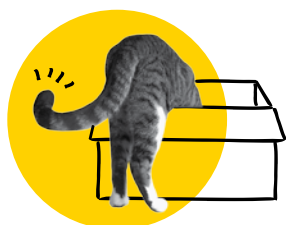




# Aldermore

**Aldermore Group PLC**  
Report and Accounts for the  
18 month period to 30 June 2018

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### Follow us



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AldermoreBank



company/aldermore-bank-plc



AldermoreBank

For more information on our business visit  
**[www.aldermore.co.uk](http://www.aldermore.co.uk)**

# We are Aldermore



**Aldermore helps customers seek and seize opportunities in their professional and personal lives.**

We provide business financing to support the growth of UK small and medium sized enterprises (SMEs) and we support investors and home-buyers with mortgage finance on property. With our dynamic online savings proposition, we are able to offer competitive lending rates to our customers.

We're not like traditional high-street banks. We go beyond their one-size fits all approach by understanding our customers' circumstances and by making sure we offer a high quality service.

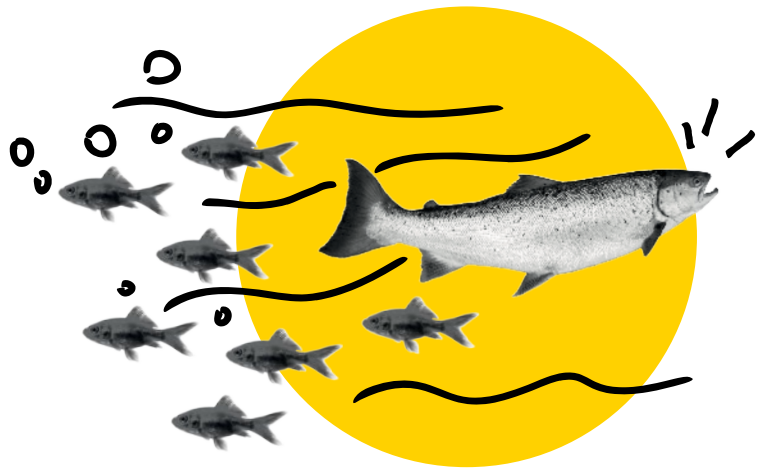
Following a cash offer of 313 pence per ordinary share for the Group in November 2017 by First Rand, South Africa's largest financial services institution by market capitalisation, we joined the FirstRand Group on 14 March 2018.

# We are driven every single day to help people seek and seize opportunities...



Our customers are go-getters, they see the world differently.

They see a world of opportunities that other people overlook.



They see financing as an enabler allowing them to act on these possibilities.

# During the past 18 months we have been helping our customers...



Simply Lunch, a family owned chilled 'Food 2 Go' supplier, prides itself on providing pre-packed sandwiches, salads and hot-eats made from locally-sourced fresh food. The company, founded over 30 years ago in a burger van in Croydon, now employs 200 people and has an unrivalled reputation for customer service and has attracted many accolades, including winning the prestigious Gold Q award for best overall product for their vegetarian range of sandwiches.

Having worked with Aldermore since 2015, the family's appetite for expansion continues. The growth and development of its chilled food range has seen Simply Lunch receive c£1.3 million of funding, enabling the company to strengthen its focus on client satisfaction through innovation and expand its customer base, resulting in a boost to their fresh produce sales.

**“For us to grow our business further, we needed to work with a financial partner that understood our ambitious growth plans. Aldermore has helped us in a number of ways over the years, from invoice financing to asset financing, providing funds, motor finance and machinery. The Bank’s flexible approach to financing is what makes our partnership such a success. The Aldermore team has taken the time to learn who we are as a business and it is committed to accompanying us on our growth journey.”**

**Sam Page,**  
CEO, Simply Lunch

# **We focus on the service we provide to our intermediary partners...**



## **The opportunity**

Brokers are a vital element of Aldermore's business model and we are committed to continuously improving the service we offer to brokers and building the strength of our relationships. We do this in part through our Broker Academy in Business Finance.

## **What we did**

During the period, we ran two unique Broker Academies, including six sessions delivered to over 100 attendees, with 90% of places filled within three days! Training covered sales skills, broking principles and regulatory issues and provided directly relevant insight for brokers in their day jobs.

## **The outcome**

The Academies were a great success, with over 90% of brokers rating the training as either 6 or 7 out of 7, commenting that it was a "fantastic course", "interesting" and with "great material".

We are proud of this success and the continued investment Aldermore makes to support our intermediary partners.

## **Turning our commitment into a Partnership**

During the period, we acquired a 48% share of AFS Group, which is a network of brokers supporting lending to SMEs and businesses across the UK. Their product offering is very comprehensive and includes asset finance, invoice finance and working capital, commercial mortgages, property development and business loans, complementing our Business Finance offering.

We've worked closely with AFS Group in the asset finance market for many years, so we know the company and its network very well. As such, it is a good fit and our relationship is stronger and deeper following this investment.



Read more on how this impacts our financial statements on **page 100**

# and we have been working on how we embed our culture...



## The opportunity

We believe our culture is an important part of our customer and colleague experience. By actively thinking about and engaging our staff with our culture, we have created an environment that puts the customer first and reinforces behaviours and values that we all share.

## What we did

We engaged colleagues across multiple locations in a "Big Conversation", to build a shared understanding of Aldermore's culture and strategic vision.

## The outcome

Employees share our customer vision and are excited to be involved in delivering it. The "Big Conversation" validates our DNA, helping us to develop 'behavioural guiderails' to maximise our customer experience.

## Focus on diversity

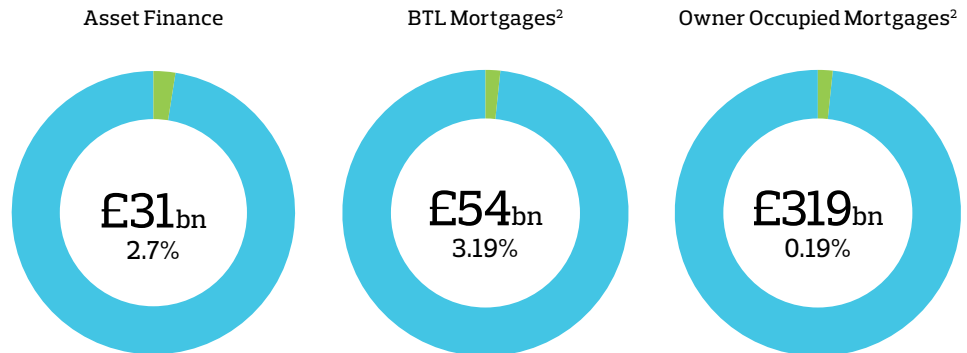
Our customers share a go-getter attitude which transcends race, ethnicity, gender, sexual orientation or background. We share that view and are focusing on making Aldermore an inclusive workplace.

We've launched our inclusion@Aldermore network and released our first Gender Pay Gap report.

# Business overview

**We operate as a specialist player in large markets...**

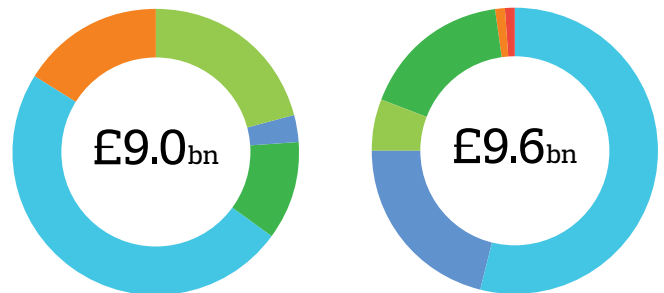
Market size<sup>1</sup> £bn and estimated market share %



**...we are diversified across both lending and funding portfolios...**

Lending portfolio £bn

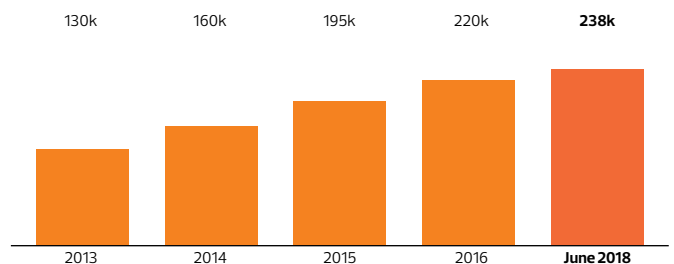
Funding base £bn



	%		%
Asset Finance	21	Retail deposits	54
Invoice Finance	3	SME deposits	21
SME Commercial Mortgages	11	Corporate deposits	6
Buy-to-Let	49	Government schemes	17
Residential Mortgages	16	Other wholesale	1

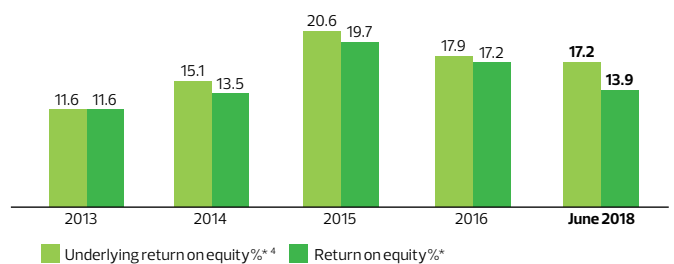
**...we offer well-secured lending and savings across a growing customer base...**

Customer numbers<sup>\*3</sup>



**...which generate strong risk-adjusted returns...**

Underlying<sup>4</sup> return on equity % / Return on equity%\*



\* Key performance indicators.

<sup>1</sup> Source: Council of Mortgage Lenders, De Montfort University, FLA, Aldermore estimates.

<sup>2</sup> Market size and market share by originations for the 18 month period from January 2017 to June 2018.

<sup>3</sup> Refer to glossary on page 127 for definitions and calculations.

<sup>4</sup> Refer to reconciliation of underlying profit before tax to statutory profit before tax on page 17.



# Financial highlights

**"The 18 months to June 2018 has seen another strong financial performance for the Group."**

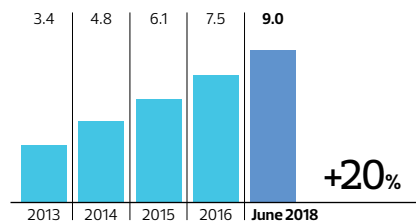


**James Mack,**  
Chief Financial Officer

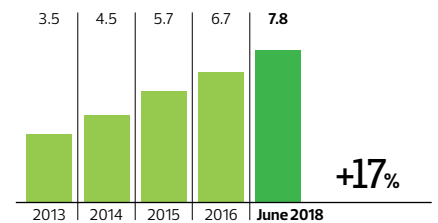


Read more about the financial performance on **pages 16 to 18**

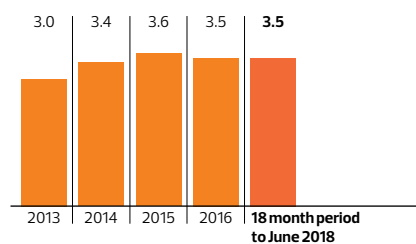
**Loans and advances to customers** £bn\*<sup>1</sup>



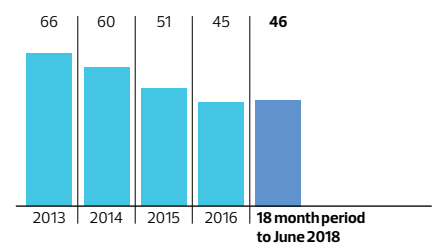
**Customer deposits** £bn\*<sup>1</sup>



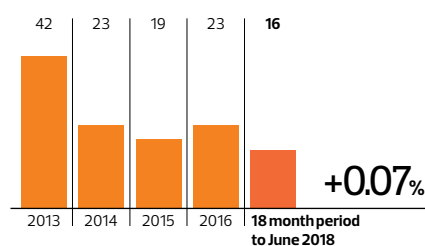
**Net interest margin** %\*<sup>1</sup>



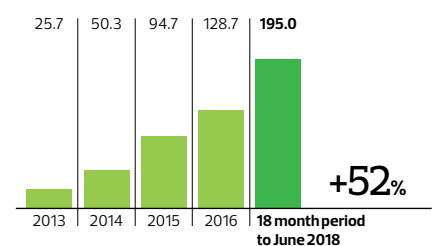
**Underlying<sup>2</sup> cost/income ratio** %\*<sup>1,3,4</sup>



**Cost of risk** (bps)\*<sup>1</sup>



**Reported profit before tax** £m\*<sup>1</sup>



\* Key performance indicators.

<sup>1,2</sup> Refer to glossary on page 127 for definitions and calculations.

<sup>3</sup> Refer to reconciliation of underlying profit before tax to statutory profit before tax on page 17.

<sup>4</sup> Statutory cost income ratio: 54% (2016: 46%).

# Chairman's statement

**“As a Board, we are pleased with Aldermore's continuing progress and growing franchise strength, recognised in the acquisition of the Group by FirstRand.”**

**Pat Butler,**  
Chairman



## Overview

I am honoured to take the role of Chair at Aldermore, and pleased to report that in the 18 month period to 30 June 2018 the Group continued to advance our strategic aims of providing banking services that are customer driven, simply delivered and securely managed. We also extended our track record of profitable organic growth and robust credit control across the diversified loan portfolio, growing the overall book by 20% and earning an underlying ROE<sup>1,2</sup> of 17.2%.

## Joining the FirstRand Group

In November 2017, we received a cash offer for the Bank of 313 pence per ordinary share from FirstRand, South Africa's largest financial services institution by market capitalisation<sup>3</sup>. The FirstRand offer was accepted in December 2017 by the shareholders and completed in March 2018 with the Group delisting from the London Stock Exchange.

In deciding to recommend the offer to our shareholders, the Board considered our current performance, our business plans and the economic outlook, and concluded that it was an attractive opportunity for shareholders to realise an immediate and certain value uplift that would have taken time to unlock as a standalone company.

We also concluded that there was a powerful strategic and cultural fit between Aldermore and the FirstRand Group that would enable us to accelerate and extend our ambitions for the business. We are confident that with FirstRand's support and experience, and the broader footprint that comes from its UK MotoNovo business, Aldermore can bring even more forceful challenge to the incumbents in the UK banking sector in the coming years, for the benefit of our customers, colleagues and wider stakeholders.

## An evolving and uncertain landscape

Aldermore's progress over the last 18 months has been against a background of continued change in the UK banking sector. As we look forward, increasing competition, concerns about Brexit and the UK's macro-economic prospects, a slowing of the housing market, continued regulatory change and the onward march of technology contribute to an uncertain environment of both challenge and opportunity. Financial technology in particular is transforming the sector, giving customers greater access, control and choice, as well as enabling more efficient platforms. Aldermore's clear commitment to innovation and customer-centricity, combined with FirstRand's proven track record of supporting the creation of successful and disruptive businesses, positions us well to take advantage of these changes.

## Maintaining strong governance

Although no longer a listed company we are committed to maintaining the highest standards of corporate governance, and we believe that we will be well placed to adopt the Wates principles for large private companies as they emerge in December 2018.

I am committed to ensuring that the Board has the right balance of skills and experience to meet the challenges and opportunities ahead, and following the acquisition by FirstRand, a number of changes have been made for the next phase of Aldermore's development. We are delighted to welcome to the Board, the FirstRand representative

Directors, Alan Pullinger, Chief Executive Officer, and Harry Kellan, Chief Financial Officer<sup>4</sup>. I would also like to thank Johan Burger, Executive Director and former Chief Executive Officer of FirstRand, who joined the Aldermore Board on completion of the sale on 14 March 2018, and who stood down from his position as Non-Executive Director of the Board on 31 August 2018. Both Alan and Harry bring a wealth of banking experience and have been at the forefront of innovation in the South African market.

I would like to thank Robert Sharpe, who stepped down from the Board in October 2017, and Chris Patrick, who stepped down following the completion of the acquisition as a representative of our former principal shareholder, AnaCap Financial Partners LLP. I would also like to extend my gratitude to AnaCap and to all of our shareholders for their support on our journey so far.

I would also like to thank all of the Board members for leading the Group through the acquisition and in particular Danuta Gray, for her impeccable leadership as Interim Chairman, her invaluable support to me as I took on the Chair role, and her continued contribution as Senior Independent Director.

## United by our purpose

I have found Aldermore to be an organisation of committed and expert professionals, unified by a passion to deliver 'banking as it should be' to businesses, homeowners, landlords and savers. We cherish this common purpose and aim to create an engaging and entrepreneurial culture where individuals of all backgrounds can be successful in its pursuit.

During the period, we reported our Gender Pay Gap and I am encouraged by the steps we have taken to increase female representation within our senior leadership population. We are proud signatories of the Women in Finance Charter and, while there is always more to do, we have taken many actions to ensure that women are not only better represented but better supported within Aldermore.

## Outlook

I am excited to be working with the entrepreneurial team at Aldermore and by the new possibilities presented to us as part of the FirstRand Group. We are not immune to the challenges of the economic, political, and regulatory climate we now face, but I am confident that we have the agility to seize the opportunities that this climate will also bring. Fundamentally, we believe there will continued demand for the specialist banking services we offer, particularly when deployed in new and disruptive ways, that put customers first and everyone at Aldermore remains passionate about challenging the status quo in UK banking.

I would like to congratulate the Board, the Executive team and every colleague past and present who has contributed to Aldermore's success so far.



**Pat Butler,**  
Chairman

<sup>1</sup> ROE from reported profits was 13.9% (2016: 17.2%).

<sup>2</sup> Refer to glossary on page 127 for definitions and calculations.

<sup>3</sup> As at 30 June 2018.

<sup>4</sup> Johan Burger stood down as a Non-Executive Director on 31 August 2018 and will be replaced by Harry Kellan (CFO of FirstRand Limited) subject to necessary regulatory approvals.

# Market overview



## Macro-economy

Aldermore's business, all of its staff and the majority of our customers are based in the UK. As a result, what happens in the economy here affects us. The pricing of loans, mortgages and savings products are generally impacted by any changes in the Bank of England base rate. Confidence in economic growth can also impact demand for houses or investment funding for businesses.

### This period

During the period the economy has remained resilient, despite the ongoing uncertainty posed by Brexit negotiations. A pick up in inflation led to the first increase in the Bank of England base rate in a decade and rates further increased on 2 August 2018 to 75bps. The mortgage market has started to slow. However, unemployment continues to remain at historic lows and the outlook for GDP remains for nominal growth of 2% in the medium term.

### Key impact

Whilst our SME Future Attitudes report indicates that customers maintain a positive outlook for their businesses, a more muted GDP outlook implies slower growth in lending markets. This may increase competitive pressure in our markets and sharpen the focus to further diversify.



## Legal and regulation

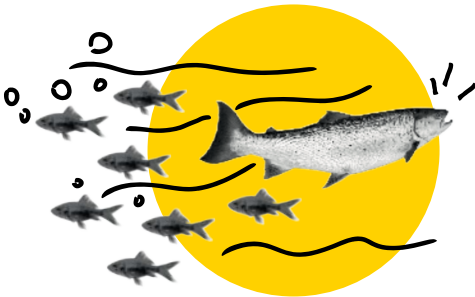
Banking is a highly regulated market. The two UK financial services regulators, the PRA and the FCA, are responsible for effective prudential management and fair conduct respectively. These bodies jointly ensure that local and European law is applied to the UK banking industry.

### This period

The PRA introduced customer affordability testing, effective from the start of the 2017, as well as changes to underwriting for professional landlords (with four or more properties) which came into effect in September 2017.

### Key impact

Government and regulatory interventions in the Buy-to-Let market are expected to contribute to a 12% contraction in the size of the overall market to £36 billion (from £41 billion in 2016) according to UK Finance. The market is also expected to professionalise, as investors develop property portfolios and use incorporated structures or special purchase vehicles (SPVs) to buy property. Aldermore and other specialists already have strong relationships with professional landlords but may see increased competition from new entrants into this area of the market.



## Competition

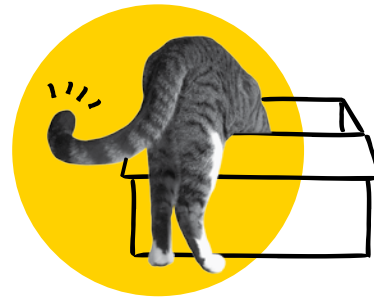
Since the global financial crisis, both the regulators and the Competition and Markets Authority have sought healthy competition and fair customer outcomes in the UK financial services industry. Post the crisis, many institutions stopped servicing groups of customers, particularly small and medium sized businesses and first-time homebuyers. By serving these unmet needs, Aldermore has continued to grow.

### This period

Competition has continued to intensify in the business finance and mortgage markets in which Aldermore operates, as new entrants seek to take advantage of the challenger niche established by early entrants such as Aldermore.

### Key impact

The heightened competitive pressure further reinforces the need for lenders to offer a differentiated product and service proposition and secure effective distribution channels to support growth and customer retention. Aldermore has continued to perform strongly during the period and continues to invest to maintain its competitive position.



## Customer behaviour

Large branch networks and standardised single-channel service are outdated in UK banking. Customers and intermediaries are increasingly using online and digital services and desire more flexibility from savings and lending products. The response to this trend has been the emergence and growth of new entrants to the banking sector such as Aldermore.

### This period

Aldermore has remained alert to the changing preferences of customers in managing their financing needs. Our retail savings proposition has moved 100% online for new accounts, reflecting the way the majority of customers choose to do business with us. The Business Finance division continues to invest in technology to improve the customer journey.

### Key impact

Our specialist underwriting expertise and focus on putting the customer at the forefront of what we do enables us to continue helping more customers to seek and seize opportunities in their professional and personal lives leading to our continued growth. We continue to invest in servicing to customers and brokers and this is reflected in the high levels of customer advocacy we continue to receive.

# Our business model

Aldermore provides specialist banking and underwriting expertise to help customers seek and seize opportunities in their professional and personal lives.

**Our foundations inform our business model**

We are a specialist lender and underwriter focused in select markets

Our DNA: to be reliable, expert, dynamic and straightforward informs everything that we do

We are modern, scalable and completely focused in the UK

**We differentiate across the value chain**

Strong and effective governance provides oversight and direction

Our expertise in risk management helps secure the sustainability of our business

Read more about our governance from page 26

Read more about our risks from page 35

**1 Exceptional service in distribution**

We go above and beyond to add value to our broker relationships, which represent c80% of our distribution, whether through speed of service or our training academies. We also have simple direct propositions to support customers.

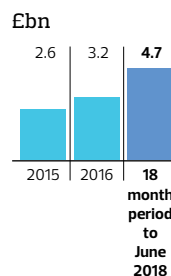
**2 Technology enabled specialist underwriting**

Our human underwriters understand that not all customers look the same and use their experience to make safe underwriting decisions rather than adopting a 'computer says yes or no' attitude.

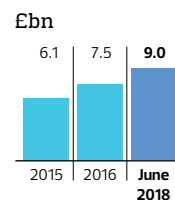
**3 Award winning savings franchise**

Our savings franchise is cutting-edge. Giving retail and business customers the flexibility to choose their own deposit terms and the security of knowing they will always get a competitive return without having to shop around.

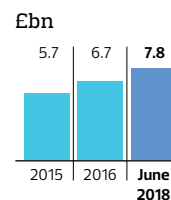
**Originations**



**Net lending**



**Deposits**



**Our foundations**

We operate in select areas of the UK banking market, chosen specifically for their size, attractive returns and strong collateral characteristics including Asset Finance, Invoice Finance, SME Commercial Mortgages, Buy-to-Let and Residential Mortgages. During the period, we restructured the business into Business Finance which includes Asset Finance, Invoice Finance and SME Commercial Mortgages and Retail Finance which includes Buy-to-Let Mortgages, Residential Owner Occupied Mortgages and Savings. Our DNA is built around helping our customers to seize opportunities. We use our modern systems to intelligently support our specialist underwriters to make quick and informed lending decisions.

**How we differentiate**

Our business model is differentiated across each aspect of the value chain. Our commitment to award-winning customer service with our broker partners (read more on page 16) and direct customers has supported origination of £4.7 billion during the 18 months to 30 June 2018, with total lending now reaching £9.0 billion (31 December 2016: £7.5 billion) as more customers choose Aldermore.

Our lending continues to be primarily funded by retail and business customer savings, with total deposits reaching £7.8 billion as at 30 June 2018, with the remainder being funded predominantly by the Term Funding Scheme. Our dynamic online proposition continues to receive industry recognition and delight customers.

Our credit experts help to ensure that lending decisions are aligned to our prudent risk appetite. They use their experience to manage risk across our diversified portfolio which, as well as the benign credit environment, supports low levels of impairment as reflected in our cost of risk at 16bps for the period to 30 June 2018.

Our robust approach to risk management extends to our prudent approach to capital and liquidity management. Our total statutory capital ratio has fallen slightly during the period to 15.1% (31 December 2016: 15.6%), and our statutory CET1 ratio has improved to 12.3% (31 December 2016: 11.5%).

<sup>1</sup> Refer to glossary on page 127 for definitions and calculations.

**4**

**Excellence in credit risk and portfolio management**

We are experts in understanding the risks associated with lending. We have a prudent risk appetite and have built a highly diversified business across our chosen markets and within portfolios, ensuring low levels of impairment.

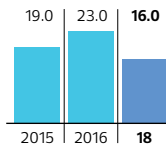
**5**

**Prudent capital and liquidity management**

Having built the Bank in the aftermath of the financial crisis, we understand the importance of maintaining a robust capital position and maintaining sufficient cash reserves at all times.

