 £m	2015 £m
Amounts payable within 12 months:		
Amounts payable to Invoice Finance customers	10.5	9.4
Other taxation and social security costs	4.1	4.3
Trade creditors	3.3	3.2
Other payables	7.1	5.0
	25.0	**21.9**

32. Accruals and deferred income

	2016 £m	2015 £m
Amounts payable within 12 months:		
Accruals	26.4	24.0
Deferred income	0.6	1.7
	27.0	**25.7**

33. Provisions

	Financial Services Compensation Scheme £m	Customer redress £m	Total £m
1 January 2016	1.1	–	1.1
Utilised during the year	(1.1)	–	(1.1)
Provided during the year	0.8	–	0.8
31 December 2016	**0.8**	**–**	**0.8**
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**

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. 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 2016 of £0.8 million (31 December 2015: £1.1 million) represents the interest element of the compensation levy for the 2016/2017 scheme year (31 December 2015: interest levy for the 2015/2016 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. Remediation payments to customers impacted were completed during the year ended 31 December 2015.

34. Debt securities in issue

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

	2016 £m	2015 £m
In more than one year	**130.6**	**193.9**

Debt securities in issue with a principal value of £131.2 million (31 December 2015: £194.8 million) are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicle, Oak No. 1 PLC. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage customers in respect of the underlying assets. There is no obligation for the Group to make good any shortfall. Further disclosure relating to the underlying assets is contained in Note 22.

35. Subordinated notes

	2016 £m	2015 £m
Subordinated notes	**100.0**	**38.1**

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 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 in accordance with the accounting policy in Note 2(f). On 9 September 2015, the warrants were exercised resulting in 5.5 million ordinary £0.10 shares being issued (see Note 36).

On 28 October 2016, the Group issued £60 million subordinated 8.50 per cent loan notes, repayable in 2026, with an option for the Group to redeem after five years. The interest rate is fixed until October 2021. The loan is carried in the statement of financial position at amortised cost using an EIR of 8.9 per cent.

36. Share capital

	2016 £m	2015 £m
Type		
Ordinary shares of £0.10 each	34.5	34.5
	34.5	**34.5**

On 13 March 2015, the Company reorganised its share capital in preparation for listing on the LSE. 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.

Following the listing, the Company made an award of free share awards under the Share Incentive Plan ("SIP"). Further details regarding the SIP are provided in Note 37. Of that original award 734 shares remain unallocated and are held in the SIP Trust, and are recorded against retained earnings within equity. The SIP Trustee waives any dividends that may be declared in respect of unallocated shares.

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36. Share capital continued

On 9 September 2015, the share warrants attached to the subordinated notes (see Note 2(f)) were exercised resulting in the following share issue:

Number of warrant shares exercised	Share capital £'000	Share premium £'000	Total £'000
5,502,164	550.2	4,970.3	5,520.5

During June 2016, an Employee Benefit Trust ("EBT") purchased 466,179 Aldermore Group PLC ordinary £0.10 shares from the market for consideration of £0.9 million. Purchases were made to enable the Group to meet a future share-based payment obligation in respect of the recruitment award detailed in Note 37. These purchases constitute Aldermore Group PLC shares held by a Group EBT and are recorded against retained earnings within equity. The EBT waives any dividends that may be declared in respect of such shares prior to their release to the participant.

At 31 December 2016, there were 344,739,584 ordinary £0.10 shares in issue resulting in share capital of £34,473,958 (31 December 2015: 344,739,584 and £34,473,958 respectively).

37. Share-based payments

The table below shows the charge to the income statement:

	2016 £m	2015 £m
Share plans issued in 2015	2.0	2.2
Share plans issued in 2016	1.5	–
Total share-based payment charge	**3.5**	**2.2**

Included within the 2015 charge disclosed in Note 12 was £1.2 million in relation to the Deferred Share Plan which was granted, as expected, during 2016.

Scheme details:

Plan	Eligible employees	Nature of award	Vesting conditions[1]	Grant dates[2]
a) Performance Share Plan	Selected senior employees	Conditional share award	Continuing employment or leaving in certain limited circumstances and achievement of Total Shareholder Return and Earnings Per Share performance conditions	2015 & 2016
b) Pre-IPO Award under the Performance Share Plan	Selected senior employees	Conditional share award	Continuing employment or leaving in certain limited circumstances and achievement of Total Shareholder Return performance condition.	2015
c) "Top Up" Pre-IPO Award under the Performance Share Plan	Selected senior employees	Conditional share award	Continuing employment or leaving in certain limited circumstances and achievement of personal and Company performance conditions	2015
d) Restricted Share Plan	Selected senior employees	Conditional share award	Continuing employment or leaving in certain limited circumstances	2015 & 2016
e) Recruitment Award	Selected senior employees	Conditional share award	Continuing employment or leaving in certain limited circumstances	2016
f) Share Incentive Plan	All employees	Non-conditional share award	Employment at date of grant	2015
g) Sharesave Plan	All employees	Qualifying SAYE plan with an option to purchase shares at the end of the saving period	Monthly contributions to the scheme and continuing employment or leavers in certain limited circumstances	2015 & 2016
h) Deferred Share Plan	Selected senior employees	Deferred conditional share award	Continuing employment or leavers in certain limited circumstances	2016[3]

1 All awards are subject to vesting conditions and therefore may or may not vest.

2 Year in which grants have been made under the relevant Plan. Further grants in future years under the Plan are possible.