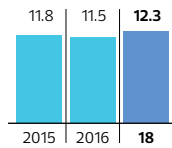
**Cost of risk<sup>1</sup>**

bps

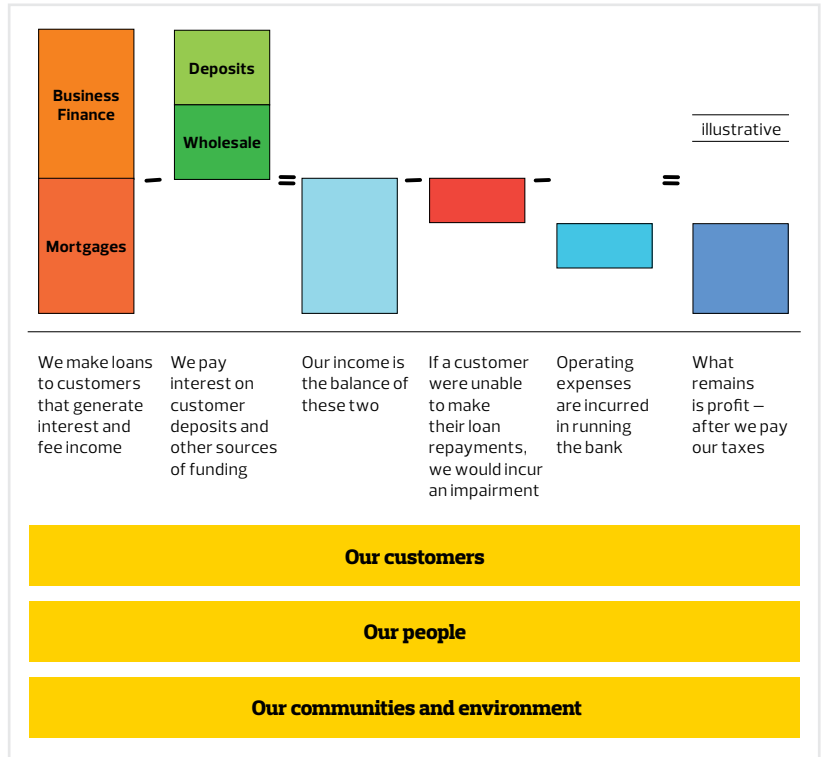


**CET1 ratio**

%



**And generate superior returns and outcomes for all our stakeholders**



More about our corporate responsibility on **page 24**

Our financial statements start on **page 60**

**Strong outcomes for stakeholders**

Our differentiated business model enables us to generate strong outcomes for stakeholders, generating continued profitability with an underlying return on equity<sup>2</sup> of 17.2% (31 December 2016: 17.9%). We have also continued to invest in the business to improve customer experience, enhance employee engagement and give back to our communities. You can read more on this on pages 24 to 25.

<sup>1</sup> Refer to glossary on page 127 for definitions and calculations.

<sup>2</sup> ROE from reported profits: 13.9% (2016: 17.2%).

# Chief Executive Officer's review

**“I'm incredibly proud to have achieved another significant milestone in Aldermore's journey and very excited about our future as part of the FirstRand Group.”**

**Phillip Monks,**  
Chief Executive Officer



## **A remarkable journey**

We set out in 2009 to provide a real alternative to customers that would challenge the status quo in UK banking and it's been a remarkable journey. We now have 1,000 colleagues serving around 238,000 customers. Together we have built one of the UK's leading specialist banks, with lending to small businesses and individuals totalling £9.0 billion and total assets of £10.4 billion as of 30 June 2018.

The acquisition by FirstRand is a testament to our consistent track record of delivery, recognition of our unique operating model, market positioning and confidence in our sustainable growth strategy. Through its own portfolio of leading financial services franchises, the FirstRand Group has demonstrated its ability to successfully integrate entrepreneurial businesses. We believe there is a strong strategic and cultural fit and a shared sense of ambition which will benefit our customers, colleagues and wider stakeholders.

Becoming part of the FirstRand Group, with the backing of their considerable resources and wider capabilities will give us greater ammunition to deliver on our combined strategy and expand its scope. We are also currently working to integrate MotoNovo Finance, one of the UK's leading independent motor finance companies, into the Aldermore Group. This will enhance and extend our reach, further expanding the products and services we offer both business and retail customers.

Our vision has always been to bring more competition to UK banking. Operating as a leading specialist bank in carefully selected markets is an approach that has resonated well with our customers. Our success has been built on offering excellent service and straightforward products to small and medium-sized enterprises (SMEs), homeowners, landlords and individuals. We challenge the status quo and empower people to seek and seize opportunities in their professional and personal lives by providing 'banking as it should be'.

We live in a digital era with a passion for diversification in both our lending and deposit franchises, and we benefit from a concentration of expertise to support the varied needs of our diverse customer base. We do this through direct relationships with our customers and through our carefully selected network of specialist intermediaries.

## **Customer focus drives another strong performance**

It is with great pride that we are reporting another strong set of results which continues to build on our track record. It's a further validation of our focus on customers as individuals, going beyond the one size fits all approach. This has driven strong customer growth with net loans to customers increasing by 20% to £9.0 billion over the 18 month period.



Our organic engine delivered £4.7 billion of origination and enabled us to record an underlying profit before tax of £232m<sup>1</sup> and a 17.2% underlying<sup>2</sup> return on equity<sup>3</sup>.

It has been a year of investing in our business, building future capability, ensuring regulatory compliance with IFRS9 and GDPR while also improving our customer propositions resulting in our cost/income ratio increasing by 1.4% as expected.

During the period, we streamlined our organisation under two distinct customer-facing businesses – Business Finance and Retail Finance to further support our strategic development. Business Finance focuses on Asset, Invoice, Commercial Mortgages while Retail Finance incorporates our Mortgages and Savings businesses.

In Asset Finance we have leveraged our market leading broker distribution model and deepened our relationship via a strategic investment in AFS Group, a leading asset and commercial finance introducer. Success in the broker channel, as well as further leveraging our wholesale capabilities, has enabled us to grow net lending by 17% to £1.8 billion during the period. Across SME Commercial Mortgages, we have reinvigorated our proposition for UK investors and SMEs, which saw Asset Finance balances growing 4% to £966m.

The strength of our Buy-to-Let proposition and specialist underwriting capabilities enabled us to continue to capitalise on the trend for increasing professionalisation in the market, supporting robust growth in maintaining balances of 33% to £4.4 billion. Residential Mortgages remained stable at £1.5 billion, due to slower overall market growth and increased competition.

Our loan growth continues to be primarily funded by our award-winning deposit franchise. The performance of our savings business is driven by our straightforward and transparent proposition which drove an increase in deposits of 17% to £7.8 billion, as well as being awarded 'Best Cash ISA Provider'<sup>4</sup> and 'Best Business Savings Bank Account'<sup>5</sup> in 2017.

We have continued to invest to achieve increased effectiveness across our operations and we expect the benefits of this to be realised in future years.

### Ongoing colleague commitment

Our progress and future ambition is only possible as a result of the hard work and dedication of our people. I would like to thank my colleagues across Aldermore for the precocious entrepreneurial and disruptive spark that they bring to work each day. Without their commitment, their expertise and support they provide to our customers, we would not have achieved this strong set of results. Our latest colleague survey results showed that we achieved an Employee Net Promoter Score (eNPS) which compares well against industry standards.

As we embark upon a new era within the broader FirstRand Group, I look forward to working with our new parent company and welcoming colleagues from MotoNovo Finance as we continue our shared journey to disrupt the UK banking market.

I would also like to express my sincere thanks to Danuta Gray for all her support as Interim Chairman and extend a warm welcome to Pat Butler who joined as our Chairman in March 2018.

### Maintaining our strategic focus and outlook

As we seek to expand the business, our strategic priorities will continue to be delivering profitable growth, increasing efficiency over time and maintaining our robust approach to risk management.

We remain cautiously optimistic on our outlook owing to the macro and political environment, including the uncertainty surrounding the impact of the UK leaving the European Union. However, I strongly believe that with the enlarged Aldermore Group under FirstRand ownership, we have the opportunity to deliver the most compelling story and potential of any UK bank. We have gained greater firepower to accelerate our strategic developments to enable us to continue serving and growing our customer base.

I would like to thank our customers, colleagues and former shareholders for all their support and I look forward with confidence as the next chapter of the Aldermore story begins.

The strategic report on pages 1 to 25 was approved by the Board and signed on its behalf by:



**Phillip Monks,**  
Chief Executive Officer

<sup>1</sup> Statutory profit before tax £195.3 million (2016: £128.7 million).

<sup>2</sup> Refer to glossary on page 127 for definitions and calculations.

<sup>3</sup> ROE from reported profits: 13.9% (2016: 17.2%).

<sup>4</sup> Businesscomparison.com 2017.

<sup>5</sup> Money Net awards 2017.

# Chief Financial Officer's review

**“The Group has had another period of strong financial performance, with continued growth in both lending and profits.”**



**James Mack,**  
Chief Financial Officer

**Aldermore has changed its financial year end to 30 June to align with FirstRand Group. As a result of the change in the year end, Aldermore presents below an 18 month reporting period to 30 June 2018. Comparatives have not been restated and % are shown as 18 months vs 12 months except where stated that they are annualised. As highlighted by Phillip on page 15, during the period we restructured the business into Business Finance which includes Asset Finance, Invoice Finance and SME Commercial Mortgages and Retail Finance (made up of Residential Owner Occupied Mortgages, Buy-to-Let Mortgages and Savings). From a financial perspective however Savings continues to be reported with the rest of the funding base within Central Functions.**

	30 June 2018 £m	31 December 2016 £m	% change
<b>Balance sheet – key items<sup>1</sup></b>			
Net loans	<b>8,990.5</b>	7,477.3	20
Cash and investments	<b>1,397.7</b>	848.1	65
Other assets	<b>44.5</b>	55.8	(20)
Total assets	<b>10,432.7</b>	8,381.2	24
Customer deposits	<b>7,776.3</b>	6,673.7	17
Wholesale funding	<b>1,811.5</b>	982.2	84
Other liabilities	<b>86.9</b>	99.3	(12)
Total liabilities	<b>9,674.7</b>	7,755.2	25
Ordinary shareholders' equity	<b>684.0</b>	552.0	24
AT1 capital	<b>74.0</b>	74.0	–
Equity	<b>758.0</b>	626.0	21
Total liabilities and equity	<b>10,432.7</b>	8,381.2	24
<b>Key metrics</b>			
Net loan growth (£m)	<b>1,513</b>	1,333	14
Loan to deposit ratio (%)	<b>116%</b>	112%	4
Liquid assets / deposits (%)	<b>18%</b>	13%	5
Fully loaded CRD IV CET1 capital ratio (%)	<b>12.3%</b>	11.5%	0.8

<sup>1</sup> Refer to glossary on page 127 for definitions and calculations.

## Loans to customers up 20%

Net loans to customers reached £9.0 billion (31 December 2016: £7.5 billion) as the number of our customers reached 90,000 (31 December 2016: 83,300). Loans saw double digit growth across both divisions with Business Finance up 16% to £3.1 billion and Retail Finance up 23% to £5.9 billion. This increase was predominantly driven by strong origination across all divisions at £4.7 billion. This high level of originations was partly offset by £3.2 billion of redemptions.

## Deposit-led funding model

We continue to support our asset growth through diversified, deposit-led funding. Deposits were up 17% to £7.8 billion (31 December 2016: £6.7 billion) as we remain committed to growing the deposits franchise in Personal, SME and Corporate markets through our exceptional customer service and competitive rate offering. At the end of the period, we had over 148,000 customers, an increase of 6% on December 2016. Wholesale funding was up 84% to £1.8 billion (31 December 2016: £982 million) as we took advantage of the Bank of England's four-year Term Funding Scheme at base rate which closed in February 2018. At the end of June 2018, we had £1.7 billion drawn under this scheme. This replaced funding which we had previously taken out with the Bank of England under the Funding for Lending Scheme (31 December 2016: £650 million), with the final repayment being made in August 2017. In May 2017, we also exercised our option to call the £40 million Tier 2 Notes issued in 2012 at par value.

## Operating income up 75% to £467 million (31 December 2016: £267 million)

During the period, interest income grew by 69% to £602 million (31 December 2016: £358 million) reflecting net loan growth. Our gross interest margin of 4.9% (2016: 5.3%) fell slightly in a highly competitive environment.

Income statement – key items	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m	% change
Net interest income	430.0	239.4	80
Other income	37.4	28.1	33
Operating income	467.4	267.5	75
Underlying expenses	(216.5)	(119.2)	(82)
Impairments	(19.5)	(15.5)	(26)
Share of profit of associate	0.3	0.0	–
Underlying profit before tax	231.7	132.8	74
FirstRand transaction costs	(19.8)	0.0	–
FirstRand integration costs	(2.4)	0.0	–
Impairment of intangibles and goodwill	(14.2)	(4.1)	(246)
Statutory profit before tax	195.3	128.7	52
Tax	(56.7)	(35.2)	(61)
Profits after tax	138.6	93.5	48

Interest expense rose by 45% to £172m. We continued to benefit from diversified funding and access to lower cost Government schemes (now closed to further provision of funding), reducing our cost of funds to 1.4% (2016: 1.7%). As a result, the Group's net interest income increased by 80% to £430 million (2016: £239.4 million) while the net interest margin remained stable at 3.5% (2016: 3.5%). Net fee and other operating income rose by 33%. Fee income growth has slowed due to the market shift towards fee free valuation products in mortgages.

### Continued investment

Operating expenses increased to £253 million (2016: 123 million) reflecting ongoing investment in the business including regulatory developments such as GDPR and in our overall IT capabilities and growth in our teams as well as significant expenditure primarily reflecting the FirstRand acquisition. Excluding £36.4 million for FirstRand transaction costs, integration costs and impairment of intangible assets following an impairment review (2016: goodwill impairment of £4.1 million), underlying operating expenses grew 82% to £216 million (2016: £119 million). This resulted in an underlying cost / income ratio of 46% (2016: 45%) largely due to continued investment in our business and people.

### Cost of risk remains low at 16bps

We maintain a robust approach to risk management and this, combined with a continued benign credit environment, has resulted in our cost of risk remaining low at 0.16% (2016: 0.23%). Credit impairment charges for the 18 month period to 30 June 2018 increased by 26% to £19.5 million (2016: £15.5 million), reflecting the growth of the loan book and an increase in a small number of specifically impaired loans in Asset Finance.

### Reported profits up by 52%

Profit before tax was up 52% to £195.3 million (31 December 2016: £128.7 million) driven by higher interest income reflecting asset growth, partially offset by increased expenses. This resulted in an ROE of 13.9% (2016: 17.2%). This mainly reflected higher expenditure due to ongoing investment in the business for regulatory programmes and in our people and IT capabilities during the period.

Alternative profit measure reconciliation to Statutory Profit	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Underlying profit before tax	231.7	132.8
FirstRand transaction costs	(19.8)	–
FirstRand integration costs	(2.4)	–
Impairment of intangibles and goodwill	(14.2)	(4.1)
Statutory profit before tax	195.3	128.7

### A robust capital position

As at 30 June 2018, the Group maintained a robust capital position with a fully loaded CRD IV total statutory capital ratio of 15.1% (31 December 2016: 15.6%) and a statutory CET1 ratio of 12.3% (31 December 2016: 11.5%). The increases over the period reflect the profit after tax of £138.6 million offset by growth in Risk Weighted Assets (RWAs) of £865.1 million and two post-tax AT1 coupons totalling £13m, payable annually in April.

We are well placed for the transition to the new accounting requirements of IFRS 9 which became effective for us from 1 July. The programme involved significant effort from teams across the Group and was subject to external challenge and review. The successful delivery of the programme enables us to move closer to the sophistication needed for an Internal Ratings–Based approach (IRB) to capital which may assist us in mitigating some of the risk of changes in future capital requirements. We are continuing to monitor the cost and benefits associated to moving to an IRB approach, as the regulatory changes and timeframes for implementation become clearer.

<sup>1</sup> Refer to glossary on page 127 for definitions and calculations.

## Strategic report

# Chief Financial Officer's review continued

Capital position	30 June 2018 £m	31 December 2016 £m	% change
Common equity Tier 1 capital	669.6	525.8	27
Additional Tier 1 capital	74.0	74.0	—
Tier 2 capital	77.4	113.1	(32)
Total capital	821.0	712.9	15
Risk Weighted Assets (RWAs)	5,441.2	4,576.1	19

#### Fully loaded CRD IV capital ratios (%)

CET1 ratio (%)	12.3%	11.5%	0.8%
Total capital ratio (%)	15.1%	15.6%	(0.5)%
Leverage ratio (%)	7.0%	7.0%	0.1%

## Outlook

Going forward, we expect to see increased competition in terms of number of new entrants to the market as well as in pricing. We have yet to see the full impact of the Bank of England Base Rate increase of 25bps on 2 August and macro-economic uncertainty around Brexit continues. Despite this, we remain confident about the future and continue to expect low double digit growth in net loans from our existing businesses and within our current risk appetite.

On joining the FirstRand Group, Aldermore has expanded its UK responsibilities and we look forward to working with our colleagues from MotoNovo Finance in the coming financial year.

## Alternative Performance Measures

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Aspects of the results are adjusted for certain items, which are described below, to reflect how the Executive assesses the Group's underlying performance without distortions caused by items that are not reflective of the Group's ongoing business activities. The following items have been excluded from underlying profits:

- FirstRand transaction costs

These costs relate to the acquisition of Aldermore by FirstRand Group and primarily consist of broker and legal expenses. Further details of transaction costs can be found in note 10.

- FirstRand integration costs

These costs relate to the work to integrate Aldermore into the FirstRand Group.

- Impairment of intangibles  
The £14.2m impairment of intangibles costs in the period ended 30 June 2018 result from an impairment review. See note 24 for further details.
- Impairment of goodwill  
The £4.1m impairment in 2016 relates to goodwill on the acquisition of Absolute Invoice Finance (Holdings) Limited. Further details can be found in note 24.

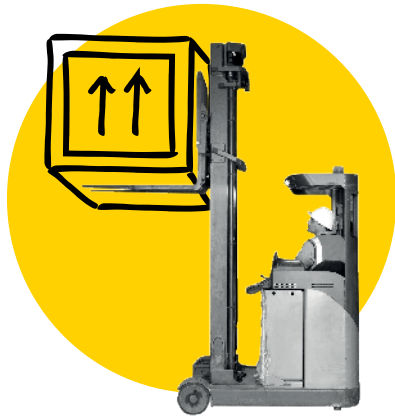


**James Mack,**  
Chief Financial Officer

<sup>1</sup> Refer to glossary on page 127 for definitions and calculations.

<sup>2</sup> ROE from reported profits: 13.9% (2016: 17.2%).

# Business Finance



	18 months to June 2018 £m	2016 £m	Movement %
Net loans to customers	<b>3,072.8</b>	2,657.4	16
Organic origination	<b>2,345.3</b>	1,471.0	59
Operating income	<b>221.3</b>	129.3	71
Administrative expenses	<b>(43.6)</b>	(26.3)	66
Impairment losses	<b>(13.1)</b>	(10.2)	28
Segmental results	<b>164.6</b>	92.8	77
Net interest margin (%)	<b>4.5</b>	4.4	0.1
Cost of risk (%)	<b>0.30</b>	0.41	0.11

## Highlights

- Organic origination increased 59% to £2.3 billion (31 December 2016: £1.3 billion)
- Net lending to customers up 16% to £3.1 billion (31 December 2016: £1.7 billion)
- Segmental results up 77% to £164.6 million (2016: £52.1 million)
- Launch of Specialist Car Finance team connecting all parts of the service chain to provide a faster, customer focused, expertise-led service
- Launch of Football Finance with £50 million of balances by the end of the period

**During the period, the Group restructured its operating model, where previously the business was divided into Business Finance, Mortgages and Savings, the divisions are now allocated to two distinct customer facing businesses; Business Finance (made up of Asset Finance, Invoice Finance and Commercial Mortgages) and Retail Finance (made up of Residential Owner Occupied Mortgages, Buy-to-Let Mortgages and Savings). From a financial perspective however Savings continues to be reported with the rest of the funding base within Central Functions.**

<sup>1</sup> Source: FLA.

<sup>2</sup> Based on FLA IT equipment and business equipment stats.

## Performance

Business Finance loan balances were up by 16% to £3.1 billion (31 December 2016: £2.7 billion) and originations were up by 59% to £2.3 billion (31 December 2016: £1.5 billion) reflecting strong growth particularly in Asset Finance (AF) and Invoice Finance (IF). In AF, net lending was up 17% to £1.8 billion (31 December 2016: £1.6 billion) and originations up by 73% to £1.7 billion (31 December 2016: £1 billion) reflecting our market leading share of the broker market (net lending up 15%) supported by the launch of our dedicated car finance team together with the continued success of our wholesale channel (net lending up 35%). Our Asset Finance franchise now extends to around 52,000 UK businesses. In IF, net loans are up by 72% to £0.3 billion (31 December 2016: £0.2 billion) driven by strong performance in Specialist Finance. Commercial Real Estate net lending has remained stable with a focus on the refresh of the product and proposition including reinstatement of appetite post the EU referendum.

Net interest margin (NIM) broadly flat despite increased competition as we benefited from lower funding costs coupled with a change in product mix within Invoice Finance towards higher yielding products.

Administrative expenses were up by 66% to £43.6 million (2016: £26.3 million) predominantly due to the current period covering 18 months and increased investment to support growth. Cost of Risk has reduced to 0.3% (2016: 0.4%) due to a benign credit environment supported by an improved risk profile in the Invoice Finance customer base. Segmental profit is up by £72 million (77%) driven predominantly by the larger book size and the extended period, but with a broadly stable NIM.

## Market and Strategy

The total Asset Finance market was worth about £31 billion<sup>1</sup> in 2017, growing c10% year on year. Aldermore operates as a leader within the £5.8 billion broker segment (which grew by c16%) commanding a c14% market share. We will seek to protect this position through on-going investment in our digital capability, aimed at enhancing our service offering, making it simpler for brokers to deal with us, especially in less complex transactional cases. Going forward, we will look to use this technology to help customers in other markets, particularly the c£9 billion vendor finance market. Within Asset Finance, Aldermore specialises in complex and structured deals, which play to our specialist underwriting

# Business Finance continued

advantage, but also focus on smaller ticket, margin enhancing deals such as "soft assets" where the market grew c15% to £1 billion<sup>2</sup> year on year.

The IF market grew c5% to £23 billion in 2017, and whilst market growth in Aldermore's primary target range (£0–£10 million) was lower at c3% it remains an attractive c£6 billion market<sup>3</sup>.

Over the same period, Aldermore's net loans grew c72%, outperforming the market and increasing our market share from 0.69% to 0.87%. Whilst the total value of loans in the market grew, the number of UK businesses using IF finance was stable throughout 2017 with less than 8,000 businesses changing funder in 2017 demonstrating the increasing competitiveness across existing providers and their desire to retain clients.

The SME Commercial Mortgages market was worth c£45 billion in originations during 2017, of which Aldermore represented 0.3%, focused on multi-let commercial investment property loans and property development to experienced regional developers.

Despite very active competition and widening appetites, Aldermore differentiates through specialist underwriting capability and a best-in-class service proposition, enabling us to generate strong margins. Our commercial underwriters work hand in hand with customers and our approved panel of specialist brokers to understand the property use, the tenant covenant and the local market dynamics to underwrite effectively, providing a bespoke service and tailored funding solution. We increased our maximum loan size for property development loans to £25 million and we will constantly review our proposition to expand our offering within our existing risk appetite to meet customer needs.

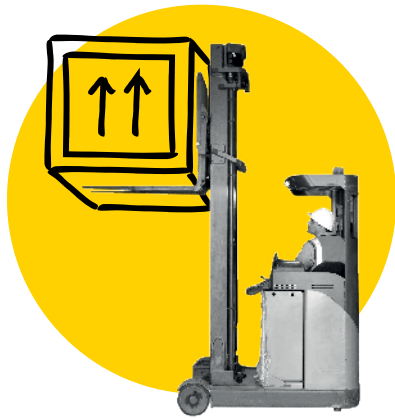
The market is expected to remain highly competitive with an increasing number of new entrants. Within Asset Finance, we will seek to maintain our number one position in the broker market with further investment particularly in our digital capability. In Invoice Finance we plan to further refresh our product offering and proposition as we have with our Football Finance offering and dedicated Specialist Car Finance team. Within SME Commercial Mortgages, we will continue to exploit our specialist underwriting advantage in structuring deals to multi-let commercial investment and experienced regional property developers.

<sup>1</sup> Source: FLA.

<sup>2</sup> Based on FLA IT equipment and business equipment stats.

<sup>3</sup> Source: ABFA.

# Retail Finance



## Highlights

- Organic origination increased 33% to £2.3 billion (31 December 2016: £1.8 billion)
- Net lending to customers up 23% to £5.9 billion (31 December 2016: £4.8 billion)
- Segment result up 68% to £214.8 million (31 December 2016: £128.2 million)
- Winner of best service from a Buy-to-Let lender for the third consecutive year (Business Moneyfacts)

## Performance

Retail Finance loan balances grew 23% to £5.9 billion (31 December 2016: £4.8 billion) with originations up by a third in the period to £2.3 billion (31 December 2016: £1.8 billion), despite an increasingly competitive market. Growth was supported by strong originations in Buy-to-Let as we released a number of limited edition products. As the Buy-to-Let market has moved more towards Specialist and Limited Company borrowers following tax changes, we have consolidated specialist Buy-to-Let operations into Wilmslow and increased capacity in the underwriting team. The benefits from this are already being realised, with reduced application turnaround times and a simplified end to end process for brokers. We have also recently refreshed the specialist Buy-to-Let product offering giving rise to a marked uplift in activity with the number of applications doubling since July 2017. We have continued to focus our efforts on retaining customers which has resulted in a reduction in redemptions as a proportion of opening balances to 17% (2016: 20%). Residential Owner Occupied mortgage balances have remained flat at £1.5 billion (31 December 2016: £1.5 billion).

This primarily reflects a spike in redemptions in the middle of 2017, due to the maturing of two year fixed Help to Buy loans which had originated when the product was first launched.

Net interest income was up 74% to £240.5m (31 December 2016: £140 million) largely driven by growth in loan balances while the net interest margin remains broadly stable with only a marginal decline compared to prior year despite increasing market pressure. In line with market trends, we are offering more fee free products while our increased retention strategy has seen a decline in early redemption charges. Administrative expenses were higher than 2016 at £25.3 million (2016: £15.2 million) predominantly due to the current period covering 18 months as well as increased investment in our people to support the growth in the business. Cost of risk fell to 0.08 % (2016: 0.12%), demonstrating careful risk management across the Mortgages portfolio as well as a benign credit environment.