3 Grants under the Deferred Share Plan are made the year following the financial year to which they relate.

The terms of the schemes are as follows:

a) Performance Share Plan

The Performance Share Plan ("PSP") is open to senior employees including the Executive team. There are currently awards outstanding for two plan years as per the table above. Individuals are required to remain in employment for three years following the grant date and the awards are subject to a two-year holding period following the required employment date.

Awards under the PSP are subject to performance conditions which are set by the Remuneration Committee and determine the extent to which awards can become available to individuals. Performance conditions for the PSP awards relate to the growth in Total Shareholder Return ("TSR") for 50% of each award and Earnings Per Share ("EPS") performance for the remaining 50% of each award. The outcome of the performance conditions, as assessed by the Remuneration Committee, will determine the vesting outcome of the awards and the shares available for exercise.

In addition, there are "*underpin*" performance conditions which must be met in relation to both elements of the award and the result achieved must both appropriately reflect the performance of the Company and be consistent with the Company's risk appetite. Furthermore, in respect of the TSR element of the grant made in 2015, the value of the TSR achieved over the performance period must be equal to or greater than the TSR of the median company of FTSE 350 companies, excluding Investment Trusts and the Company itself.

b) Pre-IPO Award under the Performance Share Plan

Pre-IPO Awards in respect of 6,920,420 shares, which were granted on 2 March 2015 to individuals as a one-off reward to recognise their contribution up to the Company's IPO, have lapsed as the principal performance condition relating to growth in TSR for the period to 31 December 2016 was not satisfied.

c) "Top Up" Pre-IPO awards under the Performance Share Plan

For the small number of employees who had been granted a "Top Up" Pre-IPO Award at the time of IPO which was intended to promote their retention and to reward them for their performance both pre-IPO and post-IPO, the Remuneration Committee amended the "Top Up" portion of those awards over 513,589 shares such that:

- The principal performance condition was a personal performance condition, as well as an underpin whereby the Remuneration Committee would determine that the performance of the Company justified the vesting. The Remuneration Committee determined that the amended performance condition and underpin had been met as at 31 December 2016.
- The awards normally become exercisable on 31 December 2018 and are contingent on employment to this date, with a leaver receiving a pro-rated proportion of the shares (for the period 31 December 2016 to 31 December 2018) except if the individual ceases employment because of misconduct in which case the whole award would lapse.

The total incremental fair value arising from the modification of the awards is £1,188,000 of which £16,000 has been reflected in the 2016 income statement charge. The fair value of the awards has been determined using the market price of Aldermore Group PLC shares as at 22 December 2016.

d) Restricted Share Plan

The Restricted Share Plan ("RSP") is open to a small number of senior employees engaged in risk and control functions. There is a requirement for individuals to remain in employment for three years following the grant date, following which the awards are subject to a two-year holding period. There are no financial performance conditions attached to the awards under the RSP.

e) Recruitment Award

The Recruitment Award was granted for the purpose of buying out awards forfeited by senior employees on resignation from their previous employment. There are no performance conditions attached to this award. The award will be released in tranches with twenty per cent vesting on each of the first, second and third anniversaries of the grant date and forty per cent on the fourth anniversary of the award, subject to continued employment.

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37. Share-based payments continued

f) Share Incentive Plan

All employees who were in employment on both 13 March 2015 and the grant date were eligible to participate in the Share Incentive Plan ("SIP"). An award of 'free shares' was granted under the SIP on 17 April 2015. Each eligible employee received shares worth £200, with an additional £200 for each year of service up to a maximum award of £1,000. There are no performance conditions associated with the share awards. Participants in the SIP are the beneficial owners of the shares granted to them, but not the registered owner. Voting rights are normally exercised by the registered owner at the direction of the participant.

g) Sharesave Plan

All employees are eligible to participate in the Group's annual invitation to join the Sharesave Plan. The grant dates of the awards are shown in the table above, with individuals in the Plan contributing a set amount each month for three years. At the end of the savings period, participants have the option to buy shares in Aldermore Group PLC at an option price which was fixed at the grant date.

There are no financial performance conditions attached to the awards but employees may only continue to participate in the Plan whilst in the employment of the Group, and subject to having made all monthly contributions. Participants have the option, but not the obligation, to buy shares at the end of the plan. There are no holding conditions in respect of shares acquired pursuant to the exercise of an option.

h) Deferred Share Plan

The Deferred Share Plan ("DSP") is open to senior employees, including the Executive team, and represents the portion of awards under the Annual Incentive Plan that is deferred to align the interests of senior employees and the Executive team with shareholders. The awards typically vest in tranches of one-third on the first, second and third anniversary of the award date, subject to continued employment. There are no market performance conditions attached to the awards made under the DSP. Share awards, representing the deferred element of the 2015 bonus payments, with a grant date fair value of £1.2 million, were granted in March 2016.

There is an anticipation that share awards for the deferred element of the 2016 bonuses, with a grant date fair value of £1.6 million, will be made in 2017.

Awards/options granted, forfeited and vested

The table below shows the changes to the options awarded during the period and the number of awards outstanding as at 31 December 2016:

Plan	Awards outstanding at 1 January 2016	Awards / options granted	Awards / options forfeited	Awards / options expired	Awards / options vested	Awards outstanding at 31 December 2016 Number	Average fair value per award granted during the year at grant date (rounded)	Total fair value to be recognised over the vesting period £m
Performance Share Plan	1,406,231	1,526,448	(292,742)	–	–	2,639,937	£1.46	3.9
Pre-IPO award under the PSP[1]	6,920,420	–	(134,274)	(6,786,146)	–	–	£0.31	–
"Top Up" Pre IPO Award under the PSP	513,589	–	–	–	–	513,589	£2.31	1.2
Restricted Share Plan	105,753	175,875	(24,635)	–	–	256,993	£2.09	0.5
Recruitment Award	–	466,179	–	–	–	466,179	£1.91	0.9
Sharesave Plan	794,966	1,379,516	(624,011)	–	–	1,550,471	£0.73	1.1
Deferred Share Plan	–	543,837	(1,850)	–	–	541,987	£2.28	1.2
Total	**9,740,959**	**4,091,855**	**(1,077,512)**	**(6,786,146)**	**–**	**5,969,156**	**–**	**8.8**

1 Average fair value includes incremental value attributable to modification for each award outstanding.

Plan	Awards / options granted	Awards / options forfeited	Awards / options expired	Awards / options vested	Awards outstanding at 31 December 2015 Number	Average fair value per award granted during the year at grant date (rounded)	Total fair value to be recognised over the vesting period £m
Performance Share Plan	1,539,629	(133,398)	–	–	1,406,231	£1.13	1.6
Pre-IPO award under the PSP	7,549,101	(115,092)	–	–	7,434,009	£0.31	2.3
Restricted Share Plan	105,753	–	–	–	105,753	£1.92	0.2
Share Incentive Plan	174,920	–	–	(174,920)	–	£2.41	0.4
Sharesave Plan	794,966	–	–	–	794,966	£0.79	0.6
Total	**10,164,369**	**(248,490)**	**–**	**(174,920)**	**9,740,959**	**–**	**5.1**

Determination of grant date fair values

Share awards are not entitled to dividends until the awards vest, but the number of shares subject to vested PSP, RSP and DSP awards may be increased to reflect the value of dividends that would have been paid up to the end of the holding period for the awards. This is designed to deliver a benefit similar to that which ordinary shareholders may receive in respect of any dividends paid during the vesting period. Accordingly, the grant date fair value of the awards with no performance conditions other than service conditions has been taken as the market value of the Company's ordinary shares at the grant date.

In respect of awards for which there are non-market performance conditions (e.g. EPS), the grant date fair value per award has been taken as the market value of an ordinary share at the grant date. A forecast is made of the number of awards expected to vest in order to determine the overall share-based payment charge to be recognised over the vesting period. In respect of awards for which there are market performance conditions (e.g. TSR), the grant date fair value of each award is required to reflect the likelihood of achieving the market conditions within the valuation.

For the awards concerned, the grant date fair values for each award were determined using stochastic simulation models with the following significant inputs:

	PSP
Ordinary share price	£2.29
Risk-free rate	0.50% p.a.
Probability distributions of TSRs for Aldermore and the median FTSE 350 (excluding Investment Trust companies)	Log normal
Annual volatility (of logarithm of TSR) for Aldermore share price (based on recently floated banks)	40%[1]
Annual volatility (of logarithm of TSR) for median of FTSE 350 (excluding Investment Trust companies) (based on five years data)	29%
Correlation between volatilities	None

1 Based on Aldermore Group PLC share price volatility annualised, from date of listing (13 March 2015) to the grant date (21 March 2016).

Share options (Sharesave Plan)

Options granted under the Sharesave Plan have no entitlement to dividends until they are exercised. The grant date fair value of the options were determined using a Black Scholes valuation model with the following significant inputs:

	Sharesave plan
Share price at grant date	£1.74
Exercise price	£1.54
Risk-free rate	0.19% p.a.
Expected volatility of Company share price	54%[1]
Expected life	3.14 years

1 Based on Aldermore Group PLC share price volatility annualised, from the date of listing (13 March 2015) to the grant date (12 October 2016).

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38. Contingent convertible securities

	2016 £m	2015 £m
Contingent convertible securities	**74.0**	**74.0**

On 9 December 2014, the Company issued £75 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the "Securities"). Net proceeds arising from the issuance, after deducting issuance costs and the associated tax credit, totalled £74.0 million.

The Securities are perpetual and have no fixed redemption date. Redemption of the Securities is at the option of the Company on 30 April 2020 and annually thereafter. The Securities bear interest at an initial rate of 11.875 per cent per annum until 30 April 2020 and thereafter at the relevant Reset Interest Rate as provided in the Information Memorandum. Interest is payable on the Securities annually in arrears on each interest payment date commencing 30 April 2015 and is non-cumulative. The Borrower has the full discretion to cancel any interest scheduled to be paid on the Securities.

The Securities are convertible into Ordinary Shares of the Company in the event of the Group's Common equity ratio falling below 7 per cent. As the Securities contain no obligation on the Company to make payments of principal or interest, they have been classified as equity instruments as required by IAS 32. Accordingly, the Securities have been included in equity at the fair value of the proceeds received less any direct costs attributable to the issue of the Securities, net of tax relief thereon. Any interest paid on the Securities, net of tax relief thereon, is a distribution to holders of equity instruments and has been recognised directly in equity on the payment date. Although there are number of additional terms relating to events such as acquisition and wind up, there are no circumstances in which the Group has an unavoidable obligation to issue a variable number of its own shares. The Group has not separated any embedded derivative features because the Group has an accounting policy not to separate a feature that has already been considered in determining that the entire issue is a non-derivative equity instrument.