	18 months to June 2018 £m	2016 £m	Movement %
Net loans to customers	<b>5,917.7</b>	4,819.9	23
Organic origination	<b>2,334.4</b>	1,755.2	33
Operating income	<b>246.4</b>	148.7	66
Administrative expenses	<b>(25.3)</b>	(15.2)	66
Impairment losses	<b>(6.4)</b>	(5.3)	21
Segmental results	<b>214.8</b>	128.2	68
Net interest margin (%)	<b>3.0</b>	3.2	(0.2)
Cost of risk (%)	<b>0.08</b>	0.12	0.04

# Retail Finance continued

## Market and Strategy

Aldermore continues to have a strong reputation in the market as a Buy-to-Let lender. Around 85% of organic originations come via the broker channel.

Buy-to-Let market originations fell 12% to £36 billion across the market during this period. Changes in stamp duty rules and increased regulation in this sector drove a number of landlords to consider their options with a resultant shift towards professional landlords playing in this market. Aldermore's share of originations increased to 3.53% (2016: 3.18%). The market also continued to move towards remortgage, increasing to 68% of all market originations (2016: 62%).

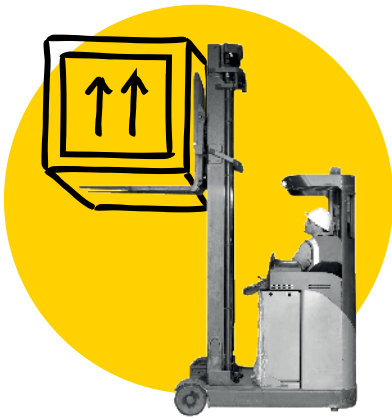
Residential Owner Occupied Mortgages Market originations increased 10% to £214 billion in 2017, with Aldermore's share falling slightly to 0.20% (2016: 0.24%). This reduction was primarily due to the Group's decision to rebalance the proportion of higher LTV lending in the portfolio towards the end of 2017.

However, we continue to find niches where we benefit from our expert underwriters and earn appropriate returns. For example we have recently expanded our product offering in the market with the launch of Cascade and Later Life Lending. Cascade will give us the ability to lend to customers who we may not have traditionally been able to lend to by offering tiered pricing to customers with less than perfect credit records. Later Life Lending will open up another customer segment that the market believes will become bigger in the next decade with people aged 65 and over representing the fastest growing segment of UK population. The retirement market was worth £65 billion in 2017 and is predicted to reach £142 billion by 2027. Both of these new propositions are likely to attract a higher margin than our current product set and have received positive market sentiment so far.

We expect the Buy-to-Let market to remain relatively flat or fall slightly over the next year, whilst growth in the Residential Owner Occupied Mortgages market is now slowing compared to 2017. Established lenders have started to enter areas of market which Aldermore and its peers have traditionally served, resulting in some rate pressure and an increase in the offering of fee free products. We believe that with our distinctive offering and our strength in underwriting and understanding of customer needs, we will continue to thrive. We will also focus on special propositions in the segments where we operate to best serve the needs of our customers. Future expectations of further bank base rate increases are anticipated, over and above the further 25 basis points rise in the Base rate to 0.75% on 2 August 2018, means the outlook for savers is positive.



# Central Functions



	18 months period to 30 June 2018 £m	2016 £m	Movement %
Net interest income	(3.5)	(10.2)	66
Net fees and other income	3.3	(0.3)	n/a
<b>Operating income</b>	<b>(0.2)</b>	<b>(10.5)</b>	<b>(98)</b>
Administrative expenses	(147.4)	(77.7)	(90)
Non-underlying expenses	(36.4)	(4.1)	(788)
Share of profit of associate	0.3	–	–
<b>Segmental loss</b>	<b>(183.7)</b>	<b>(92.3)</b>	<b>(99)</b>

## Highlights

- Retail deposits up by 8% to £5.2 billion (31 December 2016: £4.8 billion)
- SME deposits up by 21% to £2.0 billion (31 December 2016: £1.7 billion)
- Corporate deposits up by 137% to £615 million (31 December 2016: £260 million)

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

## Performance

Net interest income includes the interest expense relating to the Tier 2 Notes and part of the income or expense arising from derivatives held at fair value in hedging relationships, neither of which are recharged to segments. The reduction in net interest expense mainly relates to movements in the fair value of financial instruments and related hedge accounting adjustments.

Net fees and other income predominantly includes the net expense or income from derivatives not currently recognised as being in hedging relationships and gains or losses on disposals of available for sale debt securities.

Central administrative expenses (excluding exceptional items) increased by 90% to £147.4 million (2016: £77.7 million) due to the current period covering 18 months as well as the

continuing investment in the business including regulatory developments such as GDPR and in our overall IT capabilities.

Non-underlying items of £36.4 million for the 18 month period to 30 June 2018 include the material costs for both the FirstRand transaction, the ongoing integration programme and intangible impairments (2016: Goodwill £4.1 million impairment).

The segmental result was a charge of £183.7 million (2016: charge of £92.3 million).

## Market and Strategy

The UK savings market remained buoyant throughout the period despite the continued low rate environment. On 2 August 2018, the Bank of England increased the Bank Base Rate to 0.75%, the highest rate in almost a decade. However, competition for deposits remained low due to the Bank of England funding schemes, with the Term Funding Scheme available to financial institutions until February 2018. Our funding strategy remains deposit-led whilst we actively manage wholesale sources, such as Government and Central Bank schemes, to provide diversification and drive an efficient cost of funds.

# Corporate responsibility

Our overriding principle is to support the people of Britain to seek and seize opportunities in their professional and personal lives. Through our business operations, Aldermore enhances and touches the lives of customers, local communities and our own people. We know that it is important wherever we operate to do this responsibly, giving back and taking a collaborative approach with our stakeholders. We believe that a business cannot deliver sustainable long-term returns without considering its wider impact on society.

## Our people

Our people are the foundation of our business and underpin our business strategy. Recognising, valuing and rewarding our people's contribution to our success is central to our philosophy. We have therefore continued to place significant focus on building a great place to work, including how we encourage diversity in our workplace, engaging our colleagues by encouraging everyone in continually improving our business.

During the past financial year we have taken a range of steps to ensure that our employees are systematically provided with information on matters of concern to them:

Examples include monthly Group-wide colleague newsletters, intranet articles and regular face to face briefings from senior leaders at many of our sites.

We regularly consult our employees to ascertain their views on a range of issues. Activities include an annual employee survey, colleague focus and network groups, "Big Conversation Teamtalks".

We encourage and support our colleagues' involvement in the organisation's performance through a competitive performance related pay and bonus structure. We also make all colleagues aware of the financial performance and economic factors affecting the company by ensuring they are briefed on a quarterly basis. We adopt a multi-channel approach to ensure that the information is provided in a format which our colleagues value.

## 1. We are committed to diversity in the workplace

- Committed to equal opportunities for all our people, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status;
- Ran our first Inclusion week which involved a number of activities across the Bank; and two national campaigns – mental health awareness and deaf awareness.

## 2. We include our people in the future of our business

- Throughout the period we embedded the Big Conversation, the Aldermore way of involving everyone in the continuous improvement of our business;
- Through the Big Conversation our managers at all levels facilitate conversations with their teams about strategically important themes. In these conversations we surface improvement ideas which are trialled and implemented on a team level, then shared via an online collaboration platform. Through the Big Conversation system, all our colleagues are included and involved in improving the performance of our business;

- To date this approach has generated over 500 new ideas from colleagues to improve our business and built a culture of continuous improvement helping to shape purposeful conversations and change mindsets;
- Since the end of 2016 we have trained over 240 people managers and 30 culture champions across the Bank to deliver this Big Conversation approach; and
- Our 2017 employee engagement survey which gave our employees the opportunity to let us know how they are feeling and what we can improve. The results of the survey showed our overall Employee Net Promoter Score (eNPS) increase from -4 to +5.

## 3. We support the professional development and recognition of our people

- Introduced the new Elevate programme, a bank wide development programme for those colleagues who aspire to be managers, 77 Aldermore colleagues enrolled so far with 61 already graduated;
- 12 Aldermore colleagues graduated from our Next Generation Leaders Programme in 2017;
- Enrolled 197 managers on our Empowered Managers course, a bank wide programme to develop our existing middle management population; and
- Launched "The More Awards" our colleague recognition awards enhancing our approach to recognising employees. Through the period 2017/2018 we saw 146 peer to peer nominations through both the old and new employee recognition scheme.

Below are our employee statistics for December 2016 and June 2018.

	June 2018	December 2016
Number of employees	950	901
Number of female employees	431	401
% of female employees	45%	45%
I am proud to work for Aldermore (Big Conversation survey December 2017)	76%	
How likely is it that you would recommend Aldermore as a place to work to a friend and colleague? (Big Conversation survey December 2017)	+5 <sup>1</sup>	
% of new joiners who came through our refer a friend scheme	24%	22%

### Our communities

The SMEs, landlords, homeowners and savers that we support, in turn support the communities in which they live and work. We understand that we have a responsibility to give back to these communities.

We are also cognisant of the effects of our actions on the environment and ensure that these are managed in a way that limits these impacts. We use recycled paper for printing and have recycling facilities located in all offices in support of our commitment to reduce the amount of waste we sent to land fill.

### We play our part as a responsible member of the banking community

- Actively involved with industry bodies including the UK Finance, FLA, and IMLA; and
- Continued as a member of the Banking Standards Board.

### We give back to the communities where we operate

- Our employees vote annually on a Charity of the Year they wish to support. In 2017 this charity was Sands, the still birth and neonatal death charity. Colleagues raised £14,042 for Sands and £12,172 for Headway, the brain injury charity who we support every year in memory of an Aldermore colleague;
- In 2018, Aldermore's Charity of the Year is Independent Age, a national charity which provides free information and advice for older people and their families on care and support, money and benefits, and health and mobility. A number of activities have taken place already in 2018 to support this charity; and
- In 2018, Aldermore also operates a pound for pound charity matching scheme for employees. Many of our people raise funds for their charity of choice and as a responsible business we want to lend a hand and support our employees. We therefore will match whatever a colleague raises for charity up to a maximum of £250.

### Human Rights and Modern Slavery Act

As a UK Bank with a growing number of international suppliers, Aldermore recognises that there is a risk (however small) for slavery or human trafficking to occur in its supply chains. We have taken the following steps to ensure slavery and human trafficking have not occurred in our supply chain: reviewing and revising our procurement policies; changing our due diligence processes; conducting a risk assessment with due regard to the sector and geographical locations in which our suppliers operate.

The Group engages with its suppliers to seek assurance about their anti-slavery and human trafficking policies and whether they are taking steps to prevent slavery and human trafficking in their respective businesses and supply chains.

### Anti-Bribery

The Group has an Anti-Bribery and Corruption Policy which is reviewed annually by the Board to ensure it is fit for purpose and which applies to all Directors, employees, contractors and third party outsource providers. The Bank promotes a culture of awareness and understanding at all levels and mandatory training is provided.

<sup>1</sup> The score shown reflects a net rating for promoters minus detractors.

# Corporate governance

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# Board of Directors

## Key

- A Member of the Audit Committee
- C Member of the Corporate Governance and Nomination Committee
- R Member of the Remuneration Committee
- R Member of the Risk Committee
- ⊖ Denotes Committee Chair

### Pat Butler Chairman



**Appointed:**  
January 2018<sup>1</sup>

#### Board Committee membership:



#### Relevant skills, strengths and experience:

Pat brings extensive financial services experience to the Board, gained through both his executive and non-executive careers. He has previously served as a Non-Executive Director of Bank of Ireland Group PLC and Bank of Ireland (UK) PLC and was a partner at The Resolution Group, which conducts investment and restructuring activities in financial services. Pat has also chaired the Investment Committee of British Business Bank Investments Ltd, which is the commercial arm of the British Business Bank. Prior to that, he spent a number of years at McKinsey & Company Inc where he held senior roles, including leading the Europe, Middle East and Africa Retail Financial Services Practice. Pat is a qualified accountant and a Fellow of Chartered Accountants in Ireland.

#### Principal external appointments:

- Non-Executive Director and Chairman of the Audit Committee of Hikma Pharmaceuticals PLC
- Non-Executive Director and Chairman of the Risk Committee of Ardonagh Group Limited

### Phillip Monks OBE Chief Executive Officer



**Appointed:**  
May 2009

#### Relevant skills, strengths and experience:

Phillip is the founding CEO of Aldermore and has a long-standing track record in championing small and medium-sized businesses and British economic growth. His banking career spans more than three decades, and includes establishing and serving as CEO of Europe Arab Bank PLC, over 20 years at Barclays PLC, where he held a variety of senior corporate and private banking roles, including CEO of Gerrard Investment Management Limited, Managing Director of Barclays Corporate Banking in London, the Midlands and South East, and Head of Barclays Private Bank in Geneva.

#### Principal external appointments:

- Member of the FCA Smaller Business Practitioner Panel

### James Mack Chief Financial Officer



**Appointed:**  
September 2013<sup>2</sup>

#### Relevant skills, strengths and experience:

James brings significant financial experience to the Group, having spent six years at Skipton Building Society in capital markets, finance and audit, where he was instrumental in leading the merger with Scarborough Building Society. James began his career with KPMG LLP where he spent 11 years in the firm's financial services audit practice.

#### Principal external appointments:

- None

### Christine Palmer Chief Risk Officer



**Joined the Group:**  
May 2016

#### Relevant skills, strengths and experience:

Christine has almost 30 years' experience in risk management, corporate and commercial banking, having held roles at ING Bank N.V., where she spent eight years across London and Amsterdam, Ernst & Young LLP and The Royal Bank of Scotland Group PLC. Her career at RBS spanned almost 14 years, during which time she held a number of senior positions in the Risk function including Divisional Chief Risk Officer and senior credit risk roles. She was most recently Global Head of Operational Risk and Director of Risk Services.

#### Principal external appointments:

- None

### Danuta Gray Senior Independent Director



**Appointed:**  
September 2014

#### Board Committee membership:



#### Relevant skills, strengths and experience:

Danuta brings significant leadership experience having spent nine years as CEO of Telefónica O2 in Ireland. Her career in telecommunications spans over 20 years, during which time she held numerous senior roles at BT Group PLC, gaining experience in marketing, customer service, communications, technology and sales, and leading and implementing change. She has also served as a Non-Executive Director of Paddy Power Betfair PLC, Page Group PLC, Irish Life & Permanent PLC and Aer Lingus Group PLC.

#### Principal external appointments:

- Non-Executive Director of Direct Line Insurance Group PLC
- Non-Executive Director and Chairman of the Remuneration Committee of Old Mutual PLC
- Member of the Defence Board of the Ministry of Defence

### Johan Burger Non-Executive Director



**Appointed:**  
March 2018

#### Relevant skills, strengths and experience:

Johan brings over 30 years' experience in the banking industry to the Board of Aldermore Group PLC. He joined Rand Merchant Bank in 1986, where he performed a number of roles before being appointed Financial Director in 1995. Following the formation of FirstRand Limited in 1998, he was appointed Financial Director of the FirstRand Banking Group and in 2002 was appointed CFO of the FirstRand Group. In addition to his role as Group CFO, Johan was appointed as Group COO in 2009 and Deputy CEO in October 2013, before holding the role of CEO from October 2015 until March 2018. Prior to joining FirstRand Limited, Johan trained with Coopers & Lybrand (now PwC) and qualified as a Chartered Accountant in 1984.

#### Principal external appointments:

- Executive Director of FirstRand Limited and FirstRand Bank Limited<sup>3</sup>
- Non-Executive Director of Rand Merchant Investment Holdings Limited
- Non-Executive Director of RMB Holdings Limited

<sup>1</sup> Pat was appointed as an Independent Non-Executive Director in January 2018. He assumed the role of Chairman in March 2018.

<sup>2</sup> James was appointed to the Board of Aldermore Bank PLC in June 2013 and the Board of Aldermore Group PLC in September 2013.

<sup>3</sup> Johan stepped down as Chief Executive Officer of FirstRand Limited and FirstRand Bank Limited on 31 March 2018. Johan remains an Executive Director of FirstRand Limited and FirstRand Bank Limited until 31 August 2018 and, subject to regulatory approval, will then transition to being a Non-Executive Director of FirstRand Limited and FirstRand Bank Limited. Johan will also step down as a Non-Executive Director of the Group on 31 August 2018 and will be replaced by Harry Kellan (CFO of FirstRand Limited) subject to necessary regulatory approvals.

## Corporate governance

## Executive Committee

**John Hitchens**  
 Independent  
 Non-Executive Director


**Appointed:**  
May 2014

**Board Committee membership:**

**Relevant skills, strengths and experience:**

John has extensive financial and audit experience having previously been a senior banking partner at PricewaterhouseCoopers LLP, specialising in bank auditing and advisory services for clients including Lloyds Banking Group PLC, the Bank of England, Bank of Ireland (UK) PLC, Barclays PLC and JP Morgan Chase. From 2001 to 2010, John was PwC's banking industry leader and from 2010 until his retirement led the PwC network's global IFRS technical group. John has also carried out a wide variety of advisory work for other banks and on behalf of the regulators covering corporate governance, high-level controls and other regulatory issues.

**Principal external appointments:**

- Deputy Chairman of the Financial Reporting Review Panel
- Non-Executive Director of Societe Generale International Limited
- Trustee and Member of the Governing Council of the Centre for the Study of Financial Innovation, a not-for-profit City-based think tank

**Alan Pullinger**  
 Non-Executive Director


**Appointed:**  
March 2018

**Relevant skills, strengths and experience:**

Alan brings over 20 years' experience in the banking and professional services industry to the Board of Aldermore Group PLC. He joined Rand Merchant Bank in 1998 (prior to the creation of FirstRand Limited) and was appointed as CEO of FirstRand Group on 1 October 2015 and to CEO on 1 April 2018. Alan qualified as a Chartered Accountant after training with Deloitte. He spent five years with Deloitte and became a Partner in 1996.

**Principal external appointments:**

- Chief Executive Officer of FirstRand Limited and FirstRand Bank Limited
- Board Member of the Banking Association of South Africa

**Peter Shaw**  
 Independent  
 Non-Executive Director


**Appointed:**  
September 2014

**Board Committee membership:**

**Relevant skills, strengths and experience:**

Peter brings over 30 years' financial services experience having spent most of his career at The Royal Bank of Scotland PLC and National Westminster Bank PLC where he worked across a number of business areas including retail, SME, private banking, corporate banking, HR and risk. Peter spent many years in senior risk management roles including COO of the risk function at Group Head Office in the UK and CRO for various group businesses within RBS NatWest. In addition, Peter served as Interim CRO at the Co-operative Banking Group Limited and was previously a Non-Executive Director and Chairman of the Risk Committee of Bank of Ireland (UK) PLC.

**Principal external appointments:**

- Non-Executive Director of esure Group PLC
- Non-Executive Director of Willis Limited

**Chris Stamper**  
 Independent  
 Non-Executive Director


**Appointed:**  
February 2014<sup>2</sup>

**Board Committee membership:**

**Relevant skills, strengths and experience:**

Chris has 35 years' experience in the asset finance arena, most latterly as Director and CEO of ING Lease (UK) Limited. He is a founding Governor of the Leasing Foundation and was Director of the Finance and Leasing Association and a former Chairman of their Asset Finance Division. Prior to this, Chris held senior management roles at Abbey National PLC, where he was responsible for five business units focused on the SME market, and was the Managing Director of Lombard Sales Finance where he spent 21 years.

**Principal external appointments:**

- None

<sup>2</sup> Chris was appointed to the Board of Aldermore Bank PLC in May 2013 and the Board of Aldermore Group PLC in February 2014.

**Cathy Turner**  
 Independent  
 Non-Executive Director


**Appointed:**  
May 2014

**Board Committee membership:**

**Relevant skills, strengths and experience:**

Cathy has held a number of banking roles during her career, including Chief Administrative Officer at Lloyds Banking Group PLC and Group HR Director at Barclays PLC, where she was responsible for HR, strategy, corporate affairs, brand and marketing. She was also Director of Investor Relations at Barclays for four years. Formerly, Cathy worked in consultancy with Deloitte & Touche LLP, Ernst & Young LLP and Watson Wyatt Worldwide Inc, managing client relationships with a particular focus on compensation and benefits.

**Principal external appointments:**

- Non-Executive Director and Chairman of the Remuneration Committee of Countrywide PLC
- Non-Executive Director and Chairman of the Remuneration Committee of Quilter PLC
- Partner of Manchester Square Partners LLP
- Trustee of the Gurkha Welfare Trust
- Honorary Fellow of UNICEF UK

**Board membership changes during the year and to the date of this report:**

- Glyn Jones stepped down from the Board with effect from 6 February 2017;
- Christine Palmer was appointed an Executive Director on 16 May 2017;
- Robert Sharpe stepped down from the Board with effect from 31 October 2017;
- Pat Butler was appointed as an Independent Non-Executive Director from 1 January 2018 and became Chairman with effect from 15 March 2018;
- Danuta Gray stepped down as Interim Chairman and resumed her position as Senior Independent Director on 15 March 2018;
- Chris Patrick stepped down from the Board with effect from 14 March 2018;
- Johan Burger was appointed as a Non-Executive Director on 15 March 2018 and stepped down from the Board with effect from 31 August 2018; and
- Alan Pullinger was appointed as a Non-Executive Director on 15 March 2018.

Phillip Monks, Chief Executive Officer, James Mack, Chief Finance Officer and Christine Palmer, Chief Risk Officer, are members of the Group's Executive Committee. Their biographies can be found on page 28.

**Carl D'Ammassa**  
Group Managing Director  
– Business Finance



**Joined the Group:**  
October 2013

**Relevant skills, strengths and experience:**

Carl has spent a number of years in the asset finance industry. Having started his financial services career at GE Capital, he held various financial, operational and general management positions in GE's Equipment Finance, Equipment Services and Restructuring divisions, including the post of CEO of the vehicle rental, plant hire and key leasing businesses. Prior to joining Aldermore he was the Managing Director of Hitachi Capital Business Finance. Throughout his career, Carl has gained experience in challenging turnaround and transformational situations leading significant sales, operational and process improvements.

**Responsibilities:**

Carl is responsible for the management of the Group's lending activity through the Business Finance Division, which comprises the Asset Finance, Invoice Finance and SME commercial mortgages. He is a Director of AFS Group Holdings Ltd, representing the Group's 48% equity interest which was acquired in 2017.

**Rob Dival**  
Group HR Director



**Joined the Group:**  
September 2016

**Relevant skills, strengths and experience:**

Rob joined Aldermore in 2016 from the Board of AdviserPlus Business Solutions Limited, a leading provider of HR managed services, where he led strategy and product development and played a key commercial role in the growth of the company through to its eventual acquisition. Prior to this, Rob held a variety of HR leadership positions in his eight years with Lloyds Banking Group PLC, including HR Director for the Branch Network and also HR Director for General Insurance. Before Lloyds, Rob worked with Accenture PLC leading change programmes within the HR outsourcing division, having started the first decade of his career in retail where he held a number of senior HR and commercial roles in The Big Food Group PLC and Boots the Chemists Limited.

**Responsibilities:**

Rob is responsible for the Group HR function and the delivery of the people elements of the Group's strategy and performance.

**Sue Hayes**  
Group Managing Director  
– Retail Finance



**Joined the Group:**  
June 2018

**Relevant skills, strengths and experience:**

Sue joined Aldermore in June 2018 from Barclays where she was Managing Director of Premier and Community Segments and Savings Products. Prior to that, Sue was Managing Director of Affluent Segment UK and International, significantly increasing wealth referrals and income generation. Sue also led Business Banking for three years taking this to number one in market share. During her time at Santander UK, she held a number of senior roles across retail and commercial banking, including Managing Director – Business Banking and Managing Director of Santander UK Products and Analytics. During this period, Santander's market share in new mortgages increased threefold. Prior to Santander, Sue held roles with RBS and Halifax and completed an MBA at Cranfield University.

**Responsibilities:**

Sue is responsible for the Group's Buy-to-Let and Residential owner occupied mortgages business lines as well as Retail Savings.

**Executive Committee responsibilities**

The role of the Executive Committee is to assist the Chief Executive Officer in the performance of his duties relating to the day-to-day operation of the Group, including the:

- development and implementation of strategy, operational plans, policies, procedures and budgets;
- monitoring of operating and financial performance;
- prioritisation and allocation of resources;
- monitoring of competitive forces in each area of operation;
- design and embedding of the Risk Management Framework;
- monitoring of adherence to risk appetite statements; and
- assessment and control of principal risks within the Group.