39. Statement of cash flows

(a) Adjustments for non-cash items and other adjustments included within the income statement

	2016 £m	2015 £m
Depreciation and amortisation	5.3	5.3
Impairment of goodwill	4.1	–
Amortisation of securitisation issuance cost	0.4	0.5
Discount accretion on subordinated notes	1.6	1.4
Impairment losses on loans and advances	15.5	10.4
Unwind of discounting	(3.4)	(3.2)
Write-offs net of recoveries	(5.4)	(9.0)
Net losses on debt securities designated at fair value through profit or loss	–	0.2
(Gains)/losses on hedged available for sale debt securities recognised in profit or loss	(2.1)	6.9
Net gains on disposal of available for sale debt securities	(3.8)	(2.1)
Interest expense on subordinated notes	6.1	5.1
Interest income on debt securities	(12.4)	(12.8)
Interest expense on debt securities in issue	1.9	3.0
Equity settled share-based payment charge	3.5	3.4
	11.3	**9.1**

(b) Increase in operating assets

	2016 £m	2015 £m
Loans and advances to customers	(1,339.2)	(1,341.9)
Loans and advances to banks	9.5	14.4
Derivative financial instruments	(5.7)	1.5
Fair value adjustments for portfolio hedged risk	4.6	6.1
Other operating assets	(2.0)	2.0
	(1,332.8)	**(1,317.9)**

(c) Increase in operating liabilities

	2016 £m	2015 £m
Amounts due to banks	348.7	99.2
Customers' accounts	931.7	1,283.0
Derivative financial instruments	0.4	(18.8)
Fair value adjustments for portfolio hedged risk	(0.4)	(2.3)
Other operating liabilities	4.1	7.0
	1,284.5	**1,368.1**

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on demand and overnight deposits classified as cash and balances at central banks (unless restricted) and balances within loans and advances to banks.
The following balances have been identified as being cash and cash equivalents.

	2016 £m	2015 £m
Cash and balances at central banks	116.4	105.3
Less restricted balances	(9.6)	(7.5)
Loans and advances to banks	34.1	51.6
	140.9	**149.4**

Restricted balances comprise minimum balances required to be held at the Bank of England as they are not readily convertible to cash in hand or demand deposits. Loans and advances to banks as at 31 December 2016 include £10.9 million held by the securitisation vehicle, Oak No.1 PLC, which is not available to the other members of the Group (31 December 2015: £10.9 million).

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40. Commitments and contingencies

At 31 December 2016, the Group had undrawn commitments to lend of £968.8 million (31 December 2015: £556.0 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:

	2016 £m	2015 £m
Land and buildings		
In less than one year	1.9	1.9
Between one and five years	5.4	6.0
More than five years	1.6	2.4
	8.9	**10.3**

	2016 £m	2015 £m
Equipment		
In less than one year	0.2	0.4
Between one and five years	–	0.2
	0.2	**0.6**

At 31 December 2016, the majority of operating leases for equipment related to 64 cars that the Group held under lease (31 December 2015: 70). The majority of these leases are due to expire in 2017.

Legislation

As a financial services group, Aldermore Group PLC is subject to extensive and comprehensive regulation. The Group must comply with numerous laws and regulations 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.

41. Related parties

(a) Controlling parties

Prior to IPO, the Group was controlled by AnaCap Financial Partners, II L.P. (52.3 per cent. of voting rights) and AnaCap Financial Partners, L.P. (47.7 per cent. of voting rights) who were the sole voting shareholders of Aldermore Group PLC.

On 13 March 2015, the Company was admitted to the LSE, offering 117,934,783 Ordinary shares, of which 78,872,283 shares were sold by the Selling shareholders. Upon admission, AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P., AnaCap Derby Co-Investment (No.1.) L.P. and AnaCap Derby Co-Investment (No.2.) (collectively "the Principal Shareholders") and the Company entered into the 'Relationship agreement'. Details of the Relationship agreement were provided within the Prospectus issued prior to the admission to the LSE.

On 15 September 2015, the Principal Shareholders sold 40,885,613 Ordinary £0.10 shares on the open market.

At 31 December 2016, AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P., AnaCap Derby Co-Investment (No.1.) L.P. and AnaCap Derby Co-Investment (No.2.) L.P held 8.33 per cent, 11.01 per cent, 11.26 per cent and 9.54 per cent of the Company's ordinary share capital respectively. Although the Principal Shareholders are no longer a controlling party for the Group they continue to have significant influence and are therefore considered to be a related party.

The Group had agreements in place with Syscap Limited which was previously under the control of Anacap Financial Partners II L.P and Anacap Financial Partners, L.P. Syscap Limited ceased to be a related party when Anacap sold their interest on 20 February 2015. Details of the previous agreements in place are listed in the Aldermore Group PLC 2015 report and accounts.

During 2016, the Group also incurred fees of £0.1 million in relation to the Directors who represent the Principal Shareholders (2015: £0.1 million).

b) Key management personnel

Key Management Personnel ("KMP") comprise Directors of the Group and members of the Executive Committee. Details of the compensation paid (in accordance with IAS 24) to KMP are:

	2016 £'000	2015 £'000
Emoluments	5,207.8	5,035.8
Payments in respect of personal pension plans	104.4	45.9
Contributions to money purchase scheme	37.3	71.3
Loan forgiveness	–	162.3
Termination benefits	1,161.9	–
Share-based payments	2,439.1	1,196.5
	8,950.5	**6,511.8**

The Group made payments of £37,300 in aggregate in respect of seven key persons' personal pension plans during the year ended 31 December 2016 (31 December 2015: £45,900, four key persons).

Key persons' emoluments includes £1.0 million of deferred bonus (31 December 2015: £0.8 million).

Share-based payments ("SBP")

As at 1 January 2015, certain KMP held a number of shares in the B, C and E classes. In preparation for the IPO, the rights to these shares were varied and the holdings re-designated.

A number of KMP were awarded shares in the Company under new share incentive plans created upon IPO. In total, KMP were granted awards over 1,822,022 shares. Further details of the share schemes, including performance conditions are provided in Note 37. In addition, a number of KMP participated in the Sharesave Plan, holding options over a total of 88,828 shares at 31 December 2016.

Transactions with KMP

The aggregate value of transactions and outstanding balances related to KMP (as defined by IAS 24: "Related Party Disclosures") were as follows:

	2016 £'000	2015 £'000
Deposits		
At 1 January	2,019.2	1,565.0
Net movement	(1,053.7)	454.2
At 31 December	**965.5**	**2,019.2**

The table above includes transactions and balances relating to KMP in post at the end of the year.

From 1 January 2015 until admission to the LSE, a number of KMP had loans with the Company. Upon admission, the Company forgave loans totalling £0.2 million. A number of KMP continue to have loans and deposits in the ordinary course of business with the Group.

At 31 December 2016, there is one loan with KMP for the value of £40,000 (31 December 2015: two loans, £126,000). All current transactions, loans and deposits, with KMP are conducted through the ordinary course of business with the Group.

During 2015 and up to admission, interest rates charged on loan balances outstanding from related parties were lower than the rates that would be charged in arm's length transactions. Interest was charged on these loans at an annual rate of 0.8 per cent above one month LIBOR.

All deposit arrangements have been operated by the Group on commercial terms and conditions.

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42. Financial instruments and fair values

The following table summarises the classification and carrying amounts of the Group's financial assets and liabilities:

31 December 2016	Loans and receivables £m	Available for sale £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	116.4	–	–	–	–	116.4
Loans and advances to banks	67.2	–	–	–	–	67.2
Debt securities	–	664.5	–	–	–	664.5
Derivatives held for risk management	–	–	12.4	–	–	12.4
Loans and advances to customers	7,477.3	–	–	–	–	7,477.3
Fair value adjustment for portfolio hedged risk	–	–	–	(3.5)	–	(3.5)
Other assets	2.9	–	–	–	–	2.9
Total financial assets	**7,663.8**	**664.5**	**12.4**	**(3.5)**	**–**	**8,337.2**
Non-financial assets						44.0
Total assets						**8,381.2**
Amounts due to banks	–	–	–	–	753.8	753.8
Customers' accounts	–	–	–	–	6,673.7	6,673.7
Derivatives held for risk management	–	–	35.8	–	–	35.8
Fair value adjustment for portfolio hedged risk	–	–	–	(1.2)	–	(1.2)
Other liabilities	–	–	–	–	20.9	20.9
Debt securities in issue	–	–	–	–	130.6	130.6
Subordinated notes					100.0	100.0
Total financial liabilities	**–**	**–**	**35.8**	**(1.2)**	**7,679.0**	**7,713.6**
Non-financial liabilities						41.6
Total liabilities						**7,755.2**

31 December 2015	Loans and receivables £m	Available for sale £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	105.3	–	–	–	–	105.3
Loans and advances to banks	94.2	–	–	–	–	94.2
Debt securities	–	606.1	–	–	–	606.1
Derivatives held for risk management	–	–	6.7	–	–	6.7
Loans and advances to customers	6,144.8	–	–	–	–	6,144.8
Fair value adjustment for portfolio hedged risk	–	–	–	1.1	–	1.1
Other assets	0.4	–	–	–	–	0.4
Total financial assets	**6,344.7**	**606.1**	**6.7**	**1.1**	**–**	**6,958.6**
Non-financial assets						49.9
Total assets						**7,008.5**
Amounts due to banks	–	–	–	–	405.1	405.1
Customers' accounts	–	–	–	–	5,742.0	5,742.0
Derivatives held for risk management	–	–	35.4	–	–	35.4
Fair value adjustment for portfolio hedged risk	–	–	–	(0.8)	–	(0.8)
Other liabilities	–	–	–	–	17.6	17.6
Debt securities in issue	–	–	–	–	193.9	193.9
Subordinated notes	–	–	–	–	38.1	38.1
Total financial liabilities	**–**	**–**	**35.4**	**(0.8)**	**6,396.7**	**6,431.3**
Non-financial liabilities						43.6
Total liabilities						**6,474.9**

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. As a wide range of valuation techniques are available, it may be inappropriate to compare this fair value information to that of independent market or other financial institutions.