# Corporate governance structure

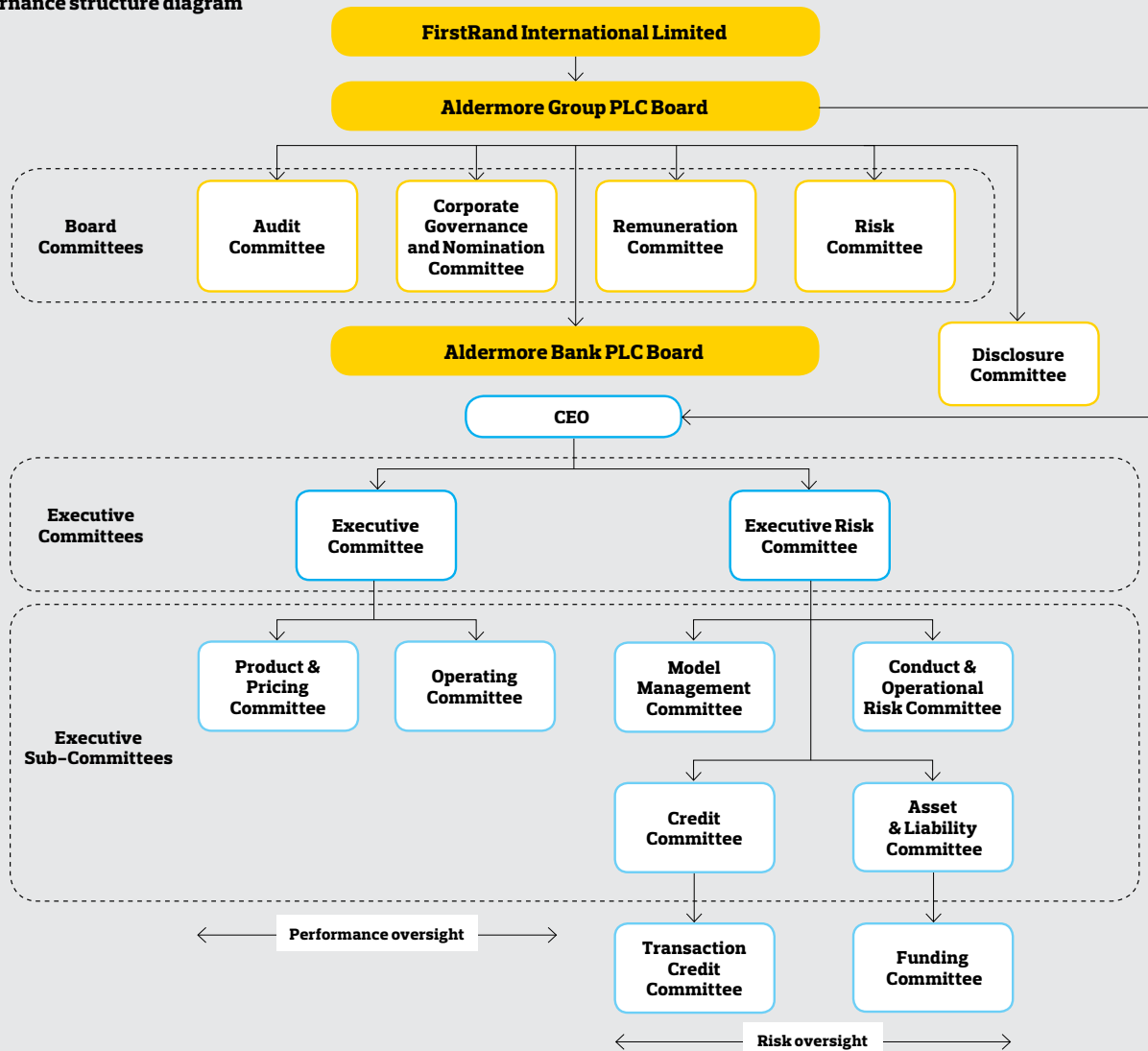
The Board has delegated a number of its responsibilities to Board Committees, which utilise the expertise and experience of their members to examine subjects in detail and make recommendations to the Board where required. This delegation allows the Board to focus more of its time on strategic and other broader matters. The Chairs of the Board Committees provide the Board with a verbal update on matters discussed at each meeting, and Board Committee minutes are made available to the whole Board through a secure online system.

The Corporate Governance Structure has been updated to take into account the Group's Board reporting to FirstRand International Limited.

Aldermore Bank PLC ("the Bank") is a wholly owned operating subsidiary of Aldermore Group PLC and it transacts the Group's banking business. It is authorised by the PRA and regulated by the FCA and the PRA. The Board of the Bank comprises the same Directors. The Bank Board holds separate meetings immediately following the meetings of the Company's Board.

Since the delisting of Aldermore's shares from the London Stock Exchange on 15 March 2018, the Board remains committed to the highest standards of corporate governance and best practice. The Board recognises that effective governance is key to the implementation of strategy for our shareholder and wider stakeholders. The Group intends to comply with the Wates corporate governance principles for large private companies when the guidance is published in December.

Governance structure diagram





# Directors' Report

The Directors present their report and the financial statements of the Group for the eighteen months ended 30 June 2018. As permitted by legislation, some of the matters normally included in the Directors' Report are included by reference as detailed below.

Requirement	Detail	Where to find further information:	
		Section	Location
<b>Business review</b>	Information regarding the business review and future developments, key performance indicators and principal risks are contained within the Strategic report.	Strategic report	Pages 16 to 23 (Business review) Pages 6 to 7 (Key performance indicators) Pages 41 to 42 (Principal risks)
<b>Strategic report</b>	The contents of the Strategic report fulfil Section 414C of the Companies Act 2006.	Strategic report	Pages 1 to 25
<b>Results</b>	The results for the eighteen months are set out in the income statement. The profit before taxation for the eighteen months ended 30 June 2018 was £193.5 million (2016:£128.7 million). A review of the financial performance of the Group is included within the Strategic report.	Income statement Strategic report	Page 69 Pages 1 to 25
<b>Dividend</b>	The Directors do not propose to recommend a final dividend in respect of the eighteen months ended 30 June 2018 (2016:nil).	–	–
<b>Financial instruments</b>	The Group uses financial instruments to manage certain types of risk, including liquidity and interest rate risk. Details of the objectives and risk management of these instruments are contained in the risk management section.	Risk management	Pages 35 to 59
<b>Post balance sheet events</b>	There have been no material post balance sheet events.	–	–
<b>Share capital</b>	At 30 June 2018, the Company's share capital comprised 348,993,805 ordinary shares of £0.10 each.  The Company did not repurchase any of the issued ordinary shares during the eighteen months ended 30 June 2018 or up to the date of this report.  Details of the Company's share capital are provided in Note 33 to the consolidated financial statements.	Note 33 to the consolidated financial statements	Page 105

## Corporate governance

# Directors' Report

## continued

Requirement	Detail	Where to find further information:	
		Section	Location
<b>Rights and obligations attaching to shares</b>	<p>There are no restrictions on the transfer of the Company's ordinary shares or on the exercise of the voting rights attached to them, except for:</p> <ul style="list-style-type: none"> <li>· where the Company has exercised its right to suspend their voting rights or prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006; or</li> <li>· where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.</li> </ul> <p>All the Company's ordinary shares are fully paid and rank equally in all respects and there are no special rights with regard to control of the Company.</p>	–	–
<b>Employee share scheme rights</b>	<p>Details of how rights of shares in employee share schemes are exercised when not directly exercisable by employees are provided in Note 34 to the consolidated financial statements.</p>	Note 34 to the consolidated financial statements	Page 105
<b>Employees</b>	<p>The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status. The Group is committed to ensuring that disabled people are afforded equality of opportunity in respect to entering and continuing employment within the Group. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development.</p> <p>Information on employee involvement and engagement can be found in the strategic report.</p>	Strategic report	Pages 24 and 25
<b>Directors</b>	<p>The names and biographical details of the current Directors who served on the Board and changes to the composition of the Board that have occurred during 2017 and 2018 and up to the date of this report are provided in the corporate governance section and are incorporated into the Directors' Report by reference.</p>	Corporate governance – Board of Directors	Page 27
<b>Appointment and retirement of Directors</b>	<p>The appointment and retirement of the Directors is governed by the Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may only be amended by a special resolution passed by shareholders at a general meeting.</p> <p>According to the Company's Articles of Association, each Director shall retire at the Annual General Meeting held in the third calendar year following the year in which the Director was elected or last re-elected by the Company, or at such earlier Annual General Meeting as the Directors may resolve.</p>	Corporate governance – Election and re-election	Page 28

Requirement	Detail	Where to find further information:	
		Section	Location
<b>Directors' indemnities</b>	<p>The Directors who served on the Board up to the date of this report have benefited from qualifying third-party indemnity provisions by virtue of deeds of indemnity entered into by the Directors and the Company. The deeds indemnify the Directors to the maximum extent permitted by law and by the Articles of Association of the Company, in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a Director of the Company and any associated company, as defined by section 256 of the Companies Act 2006.</p> <p>The Group also maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its Directors.</p>	–	–
<b>Significant agreements</b>	Aldermore Group PLC and FirstRand International Limited entered into a Co-Operation Agreement effective 6 November 2017.	–	–
<b>Political donations</b>	The Group made no political donations during the eighteen months period (2016: nil).	–	–
<b>Research and development activities</b>	The Group does not undertake formal research and development activities. However, new products and services are developed in each of the business lines in the ordinary course of business in accordance with the Group's product and pricing governance framework. Under this framework all new products, campaigns and business initiatives are reviewed and approved by the Group's Product and Pricing Committee.	Note 24 to the consolidated financial statements	Pages 101 and 102
<b>Going concern</b>	The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including under a range of stressed scenarios. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.	–	–

## Corporate governance

# Directors' Report

## continued

Requirement	Detail	Where to find further information:	
		Section	Location
<b>Disclosure of information to auditors</b>	<ul style="list-style-type: none"> <li>· Each person who is a Director at the date of this Directors' Report confirms that:               <ul style="list-style-type: none"> <li>– so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and</li> <li>– he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.</li> </ul> </li> </ul>	–	–
<b>Auditor</b>	The Board recommended that Deloitte LLP be reappointed as the Group's auditor with effect from the 2018 AGM, at which meeting resolutions concerning Deloitte's appointment and authorising the Board to set their remuneration will be proposed.	–	Pages 62 to 68

On behalf of the Board:



**Anchna Devi,**  
Company Secretary

31 August 2018

# Risk management

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# The Group's approach to risk

## In this section:

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All areas of the following report are covered by the external auditor's opinion on pages 62 to 68, except for the leverage ratio disclosed on page 59, the risk weighted assets and associated capital ratios on page 59.

The Board is ultimately responsible for setting sound risk management and delivering an appropriate 'tone from the top', providing the basis for sound risk management and effective internal control systems.

Effective risk management is a key pillar in the execution of the Group's strategy. The Board and senior management seek to ensure that the risks the Group is taking are clearly identified, managed, monitored and reported and that the Group remains sustainable including during a plausible but severely adverse economic downturn and/or idiosyncratic conditions.

The Risk Management Framework (RMF) provides the overarching context on how the Group manages risk. The following sections provide a summary of the RMF within the Group. It highlights our governance structure, risk model, key risk management processes and the principal and emerging risks we face and the mitigating actions taken to address these.

## Risk principles

The following principles guide the Group's overall approach to risk management:

- The Board sets risk appetite and an appropriate "tone from the top" and set the example with regard to risk management.
- Risk management is structured around the Group's Principal Risk categories, which are updated at least annually as part of the RMF (refer to page 41 for Principal risks).
- The Group maintains a robust Risk Appetite Framework, manages to a consistent appetite using an approved set of metrics, and reports to senior management at least monthly. In 2018, the RAF metrics have been embedded from the Board down to business lines.
- The Group regularly undertakes stress tests to ensure that it remains sustainable, including during plausible but severely adverse economic and/or idiosyncratic conditions.
- The approach to remuneration ensures that fair customer outcomes and prudent decision-making within risk appetite are incentivised. Colleagues are not unduly rewarded for driving sales and/or profits.



## Risk management and internal control

The Group's risk management and internal control systems are designed to identify, manage, monitor and report on risks to which the Group is exposed. It can therefore, only provide reasonable but not absolute assurance against the risk of material misstatement or loss. Further details of the processes and procedures for managing and mitigating these risks are provided in the risk management section from page 35.

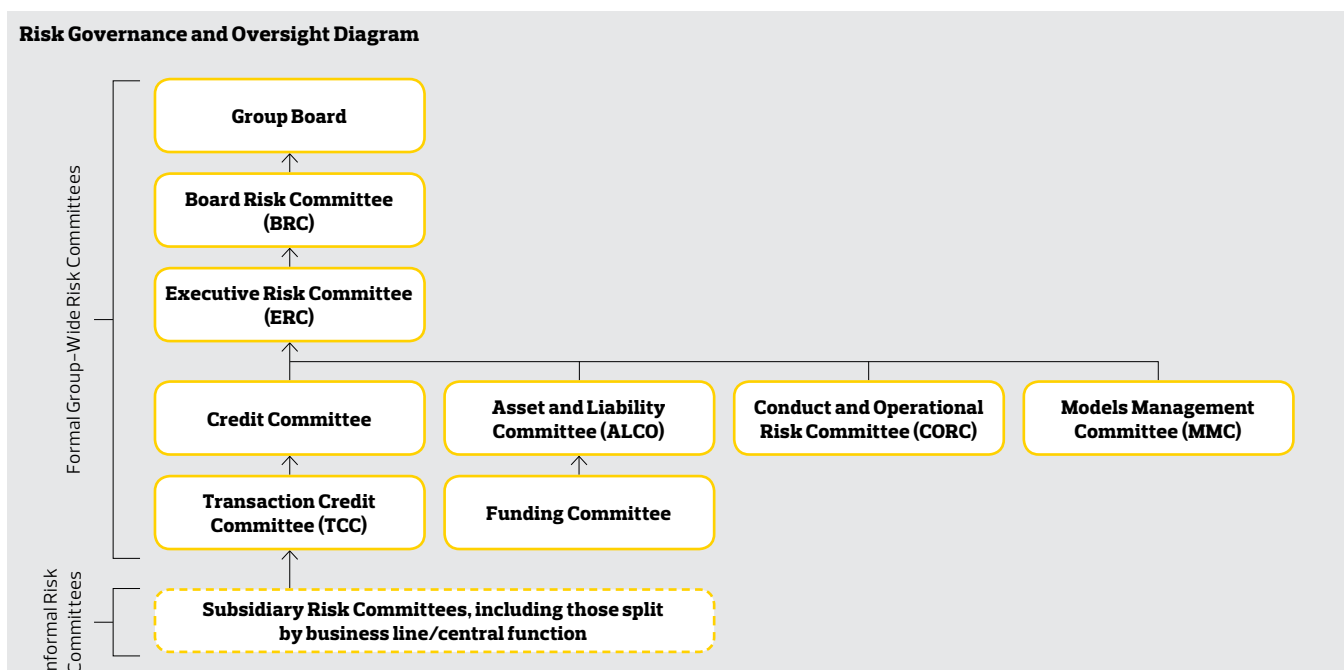
The effectiveness of the internal controls was regularly reviewed by the Board, Audit Committee and Risk Committee during the period. This involved receiving reports from management including reports from Finance, Risk, Compliance, Group Internal Audit and the business lines. The Audit Committee also receives reports on internal controls from the Group's external auditor. Where recommendations are identified for improvements to controls, these are monitored by Group Internal Audit who report the progress made in implementing them to the Audit Committee.

Based on the review performed during the period, and the monitoring and oversight activities performed, the Audit Committee, in conjunction with the Risk Committee, concluded that the Group's risk management and internal control systems were effective. The Audit Committee recommended a statement to this effect to the Board.

Based on this assessment, the Board is satisfied with the effectiveness of the Group's risk management and internal control systems.

## Risk Management Framework

The RMF defines Aldermore Group's overall approach to risk management across all roles and material risk types. The RMF is the Group's foremost risk document, to which all subsidiary risk policies and frameworks must align. The RMF is subject to Board approval, at least annually. The RMF describes risk management roles and responsibilities, and outlines the Group's approach to each material risk to which it is exposed.



# Risk governance and oversight

The Group's risk governance structure ensures the Board and senior management are accountable for overall risk management. Each formal Risk Committee is responsible for the Group-wide risk position. The Board is responsible for approving the highest materiality risk frameworks and policies, following recommendation by subsidiary committees. A delegated authority approves other frameworks and policies.

## Three lines of defence

The Group employs a "three lines of defence" model to segregate responsibilities between 1) risk management as part of business activities, 2) risk oversight and 3) independent assurance. Each of the three lines of defence is responsible for maintaining a prudent and risk-aware culture.

## First line of defence – Business lines and central functions

The first line of defence comprises all colleagues in business lines and central functions that are not part of the Risk or Group Internal Audit functions. Key responsibilities with regard to risk management are as follows:

- Manage risk within the Group's stated appetite in day-to-day business activities;
- Focus on achieving good customer outcomes while avoiding a dogmatic focus on sales and/or profits;
- Escalate risks via the risk event process;
- Maintain an up-to-date understanding of risk management responsibilities; and
- Proactively identify material risks and design mitigating controls.

## Second line of defence – Risk functions

The second line of defence comprises all colleagues in the Risk function. Key responsibilities are as follows:

- Develop robust frameworks and policies to manage risk;
- Support the first line with embedding risk frameworks and policies;
- Own the Group's relationship with regulators and validate adherence with applicable regulation and legislation;
- Co-ordinate the Group's approach to setting and reporting on risk appetite; and
- Oversee the delivery of material risk management processes, such as the Internal Capital Adequacy Assessment Process ("ICAAP"), Individual Liquidity Adequacy Assessment Process ("ILAAP"), the Recovery and Resolution Plan ("RRP").

## Third line of defence – Group Internal Audit

The third line of defence comprises all colleagues in the Group Internal Audit function. Key responsibilities are as follows:

- Provide independent assurance to the Board that first and second line functions are properly discharging their risk management responsibilities;
- Validate the appropriateness of risk management controls and governance; and
- Track audit actions to completion.

## Risk Appetite Framework

The Risk Appetite Framework (RAF) supports our strategic objectives. In defining key risk metrics, underpinned by defined triggers and limits, it underpins the Group's approach to monthly risk reporting to senior and working level committees.

The Board provides oversight to ensure the Group adheres to the following principles when setting and monitoring risk appetite:

- The RAF is aligned with our Strategic Plan;
- Risk reporting is action-oriented;
- The Risk function provides independent challenge;
- The risk profile is monitored on an ongoing basis; and
- The framework is reviewed annually.

## Risk Appetite Statement

A core objective of the Group's Strategic Plan is to "build out the Aldermore franchise through controlled, sustainable and customer-centric growth." The RAF supports the delivery of this objective, as reflected by the overarching risk appetite statement, as follows:

"Operate a sustainable and safe Group that conducts its activities in a prudent manner, taking into account the interests of customers and ensuring its obligations to key stakeholders are met." Key stakeholders are defined as customers, investors, regulators and employees.

Principal Risks have been identified, with each having an overarching qualitative risk appetite statement and, where appropriate, quantitative metrics to measure the Group's tolerance and appetite for risk. The suite of risk appetite metrics enable systematic monitoring of the risk profile against appetite and is reported to Committees on a monthly basis. The Group's risk appetite is set by the Board and embedded down to each business line through the informal Risk Committees, driving a consistent message across the organisation.



### Risk culture

The Board is accountable for ensuring the Group actively embraces a strong risk culture, in which all staff are accountable for the risks that they take. Senior management leads in implementing the risk appetite and ensuring that the RMF is fully embedded, with a strong focus on the adherence to risk appetite which is monitored by a defined suite of metrics. Risk management is embedded in the design of staff performance management and reward practices.

Risk culture is further embedded through:

- Framework for risk culture;
- Risk performance considerations;
- Alignment with Internal Audit assessment methodology; and
- Risk-based remuneration, in part considering the strength and appropriateness of risk culture.

### Stress testing

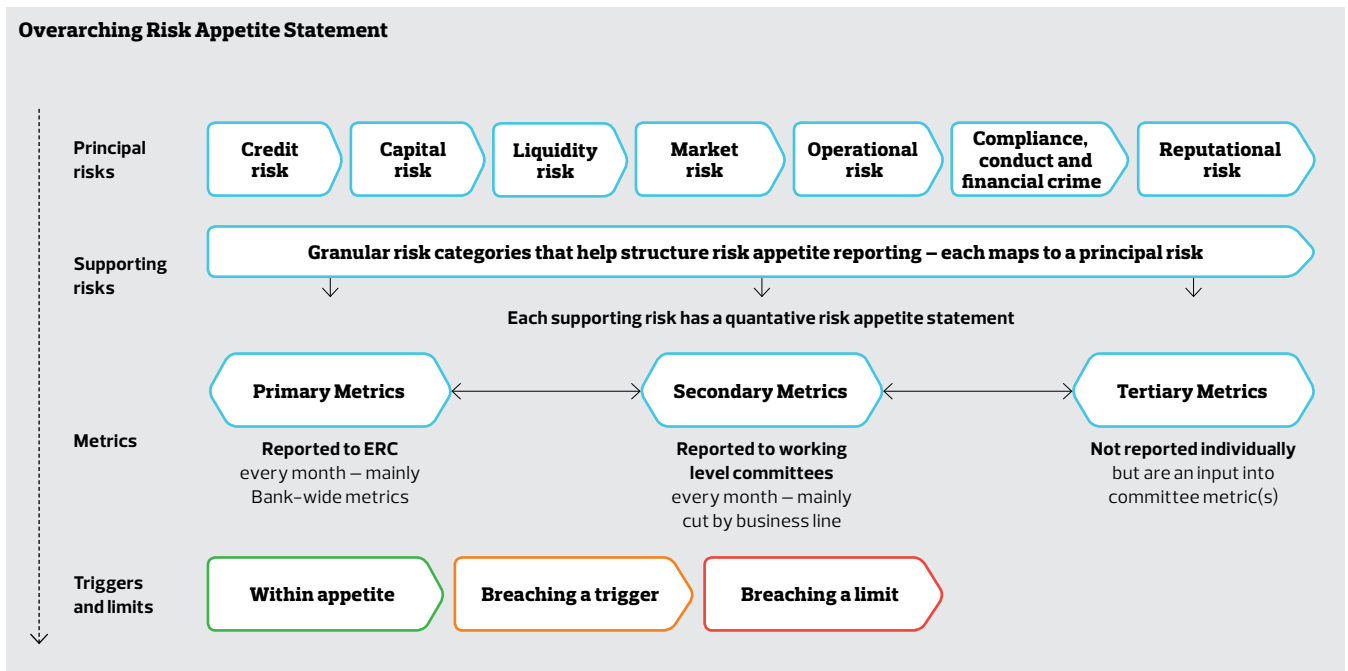
Stress testing is an important risk management tool, with specific approaches documented for the Group's key annual assessments including the ("ICAAP"), ("ILAAP"), the ("RRP") and Reverse Stress Testing ("RST").

We maintain a Stress Testing Framework ("STF") which is updated on an annual basis, or more frequently if required, to assist the Board's understanding of the key risks, scenarios and sensitivities that may adversely impact our financial or operational position. To ensure a coherent approach to stress testing, the Group adheres to the following core principles:

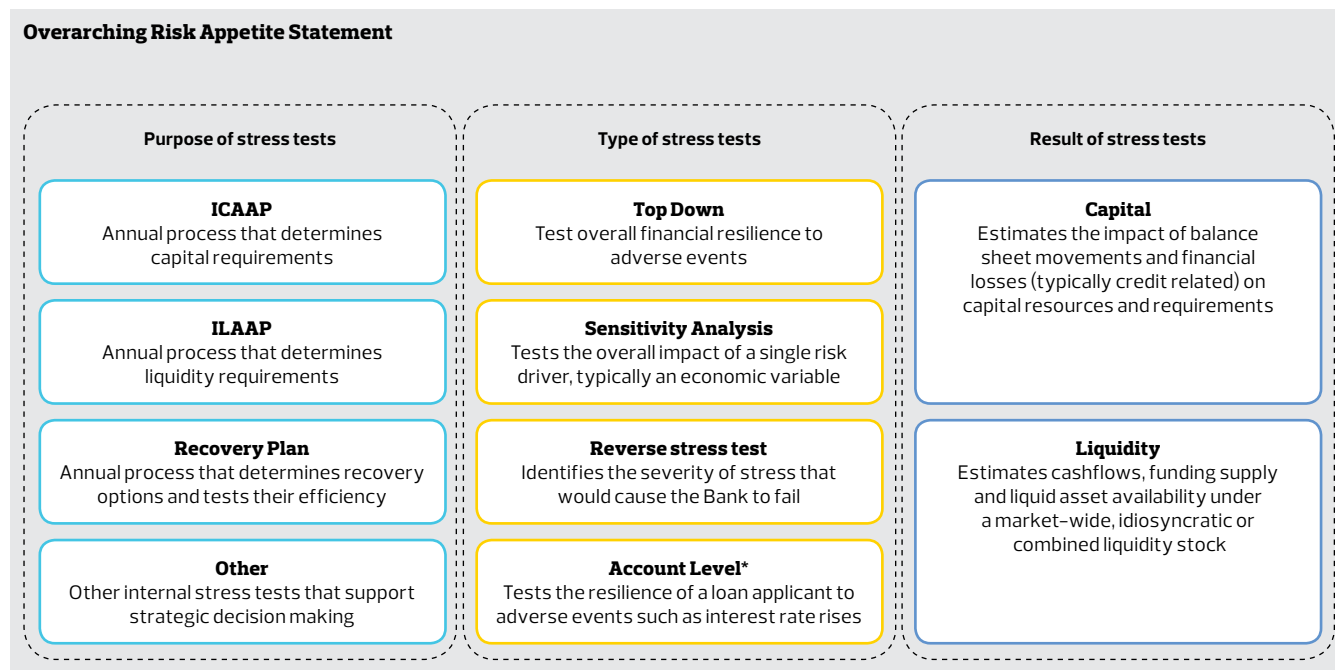
- Stress testing is an integral part of risk management. Results inform decision-making at the appropriate level, including strategic decisions made by the Board and senior management;
- Stress testing draws on the experience and skills of staff

across an appropriately wide range of disciplines;

- Written policies and procedures govern the Group's approach to stress testing, with dedicated policies maintained for material asset classes and types of stress test;
- Taken as a whole, stress tests span a range of analytical techniques, risk types, scenarios and severities to ensure a complete view of material risks. Stress testing systems and procedures must be sufficiently flexible to facilitate this approach, while remaining proportionate to the Group's size and activities;
- Consistent with the RMF, the Group reviews this Framework at least annually; and
- The STF relies upon and supports the Capital Planning and Management policy, the Funding and Liquidity policy and the Operational and Credit Risk Frameworks, all of which provide detail of how the STF has been implemented within these specific areas.



# Risk governance and oversight continued



\* Out of scope of this Framework.

## Stress testing governance

The Board's key responsibilities in terms of stress testing are:

- Review and approve the Stress Testing Framework (STF) following annual review; and
- Review and approve the ICAAP, ILAAP and Recovery Plan in line with regulatory rules and internal policies. As part of this, the Board will assess the approach to scenario design, stress testing methodologies and results.

The Board Risk Committee key responsibilities in terms of stress testing are:

- Review the STF following annual review, and make a recommendation to the Board; and

- Review the ICAAP, ILAAP and Recovery Plan, and make recommendation to the Board to approve the documents. As part of this, Board Risk Committee (BRC) will assess the approach to scenario design, stress testing methodologies and results.

The Chief Risk Officer owns the Stress Testing Framework, with the Head of Enterprise Risk responsible for maintaining the STF and ensuring it is applied across relevant parts of the Group. The CRO ensures that the STF is reviewed at least annually and approved by the Board following recommendation from the Board Risk Committee and Executive Risk Committee.

# Principal risks





Key:

 Up

 Stable

 Down




Effective risk management is a core component of the Group, which is embedded throughout the organisation. The Board and senior management ensure that a strong risk culture is at the heart of everything we do, with risk appetite clearly defined, managed and reported against, and embedded down to business lines. There were no significant changes made to our business model or risk appetite during the period. The following section summarises the principal risks, which are the categories of risk that are most significant given our business model and operating environment, along with our approach to their mitigation.

Principal risk	Mitigation	Commentary
<b>Credit risk</b> The risk of financial loss arising from a borrower or a counterparty failing to meet financial obligations to the Group according to agreed terms. Refer to page 46	<ul style="list-style-type: none"> <li>Operate in selected sectors and products, where we have specific expertise;</li> <li>Consistently apply the approved credit policy, and price credit facilities for risk;</li> <li>Where appropriate, obtain physical collateral or financial collateral;</li> <li>Undertake robust in-life management of the credit portfolio, including providing, watch list and internal capital requirements; and perform strict daily management of counterparty credit risk.</li> </ul>	 The Group's cost of risk remains low at 16 bps reflecting our robust approach to risk management.
<b>Liquidity risk</b> The risk that we are unable to meet our financial obligations as they fall due, or can only do so at excessive cost. Refer to page 16	<ul style="list-style-type: none"> <li>Maintain a sufficient portfolio of cash and high quality liquid assets (HQLA) to absorb liquidity shocks;</li> <li>Perform a comprehensive annual ILAAP assessment of all material liquidity risks and meet internal buffers on an ongoing basis; and</li> <li>Monitor the Group's liquidity position on a daily basis, with intra-month escalation of material risks as appropriate.</li> </ul>	 The Group's liquidity position remains stable and has been managed well within liquidity buffers.
<b>Market risk</b> The risk arising from adverse movements in market prices given long or short positions in impacted assets and/ or liabilities. Refer to page 57	<ul style="list-style-type: none"> <li>Seek to match the interest rate structure of assets and liabilities, creating a natural hedge;</li> <li>Where a natural hedge is not possible or desirable, enter into interest rate swap contracts to convert fixed-rate into variable-rate exposures, or vice-versa;</li> <li>Maintain a tight limit for interest rate risk, in line with a highly conservative market risk appetite, with small unhedged exposures reflecting timing difference and the cost of small hedges; and</li> <li>Hedge any material basis risk exposure by entering into basis swap agreements.</li> </ul>	 The Group's approach remains prudent and underlying risks remain unchanged.
<b>Capital risk</b> The risk that we have insufficient capital resources to cover regulatory requirements and/ or support growth plans. Refer to page 58	<ul style="list-style-type: none"> <li>Maintain robust controls for Pillar 1 reporting;</li> <li>Perform a comprehensive annual ICAAP assessment of all material capital risks;</li> <li>Plan to meet capital requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules; and</li> <li>Maintain an appropriate internal capital buffer over and above fully loaded regulatory requirements to protect against unexpected losses or risk-weighted asset growth.</li> </ul>	 The Group's capital remains stable in line with internal targets and above regulatory requirements.

## Risk management

# Principal risks

## continued

Principal risk	Mitigation	Commentary
<p><b>Operational risk</b> The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.</p>	<ul style="list-style-type: none"> <li>• Maintain a comprehensive RCSA process. Assess the efficacy of these controls by maintaining a harmonised approach to business assurance testing;</li> <li>• Maintain and embed the risk event reporting process;</li> <li>• Mandate detailed and coherent committee reporting that brings together a diverse range of supporting risks;</li> <li>• Ensure a significant emphasis on IT resilience given pace of evolution of the business and continued exposure to the risk of cyber-crime; and</li> <li>• Systematically monitor operational losses on both a net (overall financial impact) and gross (excluding recoveries) basis to understand risk profile and identify trends.</li> </ul>	<p> The operational risk profile remains stable. Over the 18 months, the Group has improved a number of key controls, continues to invest in its IT infrastructure including cyber controls, and continues to effectively manage its change portfolio.</p>
<p><b>Compliance, conduct and financial crime risk</b> The risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of a failure to comply with applicable laws and regulations, codes of conduct and standards of good practice.</p>	<ul style="list-style-type: none"> <li>• Maintain a well-defined and embedded process for regulatory and legislative horizon scanning, and preparation for confirmed and potential changes;</li> <li>• Maintain processes that focus on fair customer outcomes, including via the use of metrics on staff performance, training, customer feedback, complaints and product cancellation;</li> <li>• Ensure that recruitment and training processes have a clear customer focus, including via the use of mandatory training modules;</li> <li>• Ensure the approach to remuneration incentivises fair customer outcomes and prudent decision-making within risk appetite; and</li> <li>• Perform the requisite checks on all customers – including money laundering, sanctions and fraud – and, where appropriate, on an ongoing basis. Tightly monitor remedial actions relating to financial crime breaches.</li> </ul>	<p> The Compliance and Financial Crime key risks remain unchanged, in an environment where the continued pace and volume of regulatory change remains an ongoing challenge, against a background of increased regularity supervision and engagement.</p>
<p><b>Reputational risk</b> The risk of negative consequences arising from a failure to meet the expectations and standards of our customers, investors, regulators or other counterparties during the conduct of any business activities.</p>	<ul style="list-style-type: none"> <li>• Maintain a clear and explicit set of reputational risk policy requirements, to which all colleagues must confirm their understanding and adherence;</li> <li>• Ensure that the reputational impact of changes to products, pricing, systems and processes is formally considered and the relevant Committee; and</li> <li>• Ensure that the Corporate Affairs function assesses material risk events for reputational impact, and initiate mitigating actions as appropriate.</li> </ul>	<p> The Group's risk profile remains green. We remain mindful of media focus and regulatory scrutiny as key drivers of the profile's ongoing status.</p>

# Emerging risks

We define 'emerging risks' as those risks that are specific forward-looking, the likelihood and/or impact of which cannot be readily quantified and which have not yet crystallised. At this point, emerging risks include:

Themes	Risk	What we are currently doing
<b>Regulatory Change or Intervention</b>		
<b>Non-compliance with General Data Protection Regulation</b>	<ul style="list-style-type: none"> <li>New data protection regulation strengthens and unifies data protection for individuals in the EU. The GDPR regulation was implemented on 25 May 2018 and the Group reached a compliant position.</li> <li>The risk to the bank is ongoing compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Following achievement of "day one" GDPR compliance, a data maturity programme has been scoped to deliver ongoing compliance against GDPR regulation.</li> <li>Monitoring of ICO updates and the marketplace for the latest guidance and regulatory interpretation.</li> </ul>
<b>Minimum Requirements for Own Funds and Eligible Liabilities (MREL) funding requirements</b>	<ul style="list-style-type: none"> <li>MREL is an EU regulation that supports orderly resolution and protects depositors and taxpayers in the event of bank failure. The Group is currently not considered in scope however, over time the Group may fall in scope for more complex resolution strategies and going concern requirements.</li> </ul>	<ul style="list-style-type: none"> <li>The Group to consider the potential impact of MREL as part of its strategic decision-making.</li> <li>We aim to have discussions with the PRA to understand at what point the Group may face MREL requirements to ensure we are fully prepared.</li> </ul>
<b>Economic and Political Environment</b>		
<b>Disorderly Brexit outcome</b>	<ul style="list-style-type: none"> <li>Brexit negotiations continue following the UK's decision to leave the EU in June 2016 and the triggering of Article 50 in March 2017.</li> <li>Since Aldermore operates solely in the UK, the key risk is considered a general downturn in the UK economy linked to stagnating trade and risk-adverse investors.</li> </ul>	<ul style="list-style-type: none"> <li>The Group continues to closely monitor negotiations and the potential economic impact on credit risk and implications for colleagues.</li> </ul>
<b>Over-indebtedness impacting mortgage affordability</b>	<ul style="list-style-type: none"> <li>In July 2017, a PRA review noted the declining resilience of some consumer credit portfolios due to growth in higher-risk segments, lower pricing and banks being overly influenced by the benign economy.</li> <li>The risk to Aldermore is twofold. Firstly, over-indebted consumers may affect residential mortgage affordability, particularly if unemployment rises. Secondly, the FCA and PRA reviews indicate that regulators may impose restrictions on consumer lending.</li> </ul>	<ul style="list-style-type: none"> <li>The FCA publishes key regional differences in financial engagement and resilience, which the Group will assess as part of its ongoing strategy review.</li> <li>The mortgage portfolio remains resilient, as demonstrated by affordability stress testing and a low expected loss.</li> </ul>
<b>Competitive environment</b>		
<b>Heightened competition</b>	<ul style="list-style-type: none"> <li>Competition in the Group's selected markets arises from a range of sources, including large High Street banks, challengers and non-bank lenders.</li> <li>Heightened competition may lead to margin compression and lower growth, both key drivers of profitability. This could result in lower volumes, higher customer attrition and/or lower net interest margins.</li> </ul>	<ul style="list-style-type: none"> <li>We continue to monitor trends in the external environment and the impact on pricing, mindful of the increase in savings stock required into 2019.</li> <li>The business line continues to take a disciplined approach to pricing to maintain stable margins, risk profile and commission arrangements.</li> </ul>
<b>Technology risk</b>		
<b>Cyber-crime incident</b>	<ul style="list-style-type: none"> <li>Cyber-crime remains significant and high profile across all industries. Coupled with an increase in public awareness of data privacy as a result of GDPR, there have been numerous headlines regarding data breaches.</li> </ul>	<ul style="list-style-type: none"> <li>The Group will revise its Cyber Strategy to align with its recently approved IT strategy. The Group's Security Investment Programme (SIP) continues.</li> <li>An Information security awareness campaign will be rolled out across the Group in September 2018 to reaffirm previous guidance.</li> </ul>
<b>Failure of an outsource provider or supplier</b>	<ul style="list-style-type: none"> <li>The Group has a number of material and critical outsource or third-party arrangements that are core elements of the supply chain. The failure of one of these key partners could significantly affect the Group's customers, operations and reputation.</li> </ul>	<ul style="list-style-type: none"> <li>The Group continues to maintain controls and governance in relation to the operating framework for suppliers. The risk profile in this area has improved as the Group continues to embed enhanced governance and oversight in accordance with its new Supplier Management Framework.</li> </ul>
<b>Detrimental impact on customers from an IT failure</b>	<ul style="list-style-type: none"> <li>The Group deploys services through a mix of hosted systems, both externally hosted or hosted on behalf of the Group.</li> <li>The risk is the potential detrimental impact to the Group from an IT failure.</li> </ul>	<ul style="list-style-type: none"> <li>The Group continues to perform robust risk assessments and mitigation of the risks from an IT failure.</li> <li>Scenarios and simulated exercises are run, as part of incident management testing, to mitigate this risk.</li> </ul>

## Risk management

# Credit risk

Credit risk is the risk of financial loss arising from the borrower or a counterparty failing to meet their financial obligations to the Group in accordance with agreed terms. The risk primarily crystallises by customers defaulting on lending facilities. Credit risk also arises from treasury investments and off-balance sheet activities, which are typically sub-categorised as counterparty credit risk.

## The credit risk section of this report includes information on the following:

1. The Group's maximum exposure to credit risk;
2. Credit quality and performance of loans;
3. Forbearance granted through the flexing of contractual agreements;
4. Diversity and low concentrations within our loan portfolio;
5. Details of provisioning coverage and the value of assets against which loans are secured;
6. Information on credit risk within our treasury operations.

### 1. The Group's maximum exposure to credit risk

The following table presents our maximum exposure to credit risk of financial instruments on the balance sheet and commitments to lend before taking into account any collateral held or other credit enhancements. The maximum exposure to credit risk for loans, debt securities, derivatives and other on-balance sheet financial instruments is the carrying amount and for loan commitments, the full amount of any commitment to lend that is either irrevocable or revocable only in response to material adverse change.

Our net credit risk exposure as at 30 June 2018 was £10,859.9 million (31 December 2016: £9,056.0 million), an increase of 19.9%. The main factors contributing to the increase were:

- i) the growth in gross loans and advances to customers, our largest credit risk exposure by £1,511.0 million,
- ii) growth in cash and balances at central banks by £392.4 million; and
- iii) a reduction in commitments to lend by £272.5 million.

	Note	30 June 2018 £m	31 December 2016 £m
<b>Included in the statement of financial position:</b>			
Cash and balances at central banks		508.8	116.4
Loans and advances to banks		96.6	67.2
Debt securities		792.3	664.5
Derivatives held for risk management		22.7	12.4
Loans and advances to customers	20	9,015.7	7,504.7
Other financial assets	39	6.2	2.9
		<b>10,442.3</b>	<b>8,368.1</b>
Commitments to lend	37	442.8	715.3
<b>Gross credit risk exposure</b>		<b>10,885.1</b>	<b>9,083.4</b>
Less: allowance for impairment losses	20	(25.2)	(27.4)
<b>Net credit risk exposure</b>		<b>10,859.9</b>	<b>9,056.0</b>

## 2. Credit quality and performance of loans

The tables below provide a split of our £9,015.7 million (31 December 2016: £7,504.7 million) credit risk exposure to loans, gross of impairments, on the basis of:

- Whether they are performing (neither past due nor individually impaired);
- Past due but not individually impaired;
- Individually impaired loans, in line with Note 2 (g).

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
<b>30 June 2018</b>						
A Neither past due nor individually impaired	1,837.5	267.6	961.0	4,408.2	1,449.8	8,924.1
B Past due but not individually impaired	6.7	–	6.0	21.1	23.9	57.7
C Individually impaired	6.1	0.8	3.0	13.5	10.5	33.9
	<b>1,850.3</b>	<b>268.4</b>	<b>970.0</b>	<b>4,442.8</b>	<b>1,484.2</b>	<b>9,015.7</b>
<b>31 December 2016</b>						
A Neither past due nor individually impaired	1,569.2	155.9	921.6	3,308.4	1,470.8	7,425.9
B Past due but not individually impaired	3.3	–	6.9	13.2	19.8	43.2
C Individually impaired	9.3	3.6	7.8	8.7	6.2	35.6
	<b>1,581.8</b>	<b>159.5</b>	<b>936.3</b>	<b>3,330.3</b>	<b>1,496.8</b>	<b>7,504.7</b>

<sup>1</sup> This analysis includes Property Development.

The three categories shown above are further analysed over the following pages.

Due to the more bespoke nature of the Property Development business, the portfolio is excluded from a number of the following tables, as indicated with by the footnotes. Gross Property Development exposure at 30 June 2018 was £226 million (31 December 2016: £230 million), and net exposure was £225 million (31 December 2016: £229 million).

### A. Loans and advances that are neither past due nor individually impaired

The credit quality of assets that are neither past due nor individually impaired is analysed internally as follows:

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
<b>30 June 2018</b>						
Low risk	–	–	456.8	3,693.3	1,074.8	5,224.9
Medium risk	1,369.5	42.3	267.3	661.6	330.2	2,670.9
High risk	468.0	225.3	11.0	53.3	44.8	802.4
<b>Total</b>	<b>1,837.5</b>	<b>267.6</b>	<b>735.1</b>	<b>4,408.2</b>	<b>1,449.8</b>	<b>8,698.2</b>
<b>Fair value of collateral held</b>	<b>1,220.8</b>	<b>266.0</b>	<b>735.1</b>	<b>4,406.1</b>	<b>1,449.3</b>	<b>8,077.3</b>
<b>31 December 2016</b>						
Low risk	–	–	368.6	2,710.7	1,083.8	4,163.1
Medium risk	1,282.4	6.9	315.8	523.4	345.4	2,473.9
High risk	286.8	149.0	7.1	74.3	41.6	558.8
<b>Total</b>	<b>1,569.2</b>	<b>155.9</b>	<b>691.5</b>	<b>3,308.4</b>	<b>1,470.8</b>	<b>7,195.8</b>
<b>Fair value of collateral held</b>	<b>1,102.8</b>	<b>155.8</b>	<b>691.5</b>	<b>3,308.3</b>	<b>1,470.8</b>	<b>6,729.2</b>

<sup>1</sup> This analysis excludes Property Development.

The categorisation of high, medium and low risk is based on internal grading models utilised in portfolio monitoring. The grading models are used to generate a consistent Group-wide approach for the grading of customer credit risk exposures for all lending businesses and provide a relative internal ranking of risk. Drivers for the grade mapping include external credit reference agency risk scores, property valuations and qualitative factors. The relative measure of risk reflects a combined assessment of the probability of default by the customer and an assessment of the expected loss in the event of default.

## Risk management

# Credit risk

## continued

The resulting classification of balances between low, medium and high is consequently driven by a combination of the Probability of Default ("PD") and Loss Given Default ("LGD") grades. A matrix of eighteen PD (fifteen of which apply to up-to-date accounts) and ten LGD grades determine the category within which each loan is categorised, i.e. those accounts that have a low PD and/or low LGD are graded as 'low'. Those graded 'high' will be accounts that have either a high PD and/or high LGD.

### B. Loans and advances that are past due but not individually impaired

As at 30 June 2018, there was a balance of £57.7 million (31 December 2016: £43.2 million) in relation to loans where customers had missed one or more repayments but no specific loss had yet been recognised.

The table below provides further analysis according to the number of months past due:

	30 June 2018 £m	31 December 2016 £m
– Up to 2 months past due	45.5	35.6
– 2 to 3 months past due	12.2	7.6
<b>Total</b>	<b>57.7</b>	<b>43.2</b>
Fair value of collateral held	55.8	42.3

The above analysis includes Property Development

### C. Loans and advances that have been individually impaired

Individually impaired balances are further analysed as follows:

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
<b>30 June 2018</b>						
Impaired but not past due	0.3	–	–	3.3	0.3	3.9
Past due less than 3 months	1.7	–	0.2	2.2	1.8	5.9
Past due 3 – 6 months	2.6	–	0.4	5.7	5.2	13.9
Past due 6 – 12 months	0.9	0.3	1.0	1.3	1.9	5.4
Past due over 12 months	0.6	0.5	1.4	1.0	1.3	4.8
<b>Total</b>	<b>6.1</b>	<b>0.8</b>	<b>3.0</b>	<b>13.5</b>	<b>10.5</b>	<b>33.9</b>
Of which: Possessions	0.3	–	0.6	3.6	1.0	5.5
Non-performing Loan Ratio (%)	0.33	0.30	0.31	0.30	0.71	0.38
<b>31 December 2016</b>						
Impaired but not past due	1.0	–	2.4	0.5	0.1	4.0
Past due less than 3 months	2.5	0.6	0.2	1.5	0.6	5.4
Past due 3–6 months	3.1	0.1	–	2.8	3.8	9.8
Past due 6–12 months	2.0	1.0	1.2	3.2	1.4	8.8
Past due over 12 months	0.7	1.9	4.0	0.7	0.3	7.6
<b>Total</b>	<b>9.3</b>	<b>3.6</b>	<b>7.8</b>	<b>8.7</b>	<b>6.2</b>	<b>35.6</b>
Of which: Possessions	0.7	–	0.6	5.5	0.2	7.0
Non-performing Loan Ratio (%)	0.59	2.26	0.83	0.26	0.41	0.47

<sup>1</sup> The above analysis includes Property Development.

Against the above individually impaired balances at 30 June 2018 of £33.9m (31 December 2016: £35.6 million) the fair value of collateral was £30.6 million (31 December 2016: £28.8 million). We always seek to pursue timely realisation of collateral in an orderly manner and do not use the collateral for our own operations.



The year to date movement in impaired loans is analysed as follows:

Period to 30 June 2018	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
At 1 January 2017	9.3	3.6	7.8	8.7	6.2	35.6
Classified as impaired during the period	13.1	1.2	2.2	11.1	9.0	36.6
Transferred from impaired to unimpaired	(1.5)	(0.1)	(0.2)	(1.2)	(3.4)	(6.4)
Amounts written-off	(11.4)	(3.1)	(1.3)	(0.2)	(0.1)	(16.1)
Repayments	(3.4)	(0.8)	(5.5)	(4.9)	(1.2)	(15.8)
<b>At 30 June 2018</b>	<b>6.1</b>	<b>0.8</b>	<b>3.0</b>	<b>13.5</b>	<b>10.5</b>	<b>33.9</b>

Year to 31 December 2016	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
At 1 January 2016	6.7	2.9	7.9	6.4	4.1	28.0
Classified as impaired during the period	8.6	2.2	2.8	4.7	4.3	22.6
Transferred from impaired to unimpaired	(0.3)	–	(2.7)	(1.1)	(0.8)	(4.9)
Amounts written-off	(4.4)	(1.4)	(0.1)	(0.1)	(0.1)	(6.1)
Repayments	(1.3)	(0.1)	(0.1)	(1.2)	(1.3)	(4.0)
<b>At 31 December 2016</b>	<b>9.3</b>	<b>3.6</b>	<b>7.8</b>	<b>8.7</b>	<b>6.2</b>	<b>35.6</b>

<sup>1</sup> The above analysis includes Property Development.

### 3. Forbearance granted through the flexing of contractual agreements

Forbearance is defined as any concessionary arrangement that is made for a period of three months or more where financial difficulty is present or imminent. It is inevitable that some borrowers experience financial difficulties which impact their ability to meet their obligations as per the contractual terms. We seek to identify borrowers who are experiencing financial difficulties, as well as contacting borrowers whose loans have gone into arrears, consulting with them in order to ascertain the reason for the difficulties and to establish the best course of action to bring the account up-to-date. In certain circumstances, where the borrower is experiencing financial distress, we may use forbearance measures to assist the borrower. These are considered on a case-by-case basis and must result in a fair outcome. The forbearance measures are undertaken in order to achieve the best outcome for both the customer and the Group by dealing with financial difficulties and arrears at an early stage.

The most widely used methods of forbearance are temporarily reduced monthly payments, loan term extension, deferral of payment and a temporary or permanent transfer to interest only payments to reduce the borrower's financial pressures. Where the arrangement is temporary, borrowers are expected to resume normal payments within six months. Both temporary and permanent concessions are reported as forborne for twenty four months following the end of the concession. In all cases, the above definitions are subject to no further concessions being made and the customers' compliance with the new terms.

Forbearance levels remain low. The balance of forborne accounts by payment status is shown in the tables below:

30 June 2018	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
A Neither past due nor individually impaired	6.8	5.4	11.0	0.7	5.1	29.0
B Past due but not individually impaired	0.8	0.7	0.1	0.7	1.3	3.6
C Individually impaired	0.3	–	0.9	–	2.2	3.4
<b>Total</b>	<b>7.9</b>	<b>6.1</b>	<b>12.0</b>	<b>1.4</b>	<b>8.6</b>	<b>36.0</b>

31 December 2016	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
A Neither past due nor individually impaired	3.2	10.4	23.8	1.4	4.9	43.7
B Past due but not individually impaired	–	0.6	0.2	0.3	1.5	2.6
C Individually impaired	0.1	0.1	0.3	0.3	1.4	2.2
<b>Total</b>	<b>3.3</b>	<b>11.1</b>	<b>24.3</b>	<b>2.0</b>	<b>7.8</b>	<b>48.5</b>

<sup>1</sup> The above analysis includes Property Development.

## Risk management

# Credit risk

## continued

As at 30 June 2018, we had undertaken forbearance measures as follows in each of our segments:

	30 June 2018 £m	31 December 2016 £m
<b>Asset Finance</b>		
Capitalisation	1.8	1.3
Reduced monthly payments	1.7	0.2
Loan-term extension	2.0	0.3
Deferred payment	2.4	1.5
<b>Total Asset Finance</b>	<b>7.9</b>	<b>3.3</b>
Forborne as a percentage of the total divisional gross lending book (%)	0.42%	0.21%
<b>Invoice Finance</b>		
Agreement to advance funds in excess of normal contractual terms	6.1	11.1
<b>Total Invoice Finance</b>	<b>6.1</b>	<b>11.1</b>
Forborne as a percentage of the total divisional gross lending book (%)	2.26%	6.96%
<b>SME Commercial Mortgages<sup>1</sup></b>		
Temporary or permanent switch to interest only	4.7	24.3
Reduced monthly payments	0.8	–
Linked to forbearance	6.5	–
<b>Total SME Commercial Mortgages</b>	<b>12.0</b>	<b>24.3</b>
Forborne as a percentage of the total divisional gross lending book (%)	1.25%	2.60%
<b>Buy-to-Let</b>		
Temporary or permanent switch to interest only	0.5	0.7
Reduced monthly payments	0.4	1.0
Deferred payment	0.5	0.3
<b>Total Buy-to-Let</b>	<b>1.4</b>	<b>2.0</b>
Forborne as a percentage of the total divisional gross lending book (%)	0.03%	0.06%
<b>Residential Mortgages</b>		
Temporary or permanent switch to interest only	3.9	4.5
Reduced monthly payments	4.2	2.0
Deferred payment	0.5	1.3
<b>Total Residential Mortgages</b>	<b>8.6</b>	<b>7.8</b>
Forborne as a percentage of the total divisional gross lending book (%)	0.58%	0.52%
<b>Total forborne</b>		
Total capitalisation	1.8	1.3
Total temporary or permanent switch to interest only	9.1	29.5
Total reduced monthly payments	7.1	3.2
Total loan-term extension	2.0	0.3
Total deferred payment	3.4	3.1
Total linked to forbearance	6.5	–
Total agreement to advance funds in excess of normal contractual terms	6.1	11.1
<b>Total forborne</b>	<b>36.0</b>	<b>48.5</b>
<b>Total forborne as a percentage of the total gross lending book (%)</b>	<b>0.40%</b>	<b>0.65%</b>

<sup>1</sup> The above analysis includes Property Development

When forbearance is granted to a borrower on a specific exposure, all exposures which are connected with that borrower, e.g. by reason of common ownership are deemed as forborne for reporting purposes.