	2016		2015	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Cash and balances at central banks	116.4	116.4	105.3	105.3
Loans and advances to banks	67.2	67.2	94.2	94.2
Loans and advances to customers	7,477.3	7,613.0	6,144.8	6,194.1
Other assets	2.9	2.9	0.4	0.4
Total financial assets	**7,663.8**	**7,799.5**	**6,344.7**	**6,394.0**
Amounts due to banks	753.8	753.8	405.1	405.1
Customers' accounts	6,673.7	6,705.9	5,742.0	5,752.8
Other liabilities	20.9	20.9	17.6	17.6
Debt securities in issue	130.6	131.9	193.9	194.8
Subordinated notes	100.0	101.8	38.1	48.0
Total financial liabilities	**7,679.0**	**7,714.3**	**6,396.7**	**6,418.3**

Key considerations in the calculation of the disclosed fair values for those financial assets and liabilities carried at amortised cost include the following:

(a) Cash and balances at central banks

These represent amounts with an initial maturity of less than three months and, as such, their carrying value is considered a reasonable approximation of their fair value.

(b) Loans and advances to banks

These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to be not materially different from their fair value.

(c) Loans and advances to customers

For fixed rate lending products, the Group has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent products plus the credit spread attributable to the borrower. For standard variable rate lending products, and fixed rate products when they revert to the Group's standard variable rate, the interest rate on such products is considered equivalent to a current market product rate and, as such, the Group considers the discounted future cash flows of these mortgages to be equal to their carrying value. The fair value estimations do not incorporate adjustments for changes in future credit risk, since loans were granted. However, incurred loss provisions are deducted from the fair value amounts.

(d) Other assets and liabilities

These represent short term receivables and payables and, as such, their carrying value is not considered to be materially different from their fair value.

(e) Amounts due to banks

These mainly represent securities sold under agreements to repurchase which were drawn down from the Bank of England under the terms of the Funding for Lending and Term Funding Schemes. These transactions are collateralised by UK Government Treasury Bills, which have a low susceptibility to credit risk, so adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the liabilities are not considered to be materially different from their fair value.

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42. Financial instruments and fair value continued

(f) Customers' accounts

The fair value of fixed rate customers' accounts have been determined by discounting estimated future cash flows based on rates currently offered by the Group for equivalent deposits. Customers' accounts at variable rates are at current market rates and therefore, the Group regards the fair value to be equal to the carrying value. The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

(g) Debt securities in issue

As the securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values, see below.

(h) Subordinated notes

The estimated fair value of the subordinated notes is based on discounted cash flows using interest rates for similar liabilities with the same remaining maturity, credit ranking and rating. The calculated fair value takes no account of the warrants issued separately to the holders of the 2012 subordinated notes, which have been separately accounted for as a capital contribution within equity on issue. The warrants attached to the subordinated notes were exercised during September 2015 (see note 36).

The following table provides an analysis of financial assets and liabilities held on the consolidated statement of financial position at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	–	12.4	–	12.4
Debt securities:				
Asset-backed securities	–	70.4	–	70.4
UK Gilts and Supranational bonds	392.1	–	–	392.1
Corporate bonds	29.7	–	–	29.7
Covered bonds	172.3	–	–	172.3
	594.1	**82.8**	**–**	**676.9**
Financial liabilities:				
Derivatives held for risk management	–	35.8	–	35.8
	–	**35.8**	**–**	**35.8**

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	–	6.7	–	6.7
Debt securities:				
Asset-backed securities	–	74.9	–	74.9
UK Gilts and Supranational bonds	362.3	–	–	362.3
Corporate bonds	29.9	–	–	29.9
Covered bonds	139.0	–	–	139.0
	531.2	**81.6**	**–**	**612.8**
Financial liabilities:				
Derivatives held for risk management	–	35.4	–	35.4
	–	**35.4**	**–**	**35.4**

Level 1: Fair value determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determined using directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable.

Level 3: Fair value determined using one or more significant inputs that are not based on observable market data.

The fair values of UK Gilts, Supranational bonds, Corporate bonds and Covered bonds are based on quoted bid prices in active markets.

The fair value of asset-backed securities are based on indicative prices provided by market counterparties, but before relying on these prices, the Group has obtained an understanding of how the prices were derived to ensure that each investment is assigned an appropriate classification within the fair value hierarchy.

The fair values of derivative assets and liabilities are determined using widely recognised valuation methods for financial instruments such as interest rate swaps and use only observable market data that require little management judgement and estimation. Credit value and debit value adjustments have not been applied as the derivative assets and liabilities are largely collateralised.

Fair value measurement – financial assets and liabilities held at amortised cost

All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for debt securities in issue which are Level 1 and loans and advances to customers which are Level 3.

Fair value of transferred assets and associated liabilities

Securitisation vehicle

The sale of the beneficial ownership of the loans and advances to customers to the securitisation vehicle by the Bank fail the derecognition criteria, and consequently, these loans remain on the statement of financial position of the Group. The Bank, therefore, recognises a deemed loan financial liability on its statement of financial position and an equivalent deemed loan asset is held on the securitisation vehicle's statement of financial position. As the securitisation vehicle is consolidated into the Group with the Bank, the deemed loans net out in the consolidated accounts. The deemed loans are repaid as and when principal repayments are made by customers against these transferred loans and advances.

The securitisation vehicle has issued fixed and floating rate notes which are secured on loans and advances to customers. The notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgagors in respect of the underlying assets.

The Group retains substantially all of the risks and rewards of ownership. The Group benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of these mortgages. The Group continues to bear the credit risk of these mortgage assets.