## 4. Diversity and low concentrations within our net loan portfolio

As shown below, we monitor concentration of credit risk by segment, geography, sector and size of loan:

### Credit concentration by segment

Details of our net lending by segment are as follows:

	30 June 2018		31 December 2016	
	£m	%	£m	%
Asset Finance	1,841.7	21	1,573.4	21
Invoice Finance	265.2	3	154.1	2
SME Commercial Mortgages <sup>1</sup>	965.9	11	929.9	12
Buy-to-Let	4,436.8	49	3,326.0	45
Residential Mortgages	1,480.9	16	1,493.9	20
	<b>8,990.5</b>	<b>100</b>	<b>7,477.3</b>	<b>100</b>

<sup>1</sup> The above analysis includes Property Development.

### Credit concentration by geography<sup>1</sup>

An analysis of our loans and advances to customers by geography is shown in the table below:

	30 June 2018 %	31 December 2016 %
East Anglia	10.1	9.6
East Midlands	5.3	6.1
Greater London	21.8	20.7
North East	2.8	2.6
North West	10.4	10.7
Northern Ireland	0.3	0.2
Scotland	5.2	4.9
South East	20.3	19.9
South West	9.1	9.5
Wales	2.7	2.9
West Midlands	6.4	6.7
Yorkshire and Humberside	5.6	6.2
	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> The above analysis includes Property Development.

## Risk management

# Credit risk

## continued

### Credit concentration by sector<sup>1</sup>

An analysis of our loans and advances to customers by sector is shown in the table below:

	<b>30 June 2018</b>	31 December 2016
	%	%
Agriculture, hunting and forestry	0.8	1.1
Construction	5.2	4.4
Education	0.1	0.1
Electricity, gas and water supply	0.5	0.5
Financial intermediation	1.9	1.7
Health and social work	0.3	0.3
Hotels and restaurants	0.4	0.3
Manufacturing	2.8	3.1
Mining and quarrying	0.2	0.2
Private households with employed persons	1.4	0.8
Public administration and defence; compulsory social security	–	0.1
Real estate, renting and business activities	18.6	19.2
Residential	61.7	61.9
Transport, storage and communication	3.5	3.8
Wholesale & retail trade; repair of motor vehicles & household goods	2.6	2.5
	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> The above analysis includes Property Development.

### Credit concentration by quantum of exposure

An analysis of loans and advances to customers by quantum of exposure is shown in the table below:

<b>30 June 2018</b>	<b>Asset Finance £m</b>	<b>SME Commercial Mortgages<sup>1</sup> £m</b>	<b>Buy-to-Let £m</b>	<b>Residential Mortgages £m</b>
£0 – £50k	688.4	1.8	33.1	12.1
£50 – £100k	398.2	23.4	580.6	242.2
£100 – £150k	188.3	29.2	570.9	385.3
£150 – £200k	124.0	28.9	533.7	285.7
£200 – £300k	139.5	49.0	1,016.8	336.4
£300 – £400k	69.8	37.5	742.8	126.4
£400 – £500k	45.8	39.9	333.9	27.8
£500k – £1m	97.4	136.3	410.0	60.8
£1m – £2m	43.1	151.6	120.8	2.2
£2m+	47.2	243.7	94.2	2.0
<b>Total</b>	<b>1,841.7</b>	<b>741.3</b>	<b>4,436.8</b>	<b>1,480.9</b>

<sup>1</sup> The above analysis includes Property Development.

31December 2016	Asset Finance £m	SME Commercial Mortgages <sup>1</sup> £m	Buy-to-Let £m	Residential Mortgages £m
£0 – £50k	639.7	2.9	25.4	15.9
£50 – £100k	361.3	24.7	518.1	252.9
£100 – £150k	145.4	31.7	480.6	414.9
£150 – £200k	96.1	26.1	400.5	299.6
£200 – £300k	107.4	52.3	709.1	314.1
£300 – £400k	54.9	36.7	457.5	120.7
£400 – £500k	40.3	40.1	219.1	21.4
£500k – £1m	79.6	119.0	306.3	51.2
£1m – £2m	34.2	140.2	116.0	3.2
£2m+	14.5	227.1	93.4	–
<b>Total</b>	<b>1,573.4</b>	<b>700.8</b>	<b>3,326.0</b>	<b>1,493.9</b>

<sup>1</sup> The above analysis includes Property Development.

## 5. Details of provisioning coverage and the value of assets against which loans are secured

The principal indicators used to assess the credit security of performing loans are loan to value ("LTV") ratios for SME Commercial, Buy-to-Let and Residential Mortgages.

### SME Commercial Mortgages<sup>1</sup>

Loan to value on indexed origination information on our SME Commercial Mortgage portfolio is set out below:

	30 June 2018 £m	31December 2016 £m
100%+	0.1	–
95-100%	–	0.4
90-95%	0.1	0.5
85-90%	0.2	0.7
80-85%	0.1	1.7
75-80%	2.1	12.1
70-75%	23.5	34.8
60-70%	196.4	153.2
50-60%	220.6	211.9
0-50%	298.2	285.5
	<b>741.3</b>	<b>700.8</b>
Capital repayment	509.6	568.4
Interest only	231.7	132.4
	<b>741.3</b>	<b>700.8</b>
Average loan to value percentage	51.64%	51.74%

<sup>1</sup> The above analysis includes Property Development.

## Risk management

# Credit risk continued

## Property Development

We use "loan-to-gross-development-value" as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan-to-gross-development-value is a measure used to monitor the loan balance compared with the expected gross development value once the development is complete. Average loan-to-gross-development-value at origination for Property Development loans at 30 June 2018 was 60 per cent (31 December 2016: 58 per cent).

## Buy-to-Let

Loan to value on indexed origination information on our Buy-to-Let Mortgage portfolio is set out below:

	30 June 2018 £m	31 December 2016 £m
100%+	0.4	–
95-100%	0.6	0.4
90-95%	3.8	9.6
85-90%	11.6	14.8
80-85%	140.0	136.5
75-80%	915.7	461.4
70-75%	974.7	561.2
60-70%	1,217.3	984.3
50-60%	661.9	669.6
0-50%	510.8	488.2
	<b>4,436.8</b>	<b>3,326.0</b>
Capital repayment	281.2	251.1
Interest only	4,155.6	3,074.9
	<b>4,436.8</b>	<b>3,326.0</b>
Average loan to value percentage	65.71%	63.21%

## Residential Mortgages

Loan to value on indexed origination information on our Residential Mortgage portfolio is set out below:

	30 June 2018 £m	31 December 2016 £m
100%+	–	0.2
95-100%	14.6	17.2
90-95%	171.3	139.9
85-90%	160.4	178.4
80-85%	113.5	170.4
75-80%	132.0	166.1
70-75%	192.8	172.8
60-70%	266.0	251.4
50-60%	179.8	168.4
0-50%	250.5	229.1
	<b>1,480.9</b>	<b>1,493.9</b>
Capital repayment	1,301.5	1,303.1
Interest only	179.4	190.8
	<b>1,480.9</b>	<b>1,493.9</b>
Average loan to value percentage	68.39%	69.48%

Lending at higher LTV bandings continues to be largely as a result of the Group's participation in mortgage guarantee schemes. We participated in the Help to Buy ("HTB") mortgage guarantee scheme, which covered lending with an LTV over 85%, until the retirement of this scheme at the end of 2016. Following the cessation of the HTB scheme we have introduced the Mortgage Indemnity Guarantee ("MIG") product to cover all new lending over 80% LTV (excluding fees).

As at 30 June 2018, 99% of the exposures with an LTV in excess of 85% relate to either HTB (31 December 2016: 96%) or MIG. The average indexed LTV for mortgages with a guarantee was 87% (31 December 2016: HTB – 87%). As at 30 June 2018, the average indexed LTV of the non-mortgage guarantee owner occupied book is 59% (31 December 2016: 61%).

### Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 30 June 2018, the average advance rate against the fair value of sales ledger balances which have been assigned to the Group, net of amounts considered to be irrecoverable, is 66.2% (31 December 2016: 62.3%).

In addition to the value of the underlying sales ledger balances, we will wherever possible, obtain additional collateral before offering invoice finance facilities to a client. These may include limited personal guarantees from major shareholders, charges over personal and other business property, cross guarantees from associated companies and unlimited warranties in the case of frauds or certain other breaches. These additional forms of security are impractical to value given their nature.

### Asset Finance

In respect of Asset Finance, collateral is provided by our rights and/or title to the underlying assets, which we are able to repossess in the event of default. Where appropriate, we will also obtain additional security, such as parent company or personal guarantees.

Asset Finance also undertakes unsecured lending where we have obtained an understanding of the ability of the borrower's business to generate cash flows to service and repay the facilities provided. As at 30 June 2018, the total amount of such unsecured lending was £191.8 million (31 December 2016: £159.9 million).

### Group impairment coverage ratio

Impairment coverage is analysed as follows:

	30 June 2018 £m	31 December 2016 £m
<b>Coverage ratio</b>		
Gross loans and advances	9,015.7	7,504.7
Of which individually impaired	33.9	35.6
Impaired as a % of gross loans and advances	0.38%	0.47%
Allowance for losses – individual provisions	7.8	14.3
<b>Coverage</b>	<b>23.09%</b>	<b>40.17%</b>

The total value of individually impaired loans has decreased despite the growth in lending portfolios. This reflects both our controlled approach to credit risk management and the benign economic environment, resulting in a lower coverage ratio.

### Offsetting financial assets and liabilities

It is our policy to enter into master netting and margining agreements with all derivative counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated.

Under the margining agreements, where we have a net asset position with a counterparty valued at current market values in respect of derivatives, then that counterparty will place collateral, usually cash, with us in order to cover the position. Similarly, we will place collateral, usually cash, with the counterparty where we have a net liability position.

As our derivatives are under master netting and margining agreements as described, they do not meet the criteria for offsetting in the statement of financial position.

## Risk management

# Credit risk

## continued

The following tables detail amounts of financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements including the Funding for Lending Scheme and the Term Funding Scheme as detailed in Note 20.

30 June 2018 Type of financial instrument	Gross amount of recognised financial instruments £m	Gross amount of recognised financial instrument offset in the statement of financial position £m	Net amount of financial instruments presented in the statement of financial position £m	Related amounts not offset in the statement of financial position		
				Financial instruments £m	Cash collateral paid/ (received) £m	Net amount £m
<b>Assets</b>						
Loans and advances to customers (amounts pre-positioned as collateral under the TFS)	3,032.7	–	3,032.7	(1,673.1)	–	1,359.6
Derivatives held for risk management	22.7	–	22.7	(16.7)	(5.1)	0.9
	<b>3,055.4</b>	<b>–</b>	<b>3,055.4</b>	<b>(1,689.8)</b>	<b>(5.1)</b>	<b>1,360.5</b>
<b>Liabilities</b>						
Amounts due to banks (central bank under the TFS)	(1,673.1)	–	(1,673.1)	1,673.1	–	–
Derivatives held for risk management	(16.7)	–	(16.7)	16.7	–	–
	<b>(1,689.8)</b>	<b>–</b>	<b>(1,689.8)</b>	<b>1,689.8</b>	<b>–</b>	<b>–</b>

31 December 2016 Type of financial instrument	Gross amount of recognised financial instruments £m	Gross amount of recognised financial instrument offset in the statement of financial position £m	Net amount of financial instruments presented in the statement of financial position £m	Related amounts not offset in the statement of financial position		
				Financial instruments £m	Cash collateral paid/ (received) £m	Net amount £m
<b>Assets</b>						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	1,066.2	–	1,066.2	(354.8)	–	711.4
Loans and advances to customers (amounts pre-positioned as collateral under the TFS)	578.7	–	578.7	(396.1)	–	182.6
Derivatives held for risk management	12.4	–	12.4	(13.6)	(2.2)	(3.4)
	<b>1,657.3</b>	<b>–</b>	<b>1,657.3</b>	<b>(764.5)</b>	<b>(2.2)</b>	<b>890.6</b>
<b>Liabilities</b>						
Amount due to banks – repurchase agreements	(354.8)	–	(354.8)	354.8	–	–
Amounts due to banks (central bank under the TFS)	(396.1)	–	(396.1)	396.1	–	–
Derivatives held for risk management	(35.8)	–	(35.8)	13.6	22.2	–
	<b>(786.7)</b>	<b>–</b>	<b>(786.7)</b>	<b>764.5</b>	<b>22.2</b>	<b>–</b>



## 6. Information on credit risk within our treasury operations

Credit risk exists where we have acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. We consider the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquidity buffer.

### Credit quality of treasury assets

The table below sets out information about the credit quality of treasury financial assets. As at 30 June 2018 and at 31 December 2016, no treasury assets were past due or impaired. The analysis presented below is derived using ratings provided by Standard & Poor's (see below disclaimer for further details) and Fitch. The worst rating from the credit agencies for each of the counterparties is used as the basis for assessing credit risk of treasury financial assets.

	30 June 2018 £m	31 December 2016 £m
<b>Cash and balances at central banks and loans and advances to banks</b>		
– Rated AAA	–	–
– Rated AA+ to AA–	525.8	139.3
– Rated A+ to A–	51.2	35.6
– Rated BBB+	28.4	8.7
	<b>605.4</b>	<b>183.6</b>
<b>High quality liquid assets included in the liquidity buffer</b>		
– Rated AAA	574.6	430.9
– Rated AA+ to AA–	187.6	163.2
– Rated A+ to A–	–	–
– Rated BBB+	–	–
<b>Debt securities: Asset backed securities</b>		
– Rated AAA	30.1	70.4
– Rated AA+ to AA–	–	–
– Rated A+ to A–	–	–
– Rated BBB+	–	–
	<b>792.3</b>	<b>664.5</b>
<b>Derivatives held for risk management purposes</b>		
– Rated AAA	–	–
– Rated AA+ to AA–	–	2.6
– Rated A+ to A–	22.7	6.1
– Rated BBB+	–	3.7
	<b>22.7</b>	<b>12.4</b>
	<b>1,420.4</b>	<b>860.5</b>

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## Risk management

# Funding and liquidity risk

Liquidity risk is the risk that we are unable to meet financial obligations, such as repaying depositors and counterparties, as they fall due, or can only do so at excessive cost.

To protect the Group and its depositors against liquidity risk, we maintain a liquidity buffer which is based on our liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding, enabling us to meet all financial obligations and to support anticipated asset growth.

## Analysis of the liquidity buffer

The components of the Group's liquidity buffer are shown below:

	30 June 2018 £m	31 December 2016 £m
Level 1		
Bank of England reserve account and unencumbered cash and bank balances	492.5	118.4
UK gilts and Treasury bills, other Sovereign, Supranational and Covered bonds	707.3	554.0
Treasury bills held under the FLS scheme	–	294.8
Level 2		
Covered bonds	54.9	36.8
Asset backed securities	30.1	70.4
<b>Total liquidity buffer</b>	<b>1,284.8</b>	<b>1,074.4</b>
As a % of funding liabilities	13.06%	13.54%

Our liquidity buffer ensures the Group holds sufficient liquidity under stressed conditions. We monitor stress and ongoing commitments to our statement of financial position on a daily basis. We also have access to liquidity through pre-positioned collateral with the Bank of England (until drawn, this remains off-balance sheet so is not included within the calculation).

## Customer deposits and wholesale funding

Deposits grew 16.5% to £7.8 billion as at 30 June 2018 (31 December 2016: £6.7 billion) and we continued to diversify our sources of funding, utilising cost effective sources offered by the Bank of England. The Group also repaid all Funding for Lending Scheme on-balance sheet liabilities in the period.

The underlying mortgages within our Oak 1 securitisation continued to be repaid as reflected in the 40.3% reduction in the Residential Mortgages Backed Security balance. The balance of subordinated liabilities also reduced as £40m of Tier 2 securities issued five years previously were called in May 2017.

	30 June 2018 £m	31 December 2016 £m
Retail deposits	5,163.4	4,766.8
SME deposits	1,997.9	1,647.2
Corporate deposits	615.0	259.7
<b>Customer deposits</b>	<b>7,776.3</b>	<b>6,673.7</b>
Funding for Lending Scheme ("FLS")	–	354.8
Term Funding Scheme ("TFS")	1,673.1	396.1
Residential Mortgages Backed Security ("RMBS")	77.9	130.6
Deposits by banks	–	0.7
Subordinated liabilities	60.5	100.0
<b>Wholesale funding</b>	<b>1,811.5</b>	<b>982.2</b>

# Interest rate and market risk

Interest rate risk is the risk of loss through mismatched asset and liability positions which are sensitive to changes in interest rates. Interest rate risk consists of asset–liability gap risk and basis risk.

## Asset–liability gap risk

Where possible we seek to match the interest rate structure of assets with liabilities, creating a natural hedge. Where this is not possible we will enter into interest rate swap transactions to convert the fixed rate exposures on loans and advances, customer deposits and available for sale securities into variable three month LIBOR liabilities.

Given timing differences and the price of hedging small gaps, it is not cost effective to have an absolute match of variable rate assets and liabilities. The risk exposure of the overall asset–liability interest rate profile is monitored against approved limits using changes in the economic value of the balance sheet as a result of a modelled two percentage point shift in the interest yield curve.

The impact of a two percentage point shift in the interest yield curve is as follows:

	30 June 2018 £m	31 December 2016 £m
2% shift up of the yield curve:		
As at period end	(5.9)	(7.0)
Average of month end positions	(5.9)	(3.7)
2% shift down of the yield curve:		
As at period end	2.9	1.8
Average of month end positions	2.2	0.9

## Gross undiscounted contractual cash flows

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities. The analysis has been prepared on the basis of the earliest date at which contractual repayments may take place. This includes consideration of where the Group has the contractual right to call, irrespective of whether any decision to call has been made.

30 June 2018	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Non-derivative liabilities						
Amounts due to banks	5.8	0.3	0.7	1,672.0	–	1,678.8
Customers' accounts	1,965.0	2,614.5	2,186.0	1,112.3	–	7,877.8
Other liabilities	9.9	11.4	–	–	–	21.3
Debt securities in issue	–	8.6	71.6	–	–	80.2
Subordinated notes	–	–	5.1	72.8	–	77.9
Unrecognised loan commitments	442.8	–	–	–	–	442.8
	<b>2,423.5</b>	<b>2,634.8</b>	<b>2,263.4</b>	<b>2,857.1</b>	<b>–</b>	<b>10,178.8</b>
Derivative liabilities						
Derivatives held for risk management settled net	(1.2)	(2.0)	(5.5)	(7.6)	(0.8)	(17.1)
Derivatives held for risk management settled gross:						
Amounts received	7.5	–	–	–	–	7.5
Amount paid	(7.5)	–	–	–	–	(7.5)
	<b>(1.2)</b>	<b>(2.0)</b>	<b>(5.5)</b>	<b>(7.6)</b>	<b>(0.8)</b>	<b>(17.1)</b>

## Risk management

# Interest rate and market risk

## continued

31 December 2016	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
<b>Non-derivative liabilities</b>						
Amounts due to banks	312.2	45.4	0.2	396.0	–	753.8
Customers' accounts	2,041.0	1,099.9	2,264.4	1,892.1	1.0	7,298.4
Other liabilities	9.7	11.2	–	–	–	20.9
Debt securities in issue	–	10.6	29.5	118.3	–	158.4
Subordinated notes	–	5.1	47.7	75.3	–	128.1
Unrecognised loan commitments	968.8	–	–	–	–	968.8
	<b>3,331.7</b>	<b>1,172.2</b>	<b>2,341.8</b>	<b>2,481.7</b>	<b>1.0</b>	<b>9,328.4</b>
<b>Derivative liabilities</b>						
Derivatives held for risk management settled net						
	1.1	2.2	10.7	31.2	2.3	47.5
Derivatives held for risk management settled gross:						
Amounts received	(13.1)	–	–	–	–	(13.1)
Amount paid	13.1	–	–	–	–	13.1
	<b>1.1</b>	<b>2.2</b>	<b>10.7</b>	<b>31.2</b>	<b>2.3</b>	<b>47.5</b>

# Capital risk

Capital risk is the risk that the Group has insufficient capital to cover regulatory requirements and / or support its growth plans.

The Group operated in line with its capital risk appetite as set by the Board and above its regulatory capital requirements throughout the periods ended 30 June 2018 and 31 December 2016.

Our capital resources as at the period end were as follows:

	30 June 2018 £m	31 December 2016 £m
<b>Common Equity Tier 1</b>		
Share capital	34.9	34.5
Share premium account	74.4	73.4
Capital redemption reserve	0.1	0.1
Available for sale reserve	1.1	1.8
Retained earnings	573.5	442.2
Less: prudential valuation adjustment	–	(0.1)
Less: intangible assets	(14.4)	(26.1)
<b>Total Common Equity Tier 1 capital (CET1)</b>	<b>669.6</b>	<b>525.8</b>
<b>Additional Tier 1</b>		
Additional Tier 1 – contingent convertible securities	74.0	74.0
<b>Total Tier 1 capital</b>	<b>743.6</b>	<b>599.8</b>
<b>Tier 2 capital</b>		
Subordinated notes	60.0	100.0
Collective impairment allowance	17.4	13.1
<b>Total Tier 2 capital</b>	<b>77.4</b>	<b>113.1</b>
<b>Total capital resources</b>	<b>821.0</b>	<b>712.9</b>
<b>Risk weighted assets – Pillar 1<sup>1</sup></b>	<b>5,441.2</b>	<b>4,576.1</b>
<b>Capital ratios<sup>1</sup></b>		
Common Equity Tier 1 ratio	12.3%	11.5%
Tier 1 capital ratio	13.7%	13.1%
<b>Total capital ratio</b>	<b>15.1%</b>	<b>15.6%</b>
Leverage ratio (%)	7.0	7.0

<sup>1</sup> Risk weighted assets, and the capital ratios are not covered by the external auditor's opinion.

## Reconciliation of equity per statement of financial position to capital resources

	30 June 2018 £m	31 December 2016 £m
Equity per statement of financial position	758.0	626.0
Regulatory adjustments		
Add: subordinated notes	60.0	100.0
Add: collective impairment allowance	17.4	13.1
Less: prudential valuation adjustment	–	(0.1)
Less: intangible assets	(14.4)	(26.1)
<b>Total capital resources</b>	<b>821.0</b>	<b>712.9</b>

# Financial statements

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

The Directors are responsible for preparing the 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:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

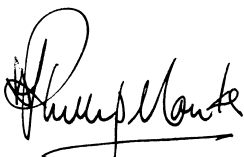
Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' Report and corporate governance statement that complies with that law and those regulations.

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.



**Phillip Monks,**  
Chief Executive Officer

**Financial statements**

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

**Report on the audit of the financial statements****Opinion**

In our opinion:

- the financial statements of Aldermore Group PLC (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2018 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of cash flows;
- the consolidated and parent company statements of changes in equity;
- the related Group notes 1 to 41;
- the related company notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.

Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Summary of our audit approach

### Key audit matters

The key audit matters that we identified in the current year were:

- Loan loss impairment for loans and advances to customers
- Effective interest rate income recognition

These key audit matters identified were consistent with the prior year.

### Materiality

The materiality that we used for the Group financial statements was £10 million which was determined on the basis of 5% of forecast profit before tax.

### Scoping

- Our Group audit focused on Aldermore Group PLC and its significant subsidiary, Aldermore Bank PLC. Our audit of financial information for these two entities provided us with coverage of all material balances as measured by revenue, profit before tax and total assets.

### Significant changes in our approach

This is our first year as the Group's external auditor and there were no significant changes in the approach.

## Conclusions relating to going concern

### Going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

## Loan loss provisions

### Key audit matter description

As detailed in note 3, critical accounting estimates and judgements on page 88, the determination of loan impairment provisions is inherently judgemental and relies on management's best estimate of a variety of inputs. Given the size of Aldermore's loan book relative to the rest of the balance sheet and the impact these provisions can have on results, we considered this a key audit matter.

Estimates, by their nature, give rise to a higher risk of material misstatement due to error or fraud.

Loan impairment provisions of £25.2 million represented approximately 0.28% of loans and advances to customers. The income statement charge for the period was £19.5 million.

In the collective impairment provisions we identified that the key judgement areas which could result in a material misstatement are the determination of probabilities of default ('PDs'), the use of management overlays and the emergence periods applied in calculating the provision.

For individual loan impairment provisions there is a high level of judgement and a degree of reliance on first line relationship management teams in ensuring the timely identification of the more subjective indicators of impairment as set out in IAS 39. Therefore we identified a risk that performing loans have an IAS 39 impairment trigger that has not been identified by management on a timely basis. Once identified there are key judgements around the value of collateral and timing and extent of cashflows to recover the debt. Each of these components, if not determined appropriately, could result in a material misstatement in the financial statements.

As set out on page 75 in note 1 the Group has disclosed an estimate of the impact of transition to IFRS 9.

### How the scope of our audit responded to the key audit matter

Our procedures included understanding and assessing the design and implementation of controls in respect of the Group's loan impairment process such as the timely recognition of impairment provisions, the completeness and accuracy of reports used in the loan impairment process and management review processes over the calculation of collective and individual provisions.

For collective provisions:

- We evaluated the methodology applied by the Group for all portfolios is compliant with the requirements of IAS 39 and then confirmed that the calculations are performed in accordance with the approved methodology, including checking mathematical integrity of the workings.
- We tested the accuracy of the key inputs used in the calculation and independently evaluated the reasonableness of the assumptions made.
- Our procedures included testing the retrospective PDs validation process performed by management, including testing the data used in the assessment and evaluation of whether the results of validation support the appropriateness of the PDs at the portfolio level.
- We examined the observed default data post year-end and compared it to PDs applied at year end to assess if there was an unexpected variation.
- We challenged completeness and validity of management overlays with assistance of our credit modelling experts by critically evaluating the risks that have been addressed by management through overlays and also considering whether there are other risks not captured by the models which require additional overlays. We also tested management's workings supporting the overlay quantum.
- Our assessment of management's emergence periods considered the Group's recent experience of observed emergence periods.

For individual provisions:

- We tested provision valuation for a sample of individual loans that had been individually provided for. This included, where relevant, assessing the valuation of collateral held and other key assumptions used in provision estimation such as the feasibility of the proposed recovery strategy.
- For a sample of loans where no impairment triggers were identified by management, we performed an independent assessment to determine whether there is any indication of impairment based on the underlying evidence including customer repayment.

#### Expected impact of IFRS 9

In order to audit the disclosure of the IFRS 9 estimate we have:

- Reviewed the methodologies applied against IFRS 9,
- Assessed the models with the help of our credit risk experts; and
- Evaluated the key assumptions for reasonableness which include PDs, loss given default ('LGDs'), exposure at default ('EAD') determined based on credit models and macroeconomic scenario forecasts.

We also tested the data inputted into the models for completeness and accuracy.

### Key observations

We determined that the provisioning methodologies used and the assumptions management have made are appropriate and the loan impairment provisions at year end are reasonable. We did not identify any material uncorrected misstatements in the collective or individual loan loss impairment allowance as at 30 June 2018. We determined that the underlying data used in determining the IFRS 9 disclosures in the financial statements was appropriate.

## Effective interest rate

### Key audit matter description

Interest income is detailed in note 3, critical accounting estimates and judgements on page 88. The Group's revenue recognition policy is detailed in note 2, significant accounting policies on page 78. The Group's net interest income was £602.2 million.

Interest income on loans and advances in each portfolio is determined using the effective interest rate ("EIR") method. Management's approach to determining the interest income that should be recognised at each reporting date involves the use of complex models and relies on a number of key judgements and decisions about what fees and costs should be included in the calculation.

We have identified management's estimate of the expected life of each loan portfolio to be the most critical judgement area. The determination of expected life 'curves' to be used in each EIR model is inherently subjective given they are forward-looking, and the level of judgement to be exercised by management is increased given the limited availability of historical repayment information. This is particularly relevant for the Group's acquired portfolios which were underwritten outside of the Group's standard processes and therefore may have different profiles than self-originated loans.

We identify EIR as a potential fraud risk as there is an opportunity and incentive for management to manipulate the amount of interest income reported at year-end.

### How the scope of our audit responded to the key audit matter

We audited the effective interest rate models by evaluating the design and implementation of controls over the EIR calculation and the completeness and accuracy of the loan data used in the model.

We reviewed management's accounting policies to assess whether they are reasonable and in accordance with IAS 18 'Revenue' and IAS 39 'Financial Instruments: Recognition and Measurement'. A particular focus was on the fees included / excluded from the EIR models.

We traced a sample of relevant loan data inputs to assess whether they have been appropriately included in the EIR adjustment calculation. We tested the workings supporting the repayment curves prepared by the Group including testing of the data used in the assessment and logic of the calculation.

To test the mathematical integrity of management's EIR models we independently rebuilt a sample of models in excel using management's methodology.

### Key observations

We determined that the effective interest rate models used and the assumptions management have made are appropriate and that interest income for the period is not materially misstated

## Financial statements

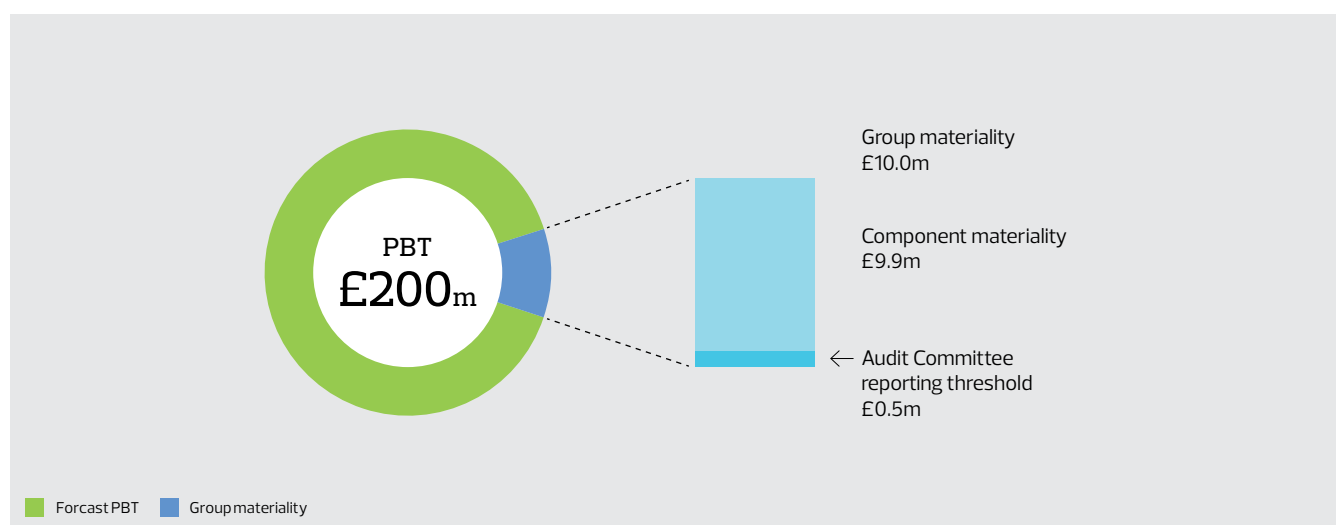
# Independent auditor's report to the members of Aldermore Group PLC continued

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Materiality</b>	£10,000,000 (2016: £5,000,000)	£9,900,000
<b>Basis for determining materiality</b>	5% of forecast profit before tax (2016: the predecessor auditor set materiality on the basis of 3.9% of profit before tax).	Parent company materiality equates to 4.95% of forecast profit before tax and is capped at 99% of Group materiality.
<b>Rationale for the benchmark applied</b>	Profit before tax was used as the basis for determining materiality as we believe it is the key metric used by members of the Group and other relevant stakeholders in assessing financial performance.	Aldermore Bank plc is the main trading entity and the only subsidiary that we deem significant to the Group. The performance of the trading entity has a direct impact on consolidated profit before tax, which is deemed the key metric used in assessing performance of the Group and company.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Our Group audit focused on Aldermore Group PLC and its only significant subsidiary, Aldermore Bank PLC. The Group engagement team performed an audit of financial information for these two entities which provided us with coverage of all material balances as measured by revenue, profit before tax and total assets. At the parent entity level we also tested the consolidation process.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**We have nothing to report in respect of these matters.**

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' Report.

## Financial statements

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

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

**We have nothing to report in respect of this matter.**

## Other matters

### Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the company on 16 May 2017 to audit the financial statements for the period ending 30 June 2018 and subsequent financial periods. The period of total uninterrupted engagement of the firm is one year.

### Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



### Manbinder Rana FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

31 August 2018

## Consolidated income statement

### For the 18 month period ended 30 June 2018

	Note	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Interest income	5	602.2	358.2
Interest expense	6	(172.2)	(118.8)
<b>Net interest income</b>		<b>430.0</b>	<b>239.4</b>
Fee and commission income	7	36.6	30.0
Fee and commission expense	8	(11.0)	(7.5)
Net gains / (losses) from derivatives and other financial instruments at fair value through profit or loss	9	1.6	(4.4)
Gains on disposal of available for sale debt securities		1.2	3.8
Other operating income		9.0	6.2
<b>Total operating income</b>		<b>467.4</b>	<b>267.5</b>
Provisions	29	(1.2)	(0.8)
Transaction costs	10	(19.8)	–
Integration costs	10	(2.4)	–
Impairment of intangibles and goodwill	24	(14.2)	(4.1)
Other administrative expenses	10	(206.9)	(113.1)
Administrative expenses	10	(244.5)	(118.0)
Depreciation and amortisation	14	(8.4)	(5.3)
<b>Operating profit before impairment losses</b>		<b>214.5</b>	<b>144.2</b>
Share of profit of associate	23	0.3	–
Impairment losses on loans and advances to customers	20	(19.5)	(15.5)
<b>Profit before taxation</b>		<b>195.3</b>	<b>128.7</b>
Taxation	16	(56.7)	(35.2)
<b>Profit after taxation – attributable to equity holders of the Group</b>		<b>138.6</b>	<b>93.5</b>

The notes and information on pages 74 to 119 form part of these financial statements.

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

## Financial statements

## Consolidated statement of comprehensive income

### For the 18 month period ended 30 June 2018

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
<b>Profit after taxation</b>	<b>138.6</b>	<b>93.5</b>
<b>Other comprehensive income:</b>		
<i>Items that may subsequently be reclassified to profit or loss:</i>		
Available for sale debt securities:		
Fair value movements	0.3	7.6
Amounts transferred to the income statement	(1.2)	(3.8)
Taxation	0.2	(1.0)
<b>Total other comprehensive (expense)/income</b>	<b>(0.7)</b>	<b>2.8</b>
<b>Total comprehensive income attributable to equity holders of the Group</b>	<b>137.9</b>	<b>96.3</b>

The notes and information on pages 74 to 119 form part of these financial statements.



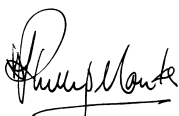
# Consolidated statement of financial position

## As at 30 June 2018

	Note	30 June 2018 £m	31 December 2016 £m
<b>Assets</b>			
Cash and balances at central banks		508.8	116.4
Loans and advances to banks	17	96.6	67.2
Debt securities	18	792.3	664.5
Derivatives held for risk management	19	22.7	12.4
Loans and advances to customers	20	8,990.5	7,477.3
Fair value adjustment for portfolio hedged risk		(15.7)	(3.5)
Other assets		6.3	3.1
Prepayments and accrued income		6.3	3.4
Deferred taxation	22	1.7	11.2
Investments in associates	23	5.1	–
Property, plant and equipment		3.7	3.1
Intangible assets	24	14.4	26.1
<b>Total assets</b>		<b>10,432.7</b>	<b>8,381.2</b>
<b>Liabilities</b>			
Amounts due to banks	25	1,678.2	753.8
Customers' accounts	26	7,776.3	6,673.7
Derivatives held for risk management	19	16.7	35.8
Fair value adjustment for portfolio hedged risk		0.2	(1.2)
Other liabilities	27	23.6	25.0
Accruals and deferred income	28	34.5	27.0
Current taxation		5.8	9.7
Provisions	29	1.0	0.8
Debt securities in issue	30	77.9	130.6
Subordinated notes	31	60.5	100.0
<b>Total liabilities</b>		<b>9,674.7</b>	<b>7,755.2</b>
<b>Equity</b>			
Share capital	33	34.9	34.5
Share premium account		74.4	73.4
Contingent convertible securities	35	74.0	74.0
Capital redemption reserve		0.1	0.1
Available for sale reserve		1.1	1.8
Retained earnings		573.5	442.2
<b>Total equity</b>		<b>758.0</b>	<b>626.0</b>
<b>Total liabilities and equity</b>		<b>10,432.7</b>	<b>8,381.2</b>

The notes and information on pages 74 to 119 form part of these financial statements.

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



**Phillip Monks**  
Director



**James Mack**  
Director

31 August 2018

Registered number: 06764335

## Financial statements

## Consolidated statement of cash flows

### For the period ended 30 June 2018

	Note	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
<b>Cash flows from operating activities</b>			
Profit before taxation		195.3	128.7
Adjustments for non-cash items and other adjustments included within the income statement	36	30.7	11.3
Increase in operating assets	36	(1,534.1)	(1,332.8)
Increase in operating liabilities	36	2,015.6	1,284.5
Income tax paid		(44.9)	(31.5)
<b>Net cash flows generated from operating activities</b>		<b>662.6</b>	<b>60.2</b>
<b>Cash flows from investing activities</b>			
Purchase of debt securities		(703.7)	(298.4)
Proceeds from sale and maturity of debt securities		316.0	161.7
Capital repayments of debt securities		250.8	87.5
Interest received on debt securities		15.3	12.9
Purchase of property, plant and equipment and intangible assets		(11.6)	(11.2)
Purchase of shares in associate		(3.8)	–
<b>Net cash used in investing activities</b>		<b>(137.0)</b>	<b>(47.5)</b>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of share options		1.0	–
Proceeds from the issue of subordinated debt		–	60.0
Issuance costs of subordinated debt		–	(0.6)
Repayment of subordinated debt		(40.0)	–
Capital repayments on debt securities issued		(53.1)	(63.6)
Purchase of own shares by Employee Benefit Trust		–	(0.9)
Coupon paid on contingent convertible securities		(17.8)	(8.9)
Interest paid on debt securities issued		(1.7)	(2.0)
Interest paid on subordinated notes		(10.2)	(5.2)
<b>Net cash used in financing activities</b>		<b>(121.8)</b>	<b>(21.2)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>403.8</b>	<b>(8.5)</b>
Cash and cash equivalents at start of the period	36	140.9	149.4
Movement during the period		403.8	(8.5)
<b>Cash and cash equivalents at end of the period</b>	36	<b>544.7</b>	<b>140.9</b>

## Consolidated statement of changes in equity

### For the period ended 30 June 2018

	Note	Share capital £m	Share premium account £m	Contingent convertible securities £m	Capital redemption reserve £m	Available for sale reserve £m	Retained earnings £m	Total £m
<b>Period ended 30 June 2018</b>								
<b>As at 1 January 2017</b>		34.5	73.4	74.0	0.1	1.8	442.2	626.0
Profit after taxation		–	–	–	–	–	138.6	138.6
Other comprehensive income		–	–	–	–	(0.7)	–	(0.7)
Transactions with equity holders:								
Share-based payments, including tax reflected directly in retained earnings	34	–	–	–	–	–	6.4	6.4
Exercise of share options	33	0.4	1.0	–	–	–	(0.4)	1.0
Coupon paid on contingent convertible securities, net of tax		–	–	–	–	–	(13.3)	(13.3)
<b>As at 30 June 2018</b>		<b>34.9</b>	<b>74.4</b>	<b>74.0</b>	<b>0.1</b>	<b>1.1</b>	<b>573.5</b>	<b>758.0</b>
<b>Year ended 31 December 2016</b>								
<b>As at 1 January 2016</b>		34.5	73.4	74.0	0.1	(1.0)	352.6	533.6
Profit after taxation		–	–	–	–	–	93.5	93.5
Other comprehensive income		–	–	–	–	2.8	–	2.8
Share-based payments, including tax reflected directly in retained earnings	34	–	–	–	–	–	3.6	3.6
Own shares adjustment	33	–	–	–	–	–	(0.9)	(0.9)
Coupon paid on contingent convertible securities, net of tax		–	–	–	–	–	(6.6)	(6.6)
<b>As at 31 December 2016</b>		<b>34.5</b>	<b>73.4</b>	<b>74.0</b>	<b>0.1</b>	<b>1.8</b>	<b>442.2</b>	<b>626.0</b>

## 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").

During the period ended 30 June 2018 the Group has adopted the following amendments to existing standards which were effective for accounting periods starting on or after 1 January 2017:

- Amendments to IAS 7 Statements of Cash Flows. These amendments improved disclosure requirements to enable users of financial statements to better evaluate changes in liabilities arising from financing activities. Additional disclosures in respect of the movements in the liabilities that the Group classifies as held for financing are provided in Notes 32 to the consolidated financial statements.
- Amendments to IAS 12 Income Taxes. This amendment clarifies how to account for deferred tax assets in respect of debt instruments measured at fair value. This amendment has no impact on these financial statements.

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. The Company is public and limited by shares. The address of the Company's registered office is: Aldermore Group PLC, Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire, RG11AX.

#### b) Accounting period

The Group has changed its reporting period to 30 June as a result of the acquisition by FirstRand International Guernsey Limited in March 2018, in order to align with their reporting period which ends on 30th June 2018. This change extends the reporting period of the Group to 18 months therefore the current and prior period amounts disclosed are not comparable.

#### c) 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), for the extended period 1 January 2017 to 30 June 2018.

Control is achieved when the Group:

- 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 Group 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 30). 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.

#### d) 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").

#### e) 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;
- 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 and are reflected through profit or loss in order to match the gains or losses arising on the derivative financial contracts that qualify as hedging instruments.

#### f) 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.

#### g) 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 38. 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 68.

#### h) Standards and interpretation issued not yet effective

##### **IFRS 9 'Financial instruments': effective from 1 July 2018**

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and the revised requirements specifically deal with the classification and measurement of financial instruments, the measurement of impairment losses based on an expected credit loss model and includes revised requirements relating to hedge accounting.

The Group has elected not to restate its comparative information included in the annual financial statements for the year ending 30 June 2019. Instead, an adjustment will be reflected in opening reserves at the start of the year ending 30 June 2019. The amendments made by IFRS 9 to the disclosure requirements of IFRS 7 will also be prospectively applied by the Group.

# Notes to the consolidated financial statements

## continued

### 1 Basis of preparation continued

#### 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 for the Group 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.

#### 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, and consequently no impact is anticipated from the implementation of IFRS 9.

#### Impairment – Expected Credit Losses

Impairment provisions on 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 the reflection of more pro-cyclical impairment charges in the income statement. However, whilst IFRS 9 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 (PD), loss given default (LGD) and exposure at default (EAD) 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 (Stage 1 loans), 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 (Stage 2 loans). Provisions will be made for those assets for the asset's lifetime ECL;
- for assets where there is evidence of credit impairment (Stage 3 loans), provisions will be made under IFRS 9 for lifetime ECL. Under IAS 39, provisions are currently based on the asset's carrying value and the present value of the estimated future cash flows;
- Interest is recognised on an Effective Interest Rate basis on the gross balance outstanding for Stage 1 and 2 loans, and on the balance outstanding net of impairment provisions for Stage 3 loans; and
- IFRS 9 also requires expected credit losses to be calculated for off-balance sheet exposures such as undrawn amounts, loan commitments and financial guarantees. IAS 39 did not apply to these off-balance-sheet exposures, apart from cases where impairment had already occurred.

#### Key accounting judgements and estimates

In respect of the calculation of impairment provisions, IFRS 9 requires management to make significant accounting judgements and estimates with regard to the application of the standard, details of which are provided below:

### Key inputs into ECL calculations

The Group has developed a range of models tailored for the different types of lending undertaken by the Group, which calculate 12 month PD's, Lifetime PDs, LGDs and EADs, the outputs from which are then used to calculate the ECLs to be recognised under IFRS 9. Key inputs into these models include the following:

*PD Models:* these utilise internal and external credit agency data, supplemented by expert judgement where data is limited, which is used to assess the likelihood of a default event occurring within the next 12 months. Lifetime PDs are also modelled for each loan exposure, these estimates are largely based on the 12 month PDs, observed marginal default rates and the definition of default being used.

*LGD Models:* these make use of historic data regarding losses experienced and cure rates on defaulted loans, but given the low number of cases to date this has been supplemented by expert judgement.

*EAD Models:* key inputs to these models are observed prepayment rates on loan exposures and the definition of default being used.

### Significant increase in credit risk (SICR)

The Group has defined SICR, which results in an exposure being moved from Stage 1 to Stage 2 and recognition of lifetime ECLs, in the following hierarchical order:

- the exposure becomes 30 days past due;
- there is significant change in default risk since initial recognition measured by a change in PD. The Group has used the change in 12 month PD, as permitted by IFRS 9, as a proxy for lifetime PD; and
- qualitative indicators, such as inclusion on a watch list or the exposure being subject to forbearance, consistent with the "Guidance on credit risk and accounting for expected losses" issued by the Basel Committee on Banking Supervision.

If any of the above criteria are met then an exposure is considered to have experienced a SICR.

### Definition of default

The Group has identified certain quantitative and qualitative criteria to be considered in determining when an exposure is in default and should therefore be moved into Stage 3, these include the following:

- the exposure becomes 90 days past due. IFRS 9 allows this assumption to be rebutted, but at present the Group has not done so; and
- qualitative criteria, which vary according to the type of lending being undertaken, but include indicators such as bankruptcies, Individual Voluntary Arrangements and permanent forbearance.

The definitions being used have been aligned with those used for regulatory reporting purposes.

### Forward looking macroeconomic scenarios

IFRS 9 requires ECLs and SICR to be take into account forecasts of future economic conditions in addition to current conditions. The Group has developed a macroeconomic model which adjusts the ECLs calculated by the credit models to provide probability weighted numbers based on a number of forward macroeconomic scenarios. The Group sources its forward economic scenarios and probability weightings from an external provider. The Group is able by exception and with sufficient rationale to reject scenarios or adjust scenario weightings.

### Implementation and governance of the IFRS 9 programme

The Group has managed the implementation of IFRS 9 through a delivery programme designed to ensure compliance with accounting and regulatory guidance. The programme was jointly sponsored by the Chief Financial Officer and Chief Risk Officer. The programme was cross functional with involvement from (but not limited to) Finance, Risk and IT. Progress was monitored on a regular basis.

The models developed have been subject to both internal and external challenge and review and have been reviewed and approved at Model Technical Forum and Model Management Committee as per the Aldermore Model Management Framework.

# Notes to the consolidated financial statements

## continued

### 1. Basis of preparation continued

#### Impact of transition to IFRS 9

The revised impairment models are expected to result in an overall increase of impairment provisions on the statement of financial position, impacting opening retained earnings for the year ending 30 June 2019. Any impact on the remeasurement of financial assets and liabilities as a result of the classification and measurement changes noted above is not expected to result in a significant adjustment to retained earnings. These impairment adjustments, on transition as at 1 July 2018, are expected to increase balance sheet provisions by approximately £10 million, and reduce retained earnings (post tax) by approximately £8 million. The Group has elected to phase in the impact of the incremental IFRS 9 provisions over a five year period in line with the December 2017 amendment to the CRR issued by the European Commission for capital purposes. As at 1 July 2018, only 5% of the transition impact will be reflected in the CET 1 ratio for regulatory reporting purposes. The impact of implementing IFRS 9 has been considered in the Group's capital planning.

**IFRS 15: "Revenue from contracts with customers"** was endorsed by the EU on 29 October 2016 and will be effective for annual reporting periods beginning on or after 1 January 2018 with retrospective application permitted. Due to the extension of the current financial year end to 30 June 2018, the Group will adopt IFRS 15 from 1 July 2018. It provides a principles-based approach to recognise revenue and the concept of recognising revenue for obligations as they are satisfied. The Group has determined that the impact on retained earnings is immaterial on adoption as most revenue streams either fall under IFRS 9 or the approach to revenue recognition does not change following adoption of IFRS 15.

**IFRS 16: "Leases"** was endorsed by the EU on 9 November 2017, 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. Due to the extension of the current financial year end to 30 June 2018, the Group will adopt IFRS 16 from 1 July 2019. The impact on the Group is 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. The Group has determined that the impact on the income statement is expected to be immaterial.

### 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 cashflows 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 includes:

- 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;
- 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; and
- interest income charged to Invoice Finance clients each day on the balance of their outstanding loans 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 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 fees and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable, they are recognised within fee and commission expense as the services are received.

### 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 gains / (losses) 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.

### 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.

## Notes to the consolidated financial statements continued

### 2. Significant accounting policies continued

#### iii. 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 with the corresponding obligation to return it 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; or
- available for sale.

##### 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 customers and banks.

##### 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.

#### (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
- 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 where 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.

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.

## Notes to the consolidated financial statements continued

### 2. Significant accounting policies continued

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.

#### 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'.

#### (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 derivatives held for risk management 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. The PPE note has been removed from these financial statements as both the assets held and depreciation charged for the period are no longer material for the Group.

### **(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.

## Notes to the consolidated financial statements continued

### 2. Significant accounting policies continued

Software is amortised on a straight line basis in the income statement over its useful life from the date that it is available for use. As required by IAS 38 a review was undertaken of the estimated useful lives of software during the period and as a result useful lives were reassessed from one to five years, to one to three years. This change in accounting estimate has been applied in order to more accurately reflect the useful life of the IT software. This change in accounting estimate has been applied prospectively from 1 April 2018. The impact of this change was to increase the amortisation charge reflected in the profit and loss for the period by £0.2 million.

#### (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. If the carrying value of the asset is greater 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. During the period a number of intangible assets were identified as no longer fulfilling any ongoing economic benefit. As such it was deemed appropriate to fully impair these intangible assets, resulting in an impairment charge to the income statement for the period ending 30 June 2018 which is disclosed in note 24.

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.

#### (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.

## Notes to the consolidated financial statements continued

### 2. Significant accounting policies continued

#### (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) Share-based payment transactions

Employees, including Senior Executives, of the Group received remuneration in the form of equity settled share-based payments to incentivise and reward future strong, long-term business performance and growth. Following the takeover from FirstRand International Limited the majority of equity-settled schemes vested, with a small number of ShareSave options outstanding as at 30 June 2018 (see Note 34).

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 (for awards which were granted prior to the takeover) 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.

#### (z) Investment in associates

An associate is a company over which the Group has significant influence and that is neither a subsidiary undertaking nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is neither control nor joint control over those policies. The results and assets of associates are accounted for in these consolidated financial statements using the equity method of accounting. Investments are measured at cost, which includes transaction costs. Subsequent to initial recognition, the Group includes its share of profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

### 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 and EIR.

#### (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 30 June 2018, gross loans and advances to customers totalled £9,015.7 million (31 December 2016: £7,504.7 million) against which impairment allowances of £25.2 million (31 December 2016: £27.4 million) had been made (see Note 20). The Group's accounting policy for loan impairment provisions on financial assets classified as loans and receivables is described in Note 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 £25.2 million at 30 June 2018, £7.8 million (31 December 2016: £14.3 million) relates to individual provisions and



£17.4 million (31 December 2016: £13.1 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 two 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 three 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% absolute increase in the 'conversion rate' assumed by management between 2 MIA and 3 MIA (e.g. a PD increasing from 50% to 60%), when the loans are considered to be individually impaired would increase the impairment allowance by £0.6 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% absolute reduction in this assumption would decrease the impairment allowance by £0.7 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% relative reduction in the HPI would increase the overall impairment allowance by £2.8 million.
- A 5% absolute increase in the FSD would increase the overall impairment provision by £1.9 million.