Financial statements

Notes to the consolidated financial statements continued

42. Financial instruments and fair value continued

The results of the securitisation vehicle listed in Note 23 are consolidated into the results of the Group. The table below shows the carrying value and fair value of the assets transferred to the securitisation vehicle and its associated liabilities. The carrying value presented below are the carrying amounts recorded in the Group accounts. Some of the notes issued by the securitisation vehicle are held by the Group and as such are not shown in the consolidated statement of financial position of the Group.

31 December 2016	Carrying amount of transferred assets not derecognised £m	Carrying amount of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net position £m
Oak No. 1 PLC	**148.7**	**130.6**	**155.0**	**131.9**	**23.1**

31 December 2015	Carrying amount of transferred assets not derecognised £m	Carrying amount of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net position £m
Oak No. 1 PLC	206.5	193.9	209.9	194.8	15.1

43. Country-by-Country reporting

The Capital Requirements (Country-by-Country reporting) Regulations came into effect on 1 January 2014 and introduce reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

All companies consolidated within the Group's financial statements are registered entities in England and Wales. Note 23 to these financial statements includes an analysis of subsidiary undertakings and their principal activities. All of the subsidiary undertakings were incorporated in the UK.

The Group did not receive any public subsidies

	Jurisdiction income/ expense arose	2016 £m	2015 £m
Total operating income	UK	**267.5**	224.7
Profit before tax	UK	**128.7**	94.7
Corporation tax (paid)	UK	**(31.5)**	(20.2)
Employees (average FTE equivalent)	UK	**874**	839

44. Post balance sheet events

There have been no material post balance sheet events

The Company statement of financial position
As at 31 December 2016

	Note	**31 December 2016 £m**	31 December 2015 £m
Assets			
Loans and advances to banks	3	0.8	0.5
Investment in Group undertakings	4	415.0	411.5
Amounts receivable from Group undertakings	6	60.9	0.4
Total assets		**476.7**	**412.4**
Liabilities			
Amounts payable to Group undertakings	7	0.9	–
Subordinated notes	8	60.9	–
Total liabilities		**61.8**	**–**
Equity			
Share capital	9	34.5	34.5
Share premium account	9	73.4	73.4
Contingent convertible securities	11	74.0	74.0
Capital redemption reserve		0.1	0.1
Share-based payment reserve	10	6.9	3.4
Retained earnings		226.0	227.0
Total equity		**414.9**	**412.4**
Total liabilities and equity		**476.7**	**412.4**

The notes and information on pages 202 to 204 form part of these financial statements.

These financial statements were approved by the Board and were signed on its behalf by:

Phillip Monks
Director

1 March 2017

James Mack
Director

1 March 2017

Registered number: 06764335

Financial statements

The Company statement of cash flows
For the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Cash flows from operating activities			
Profit/(loss) before taxation	2	6.5	(1.2)
Decrease in operating assets		0.4	0.2
Decrease in operating liabilities		–	(0.9)
Net cash flows generated/(used in) from operating activities		**6.9**	**(1.9)**
Cash flows from investing activities			
Investment in Group undertakings	4	–	(74.1)
Net cash used in investing activities		**–**	**(74.1)**
Cash flows from financing activities			
Proceeds from issue of shares	9	–	75.0
Issuance costs of Initial Public Offering		–	(2.7)
Proceeds from exercise of warrants		–	5.6
Proceeds from subordinated notes	8	60.0	–
Issue of subordinated notes	8	(60.0)	–
Interest received on subordinated notes	8	0.9	–
Interest paid on subordinated notes	8	(0.9)	–
Proceeds received from Bank for the purchase of treasury shares		0.9	–
Purchase of treasury shares		(0.9)	–
Coupon paid on contingent convertible securities, net of tax		(6.6)	(2.8)
Net cash (used in)/ from financing activities		**(6.6)**	**75.1**
Net increase/(decrease) in cash and cash equivalents		0.3	(0.9)
Cash and cash equivalents at start of the year	3	0.5	1.4
Movement during the year		0.3	(0.9)
Cash and cash equivalents at end of the year		**0.8**	**0.5**

The Company statement of changes in equity
For the year ended 31 December 2016

	Share capital £m	Share premium account £m	Contingent convertible securities £m	Capital redemption reserve £m	Share-based payment reserve £m	Warrant reserve £m	Retained earnings £m	Total £m
Year ended 31 December 2016								
As at 1 January	34.5	73.4	74.0	0.1	3.4	–	227.0	412.4
Profit for the year	–	–	–	–	–	–	6.5	6.5
Transactions with equity holders:								
– Share-based payments, including tax reflected directly in retained earnings	–	–	–	–	3.5	–	–	3.5
– Coupon paid on contingent convertible securities issue costs	–	–	–	–	–	–	(6.6)	(6.6)
– Own shares adjustments	–	–	–	–	–	–	(0.9)	(0.9)
As at 31 December	**34.5**	**73.4**	**74.0**	**0.1**	**6.9**	**–**	**226.0**	**414.9**
Year ended 31 December 2015								
As at 1 January	23.7	–	73.7	–	0.9	2.2	234.3	334.8
Loss for the year	–	–	–	–	–	–	(1.2)	(1.2)
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 convertible securities, net of tax	–	–	–	–	–	–	(2.8)	(2.8)
– Tax credit on contingent convertible securities issue costs	–	–	0.3	–	–	–	–	0.3
– Exercise of share warrants	0.6	5.0	–	–	–	(2.2)	2.2	5.6
– Transfer of capital contribution to retained earnings	–	–	–	–	(0.9)	–	0.9	–
As at 31 December	**34.5**	**73.4**	**74.0**	**0.1**	**3.4**	**–**	**227.0**	**412.4**

Financial statements

Notes to the Company financial statements

1. Basis of preparation

a) Accounting basis

These standalone financial statements for Aldermore Group PLC (the "Company") have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"). The significant accounting policies adopted are set out in Note 2 to the consolidated financial statements.

These results include the Employee Benefit Trust ("EBT"). Further details of the own shares purchased under the EBT can be found in Note 36 to the consolidated financial statements.

b) Going concern

As detailed in Note 1(c) to the consolidated financial statements, the Directors have performed an assessment of the appropriateness of the going concern basis. The Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

c) Income statement

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement.

2. Net profit attributable to equity shareholders of the Company

On including the standalone Company financial statements here together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

	2016 £m	2015 £m
Net profit/(loss) attributable to equity shareholders of the Company	**6.5**	**(1.2)**

3. Loans and advances to banks

	2016 £m	2015 £m
Repayable on demand	**0.8**	**0.5**

There were no collective or individual provisions for impairment against loans and advances to banks. All amounts are considered to be cash and cash equivalents.

4. Investment in Group undertakings

	2016 £m	2015 £m
As at 1 January	411.5	334.0
Capital injections – share capital	–	74.1
Capital contributions – Share-based payments	3.5	3.4
As at 31 December	**415.0**	**411.5**

As at 31 December 2016, £nil investments (31 December 2015: £nil) were classed as impaired.

Investment in subsidiaries

The Company owns 100 per cent of the issued share capital of Aldermore Bank PLC, which is a registered bank. Details of subsidiary undertakings of the Bank are provided in Note 23 to the consolidated financial statements.

All the companies listed in Note 23 to the consolidated financial statements are related parties to the Company.

Additional Tier 1 Perpetual Loan

On 9 December 2014, the Company set up a perpetual loan of indefinite duration that is repayable at the option of the Bank, and bears interest at an initial rate of 11.875 per cent per annum until 30 April 2020 and thereafter at the relevant Reset Interest Rate as provided in the loan agreement. The loan has been classified as an investment in a subsidiary undertaking and is carried at cost in accordance with IAS 27. Interest on the loan is recognised on payment as that is the point at which the unconditional receipt by the Company is established.

5. Related party transactions

Details of related party transactions of the Company are provided in Note 41 to the consolidated financial statements.

6. Amounts receivable from Group undertakings

	2016 £m	2015 £m
Group relief on contingent convertible securities	–	0.4
Subordinated loan to Aldermore Bank PLC	60.9	–
	60.9	**0.4**

On the 28 October 2016, the Company made a £60 million subordinated 8.50 per cent loan to Aldermore Bank PLC, repayable in 2026, with an option for the Bank to redeem after five years. The interest rate is fixed until October 2021. The loan is carried in the statement of financial position at amortised cost.

7. Amounts payable to Group undertakings

	2016 £m	2015 £m
Employee Benefit Trust	**0.9**	**–**

During 2016, the Bank made an interest free loan to the Employee Benefit Trust ("EBT") in order to purchase own shares to enable the Group to meet future share-based payments awards as detailed in Note 10.

8. Subordinated notes

	2016 £m	2015 £m
Subordinated notes	**60.9**	**–**

On 28 October 2016, the Company issued £60 million subordinated 8.50 per cent notes, repayable in 2026, with an option for the Company to redeem after five years. The loan notes are carried in the statement of financial position at amortised cost.

9. Share capital

Details of share capital and share premium account of the Company are provided in Note 36 to the consolidated financial statements.

10. Share-based payments

Details of share-based payments issued by the Company are provided in Note 37 to the consolidated financial statements.

During June 2016, an Employee Benefit Trust ("EBT") purchased 466,179 of Aldermore Group PLC's ordinary £0.10 shares from the market for consideration of £0.9 million. Purchases were made to enable the Group to meet a future share-based payment obligation in respect of the recruitment award as detailed in Note 36. These purchases constitute own shares held by a Group EBT and are recorded against retained earnings within equity.

This purchase constitutes own shares held by a Group EBT and the related costs are recorded against retained earnings within equity.

Financial statements

Notes to the Company financial statements continued

11. Contingent convertible securities

Details of the contingent convertible securities issued by the Company are provided in Note 38 to the consolidated financial statements.

12. Risk management

Through its Risk Management Framework, the Group is responsible for determining its principal risks, and the level of acceptable risks, as stipulated in the Group's risk appetite statement, thus ensuring that there is an adequate system of risk management so that the levels of capital and liquidity held are consistent with the risk profile of the business.

The risk management disclosures of the Group on pages 106 to 139 apply to the Company where relevant and therefore no additional disclosures are included in this note.

13. Fair value of financial assets and liabilities

The Directors consider that the fair value of its financial assets and liabilities are approximately equal to their carrying value. Accordingly no further disclosures in respect of fair values are provided.

14. Controlling party information

Details of controlling party information of the Company are provided in Note 41 to the consolidated financial statements.

15. Post balance sheet events

There have been no material post balance sheet events.