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

## Notes to the consolidated financial statements continued

### 3. Use of estimates and judgements continued

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

- A 10% relative increase in the LGD's applied in Asset Finance and Invoice Finance would increase the overall impairment allowance by £0.7 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.

- A three month increase in emergence periods for Asset Finance and Invoice Finance would increase the overall impairment allowance by £3.3 million.

#### (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 30 June 2018, represent approximately 1.5 per cent and 2.4 per cent of 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.

In the period ended 30 June 2018 and year ended 31 December 2016, 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. In addition, adjustments were made to reflect certain fees and costs within interest income as it was considered that such amounts were now an integral part of the effective interest rate. As a consequence, an overall adjustment of £8.4 million (2016: £0.5 million increase) was recorded to reduce 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 the period end is analysed as follows:

	Impact on 18 months to 30 June 2018 interest income £m	Impact on 2016 interest income £m
Asset Finance – organic lending	3.1	(1.8)
SME Commercial – organic lending	1.3	0.2
Buy-to-Let – acquired portfolios	(8.8)	(1.1)
Buy-to-Let – organic lending	2.2	0.1
Residential – acquired portfolios	(4.5)	(0.4)
Residential – organic lending	(1.7)	3.5
	<b>(8.4)</b>	<b>0.5</b>

A change in the estimated expected lives 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 30 June 2018 by £3.3 million (31 December 2016: £1.4 million). Included within this sensitivity of £3.3 million, is a £1.8 million cumulative reduction in profit relating to acquired portfolios (31 December 2016: £3.1 million) due to a change in the unwind of the discount together with a £1.5 million cumulative reduction in profit relating to the organic portfolios (31 December 2016: cumulative increase in profit of £1.7 million).

A 0.5% 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 30 June 2018 by £0.1 million (31 December 2016: £0.5 million).

#### 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.

The organisation adjusted its operating model in 2018, where previously the business was divided into Business Finance, Mortgages and Savings, the operating segments are now allocated to two distinct customer facing businesses; Business Finance (made up of Asset Finance, Invoice Finance and Commercial Mortgages) and Retail Finance (made up of Residential Owner Occupied Mortgages and Buy to Let Mortgages). All 2018 financial reports have continued to detail performance on a operating segment basis. It is also possible to review performance aggregated by Business Finance and Retail Finance using data from the individual operating segments. As such it is still deemed appropriate to split the segmental reporting by individual operating segments for the 2018 IFRS 8 disclosure.

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 complex and structured deals, which play to our specialist underwriting advantage;
- 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 multi-let commercial investment property loans and property development to experienced regional developers;
- 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 under-served segments of creditworthy borrowers that provide attractive and sustainable margins.

Central Functions include the reconciling items between the total of the five reportable operating segments and the consolidated income statement. As well as common costs, Central Functions include 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 gains/losses on from derivatives held at fair value shown in Note 19.

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.

## Financial statements

## Notes to the consolidated financial statements

### continued

#### 4. Segmental information continued

Segmental information for the period ended 30 June 2018

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Central Functions £m	Total £m
Interest income – external customers	141.8	12.3	93.5	255.5	95.1	4.0	602.2
Interest expense – external customers	–	–	–	–	–	(172.2)	(172.2)
Interest (expense)/income – internal	(36.6)	(2.6)	(15.4)	(80.3)	(29.8)	164.7	–
Net fees and other income – external customers	8.0	19.4	0.9	3.9	1.9	3.3	37.4
<b>Total operating income</b>	<b>113.2</b>	<b>29.1</b>	<b>79.0</b>	<b>179.1</b>	<b>67.2</b>	<b>(0.2)</b>	<b>467.4</b>
Underlying administrative expenses including depreciation and amortisation	(23.2)	(14.8)	(5.7)	(18.0)	(7.4)	(147.4)	(216.5)
Impairment losses on loans and advances to customers	(9.7)	(1.4)	(1.9)	(4.2)	(2.3)	–	(19.5)
Share of profit of associate	–	–	–	–	–	0.3	0.3
<b>Segmental result</b>	<b>80.3</b>	<b>12.9</b>	<b>71.4</b>	<b>156.9</b>	<b>57.5</b>	<b>(147.3)</b>	<b>231.7</b>
Non-underlying administrative expenses <sup>1</sup>							(36.4)
Tax							(56.7)
<b>Profit after tax</b>							<b>138.6</b>
Assets	1,841.7	265.2	965.9	4,436.8	1,480.9	1,442.2	10,432.7
Liabilities	–	–	–	–	–	(9,674.7)	(9,674.7)
<b>Net assets/(liabilities)</b>	<b>1,841.7</b>	<b>265.2</b>	<b>965.9</b>	<b>4,436.8</b>	<b>1,480.9</b>	<b>(8,232.4)</b>	<b>758.0</b>

<sup>1</sup> Non-underlying administrative expenses of £36.4 million include costs of £19.8 million relating to the FirstRand transaction, costs of £2.4 million relating to integration, and an impairment charge of £14.2 million relating to intangible assets. These non-underlying costs were all charged to Central Functions.

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 <sup>1</sup> £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
<b>Total operating income</b>	<b>63.6</b>	<b>19.0</b>	<b>46.7</b>	<b>97.2</b>	<b>51.5</b>	<b>(10.5)</b>	<b>267.5</b>
Administrative expenses including depreciation and amortisation	(12.9)	(10.3)	(3.1)	(10.7)	(4.5)	(77.7)	(119.2)
Impairment losses on loans and advances to customers	(5.6)	(1.7)	(2.9)	(3.4)	(1.9)	–	(15.5)
<b>Segmental result</b>	<b>45.1</b>	<b>7.0</b>	<b>40.7</b>	<b>83.1</b>	<b>45.1</b>	<b>(88.2)</b>	<b>132.8</b>
Non-underlying administrative expenses <sup>1</sup>							(4.1)
Tax							(35.2)
<b>Profit after tax</b>							<b>93.5</b>
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)
<b>Net assets/(liabilities)</b>	<b>1,573.4</b>	<b>154.1</b>	<b>929.9</b>	<b>3,326.0</b>	<b>1,493.9</b>	<b>(6,851.3)</b>	<b>626.0</b>

<sup>1</sup> Non-underlying administrative expenses administrative expenses of £4.1 related to an impairment charge of £4.1 million in relation to Invoice Finance Goodwill. This non-underlying cost was charged to Central Functions.

## 5. Interest income

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
<b>On financial assets not at fair value through profit or loss:</b>		
On loans and advances to customers	598.1	364.0
On loans and advances to banks	2.1	0.7
On debt securities	14.5	12.4
	<b>614.7</b>	<b>377.1</b>
<b>On financial assets at fair value through profit or loss:</b>		
Net interest expense on financial instruments hedging assets	(12.5)	(18.9)
	<b>602.2</b>	<b>358.2</b>

Included within interest income on loans and advances to customers for the period ended 30 June 2018 is a total of £6.8 million (31 December 2016: £3.4 million) relating to impaired financial advances.

Included within net interest expense on financial instruments hedging assets are fair value gains of £21.0 million (31 December 2016: losses of £0.3 million) on derivatives held in qualifying fair value hedging arrangements, together with losses of £12.2 million (31 December 2016: losses of £4.4 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

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
<b>On financial liabilities not at fair value through profit or loss:</b>		
On customers' accounts	149.8	109.8
On amounts due to banks	7.9	2.6
On debt securities in issue	2.1	2.3
On subordinated notes	10.7	7.7
Other	0.7	2.0
	<b>171.2</b>	<b>124.4</b>
<b>On financial liabilities at fair value through profit or loss:</b>		
Net interest expense / (income) on financial instruments hedging liabilities	1.0	(5.6)
	<b>172.2</b>	<b>118.8</b>

Included within net interest income on financial instruments hedging liabilities are fair value losses of £2.7 million (31 December 2016: gains of £2.1 million) on derivatives held in qualifying fair value hedging arrangements, together with losses of £1.4 million (31 December 2016: gains of £0.4 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

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Invoice Finance fees	16.5	11.9
Valuation fees	3.3	7.0
Documentation fees	4.8	2.8
Other fees	12.0	8.3
	<b>36.6</b>	<b>30.0</b>

## Financial statements

## Notes to the consolidated financial statements continued

### 8. Fee and commission expense

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Introducer commissions	2.2	1.5
Legal and valuation fees	4.5	3.4
Company searches and other fees	2.5	1.3
Credit protection and insurance charges	1.8	1.3
	<b>11.0</b>	<b>7.5</b>

### 9. Net gains/(losses) from derivatives and other financial instruments at fair value through profit or loss

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Net gains/(losses) on derivatives	10.2	(6.5)
Net (losses)/gains on available for sale assets held in fair value hedges	(8.6)	2.1
	<b>1.6</b>	<b>(4.4)</b>

### 10. Administrative expenses

	Note	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Staff costs	11	109.8	64.3
Legal and professional and other services		56.0	21.8
Information technology costs		33.5	10.9
Office costs		9.5	5.0
Provisions	29	1.2	0.8
Other		20.3	11.1
Impairment of intangibles and goodwill	24	14.2	4.1
		<b>244.5</b>	<b>118.0</b>

Disclosed on the face of the Income Statement for the period ending 30 June 2018 are £19.8 million of Transaction costs. £3.7 million of these costs relate to acceleration of share schemes and other bonuses following the FirstRand takeover and are included in Staff Costs in the above disclosure. Included in Legal and Professional and other services are £14.8 million payable in respect of transactional broker and advisory fees as part of the FirstRand takeover, as well as £1.3 million payable in respect of legal and other fees relating to the takeover.

Disclosed on the face of the Income Statement for the period ending 30 June 2018 are £2.4 million of Integration costs. £1.9 million of these costs relate to legal and professional and other services, £0.5 million relate to other expenditure.

Included in other administrative expenses are costs relating to temporary staff of £18.7 million (31 December 2016: £4.4 million), travel and subsistence of £4.2 million (31 December 2016: £3.0 million) and staff recruitment of £1.9 million (31 December 2016: £1.5 million).

## 11. Staff costs

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Wages and salaries	88.9	52.7
Social security costs	12.2	6.4
Other pension costs	3.1	1.7
Share-based payments	5.6	3.5
	<b>109.8</b>	<b>64.3</b>

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 period, including Non-Executive Directors, is disclosed as below.

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Central Functions	397	330
Business Finance and Retail Finance	539	557
Total	<b>936</b>	<b>887</b>

## 12. Remuneration of Directors

	Period ended 30 June 2018 £'000	Year ended 31 December 2016 £'000
Directors' emoluments	5,542.2	2,713.0
Payments in respect of personal pension plans	159.6	53.7
Contributions to money purchase scheme	–	5.3
Long term incentive schemes	8,777.7	–
	<b>14,479.5</b>	<b>2,772.0</b>

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 30 June 2018, there were no loans outstanding to directors (31 December 2016: one loan; for the value of £40,000).

### Long-term incentive schemes

Following the acquisition of Aldermore Group PLC by FirstRand International Guernsey Limited in March 2018, all the share schemes to key personnel vested and FirstRand International Guernsey Limited acquired 100 per cent of the share capital of Aldermore Group PLC. The reported gains, at acquisition have been calculated as the market value offered for the shares by FirstRand (£3.13). The aggregate gains as at March 2018 on such shares held by Directors were £5.9 million.

A number of long-term cash settled incentive schemes were introduced following the acquisition by FirstRand to replace the existing share schemes already in place. The deferred portion of the annual bonus is also settled in cash.

### Highest paid director

The below amounts include the following in respect of the highest paid director:

	Period ended 30 June 2018 £'000	Year ended 31 December 2016 £'000
Emoluments	1,822.3	1,140.4
Payments in respect of personal pension plans	54.0	35.1
Contributions to money purchase scheme	–	–
Long term incentive schemes	3,774.7	–
	<b>5,651.0</b>	<b>1,175.5</b>

## Financial statements

## Notes to the consolidated financial statements continued

### 13. Pension and other post-retirement benefit commitments

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £3.1 million (31 December 2016: £1.7 million) were charged to the income statement during the period in respect of these schemes. The Group made payments amounting to £159,600 (31 December 2016: £53,700) in aggregate in respect of Directors' individual personal pension plans during the period. There were outstanding contributions of £0.5 million at the period end (31 December 2016: £0.3 million).

### 14. Depreciation and amortisation

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Depreciation	2.2	1.1
Amortisation of intangible assets	24	6.2
	<b>8.4</b>	<b>5.3</b>

### 15. Profit on ordinary activities before taxation

The profit on ordinary activities is after charging:

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
<b>Operating lease rentals (including service charges)</b>		
– land and buildings	4.7	2.6
– plant and equipment	0.4	0.3
<b>The remuneration of the Group's external auditors, Deloitte LLP, and their associates is as follows:</b>		
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)	0.7	0.6
<b>Audit fees</b>	<b>0.8</b>	<b>0.7</b>
<b>Fees payable to the Group's auditor and its associates for other services (excluding VAT):</b>		
Audit related assurance services <sup>1</sup>	0.3	0.2
Other taxation advisory services	–	–
Corporate finance services	–	–
Other assurance services <sup>2</sup>	0.3	0.1
All other services	–	–
<b>Non-audit fees</b>	<b>0.6</b>	<b>0.3</b>
	<b>1.4</b>	<b>1.0</b>

<sup>1</sup> Audit related assurance services for the period ended 30 June 2018 comprise services provided in relation to interim profit verifications during the year, and work responding to FirstRand group instructions.

<sup>2</sup> Other assurance services for the period ended 30 June 2018 comprise work in relation to the audit of the Group's 31 March 2018 Balance Sheet, and work in relation to the Term Funding Scheme audit.



## 16. Taxation

### a) Tax charge

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
Current tax on profits for the year	47.5	33.1
(Over)/under provision in previous periods	(0.9)	(2.2)
<b>Total current tax</b>	<b>46.6</b>	<b>30.9</b>
Deferred tax	8.0	1.9
Under/(over) provision in previous periods	2.1	2.4
<b>Total deferred tax charge/(credit)</b>	<b>10.1</b>	<b>4.3</b>
<b>Total tax charge</b>	<b>56.7</b>	<b>35.2</b>

Current tax on profits reflects UK mainstream Corporation tax levied at a blended rate of 19.16% for the 18 month period ended 30 June 2018 (31 December 2016: 20%) and the Banking Surcharge levied at a rate of 8% on the profits of banking companies chargeable to corporation tax after an allowance of £25 million per annum which applies for years commencing from 1 January 2016.

A tax credit of £0.2 million in respect of the fair value movements in available for sale debt securities has been shown in other comprehensive income during the period ended 30 June 2018 (2016: £1.0 million charge). A tax credit of £1.5 million (31 December 2016: £nil) has been recognised in equity in respect of tax relief on vesting of share awards.

A tax credit of £4.6 million (31 December 2016: £2.3 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 19.16% (31 December 2016: 20%). The differences are explained below:

	Period ended 30 June 2018 £m	Year ended 31 December 2016 £m
<b>Profit before tax</b>	<b>195.3</b>	<b>128.7</b>
Tax at 19.16% (2016: 20%) thereon	37.5	25.7
<b>Effects of:</b>		
Expenses not deductible for tax purposes	3.2	1.0
Under provision in previous period	1.2	0.2
Deferred tax rate adjustment	0.6	0.4
Effect of new tax surcharge	14.1	7.9
Other differences	0.1	–
	<b>56.7</b>	<b>35.2</b>

## Financial statements

## Notes to the consolidated financial statements continued

### 17. Loans and advances to banks

	<b>30 June 2018 £m</b>	31December 2016 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	52.2	34.1
Cash collateral on derivatives placed with banks	33.6	22.2
Other loans and advances to banks	10.8	10.9
	<b>96.6</b>	<b>67.2</b>

There were no individual or collective provisions for impairment held against loans and advances to banks. £nil is recoverable more than 12 months after the reporting date (31December 2016: £10.9 million – this related to cash held by the Group's securitisation vehicle, Oak No.1 PLC).

### 18. Debt securities

	<b>30 June 2018 £m</b>	31December 2016 £m
<b>Available for sale debt securities:</b>		
UK Government gilts and treasury bills	45.9	32.3
Supranational bonds	436.3	359.8
Corporate bonds	–	29.7
Asset-backed securities	30.1	70.4
Covered bonds	280.0	172.3
	<b>792.3</b>	<b>664.5</b>

At 30 June 2018, £732.4 million (31December 2016: £534.5 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.

## 19. Derivatives held for risk management

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

Instrument type	30 June 2018		31 December 2016	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate (not in hedging relationships)	0.3	0.3	0.4	1.5
Interest rate (fair value hedges)	22.4	16.3	11.8	34.1
Equity	–	–	0.2	0.2
Foreign exchange	–	0.1	–	–
	<b>22.7</b>	<b>16.7</b>	<b>12.4</b>	<b>35.8</b>

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, see pages 36 to 59.

### 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.

## 20. Loans and advances to customers

	30 June 2018 £m	31 December 2016 £m
Gross loans and advances	9,015.7	7,504.7
less: allowance for impairment losses	(25.2)	(27.4)
	<b>8,990.5</b>	<b>7,477.3</b>

### Amounts include:

Expected to be recovered more than 12 months after the reporting date	7,835.5	6,466.4
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At 30 June 2018, loans and advances to customers of £nil (31 December 2016: £1,066.2 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. However, £nil of UK Treasury Bills had been drawn as at the reporting date (31 December 2016: £650.0 million), as the Group stopped using the scheme during the period.

At 30 June 2018, loans and advances to customers of £3,032.7 million (31 December 2016: £578.7 million) 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 in Note 25.

At 30 June 2018, loans and advances to customers of £87.2 million (31 December 2016: £nil) were pre-positioned with the Bank of England in respect of the Indexed Long Term Repo Scheme. These loans and advances were available for use as collateral with the Scheme. However, £nil of UK Treasury Bills had been drawn as at the reporting date (31 December 2016: £nil).

## Financial statements

## Notes to the consolidated financial statements continued

### 20. Loans and advances to customers continued

At 30 June 2018, loans and advances to customers included £103.2 million (31 December 2016: £148.7 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
<b>Period ended 30 June 2018</b>			
Balance as at 1 January 2017	14.3	13.1	27.4
Impairment loss for the period:			
Charge to the income statement	10.6	8.9	19.5
Unwind of discounting	(2.2)	(4.6)	(6.8)
Write-offs net of recoveries	(14.9)	–	(14.9)
<b>Balance as at 30 June 2018</b>	<b>7.8</b>	<b>17.4</b>	<b>25.2</b>

#### Allowance for impairment losses

	Individual £m	Collective £m	Total £m
<b>Year ended 31 December 2016</b>			
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)
<b>Balance as at 31 December</b>	<b>14.3</b>	<b>13.1</b>	<b>27.4</b>

#### Finance lease receivables

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

	30 June 2018 £m	31 December 2016 £m
<b>Gross investment in finance leases, receivable:</b>		
Less than one year	568.4	521.5
Between one and five years	1,177.9	960.3
More than five years	21.8	20.3
	<b>1,768.1</b>	<b>1,502.1</b>
Unearned finance income	(187.3)	(162.4)
<b>Net investment in finance leases</b>	<b>1,580.8</b>	<b>1,339.7</b>
<b>Net investment in finance leases, receivable:</b>		
Less than one year	482.4	448.9
Between one and five years	1,077.3	871.2
More than five years	21.1	19.6
	<b>1,580.8</b>	<b>1,339.7</b>

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 £3.7 million (31 December 2016: £4.5 million).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 30 June 2018.

## 21. 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	Class of shareholding	Country of incorporation
Aldermore Bank PLC	Banking and related services	100	Ordinary	UK <sup>1</sup>
<b>Dormant subsidiary undertakings</b>				
Aldermore Invoice Finance (Holdings) Limited (Company number 06913207)	Dormant	100	Ordinary	UK <sup>1</sup>
Aldermore Invoice Finance Limited (Company number 02483505)	Dormant	100	Ordinary	UK <sup>1</sup>
Aldermore Invoice Finance (Oxford) Limited (Company number 02129734)	Dormant	100	Ordinary	UK <sup>1</sup>
AR Audit Services Limited (Company number 09495046)	Dormant	100	Ordinary	UK <sup>2</sup>
<b>Securitisation vehicles</b>				
Oak No.1 Mortgage Holdings Limited	Holding company for securitisation vehicle	*	*	UK <sup>3</sup>
Oak No.1PLC	Securitisation vehicle	*	*	UK <sup>3</sup>

\* 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.

<sup>1</sup> Registered address 1st Floor, Block B, Western House Lynch Wood, Peterborough, PE2 6FZ

<sup>2</sup> Registered address 4th Floor, Block D Apex Plaza, Forbury Road, Reading, United Kingdom, RG11AX

<sup>3</sup> Registered address 35 Great St. Helen's, London, EC3A 6AP

## 22. 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 as at 31 December 2016 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Recognised in equity £m	Balance as at 30 June 2018 £m
<b>Period ended 30 June 2018</b>					
Capital allowances less than depreciation	11.3	(8.3)	—	—	3.0
Available for sale debt securities transition adjustment	(0.2)	(0.3)	—	—	(0.5)
(Gains)/Losses on available for sale debt securities recognised through other comprehensive income	(1.0)	0.5	0.2	—	(0.3)
Other temporary differences	(0.8)	0.3	—	—	(0.5)
Share-based payment timing differences	1.9	(1.9)	—	—	—
	<b>11.2</b>	<b>(9.7)</b>	<b>0.2</b>	<b>—</b>	<b>1.7</b>

## Financial statements

## Notes to the consolidated financial statements continued

### 22. Deferred tax asset continued

	Balance as at 31 December 2016 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Recognised in equity £m	Balance as at 30 June 2018 £m
<b>Year ended 31 December 2016</b>					
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
	<b>16.4</b>	<b>(4.3)</b>	<b>(1.0)</b>	<b>0.1</b>	<b>11.2</b>

The deferred tax asset at 30 June 2018 of £1.7 million has been calculated at an overall rate of 23.86%. This is based on substantively enacted tax rates at the balance sheet date. These are expected to apply when the temporary differences giving rise to the deferred tax are expected to reverse. The deferred tax asset relates largely to temporary differences between capital allowances and depreciation.

Reduction in the UK corporation tax rate from 18% to 17% from 1 April 2020 was substantively enacted on 15 September 2016.

There were no unrecognised deferred tax balances at 30 June 2018 (31 December 2016: £nil).

### 23. Investment in associates

The Group acquired a 48% stake in AFS Group Holdings Limited on 28 September 2017 in exchange for consideration of £4.8 million. £3.8 million was paid in September 2017 with two tranches of £0.5 million deferred and held in an escrow account until 2018 and 2019, subject to certain targets being met. Details of the Group's material associate at the end of the reporting period is as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest/voting rights held by the Group 30 June 2018
AFS Group Holdings Ltd	Financial Services Intermediary	UK	48%

The above associate is accounted for using the equity method in these consolidated financial statements. The carrying amount of the investment as at 30 June 2018 is £5.1 million. This includes a £0.3 million Share of Profit of Associate which has been recognised in the Consolidated Income Statement for the period ended 30 June 2018.

The financial year end date of AFS Group Holdings Limited is 30 April. For the purposes of applying the equity method of accounting, the management accounts of AFS Group Holdings Limited for the 12 months ended 30 April 2018 have been used.

Summarised financial information in respect of the associate is set out below. The summarised financial information below represents amounts shown in the associate's management accounts for the 12 months ended 30 April 2018 (adjusted by the Group for equity accounting purposes).

#### AFS Group Holdings Limited

	As at 30 April 2018 £m
Current assets	2.9
Non-current assets	0.1
Current liabilities	1.7
Non-current liabilities	0.1

## 23. Investment in associates continued

### AFS Group Holdings Limited

	Period from 28 September 2017 to 30 April 2018 £m
Revenue	7.0
Profit from continuing operations	0.6
Profit for the period	0.6
Other comprehensive income for the period	–
Total comprehensive income for the period	0.6
Dividends received from the associate during the period	–

A reconciliation of the above summarised financial information to the carrying amount of the interest in AFS Group Holdings Limited recognised in the consolidated financial statements is shown below.

	AFS Group Holdings Limited £m
Net assets of the associate	1.2
Proportion of the Group's ownership interest in the Associate	48%
Goodwill	4.5
Carrying amount of the Group's interest in the associate	5.1

## 24. Intangible assets

	Computer Systems £m	Goodwill £m	Total £m
<b>Cost</b>			
1 January 2017	35.1	8.5	43.6
Additions	8.7	–	8.7
Write-off	(19.4)	–	(19.4)
<b>30 June 2018</b>	<b>24.4</b>	<b>8.5</b>	<b>32.9</b>
1 January 2016	24.8	12.6	37.4
Additions	10.3	–	10.3
Write-off	–	(4.1)	(4.1)
<b>31 December 2016</b>	<b>35.1</b>	<b>8.5</b>	<b>43.6</b>
<b>Amortisation</b>			
1 January 2017	17.5	–	17.5
Charge for the year	6.2	–	6.2
Write-off	(5.2)	–	(5.2)
<b>30 June 2018</b>	<b>18.5</b>	<b>–</b>	<b>18.5</b>
1 January 2016	13.4	–	13.4
Charge for the year	4.1	–	4.1
<b>31 December 2016</b>	<b>17.5</b>	<b>–</b>	<b>17.5</b>
<b>Net book value</b>			
<b>30 June 2018</b>	<b>5.9</b>	<b>8.5</b>	<b>14.4</b>
31 December 2016	17.6	8.5	26.1

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## Notes to the consolidated financial statements continued

### 24. Intangible assets continued

During the period a number of intangible assets were identified as no longer fulfilling any ongoing economic benefit to the Group. As such it was deemed appropriate to fully impair these intangible assets, resulting in an impairment charge to the income statement for the period ending 30 June 2018 of £14.2 million.

The Goodwill disclosed above relates to the SME Commercial Mortgages segment. 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 30 June 2018 has been determined in a similar manner as at 31 December 2016.

#### 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 2016: the five year business plan). Cash flows after the planning period were extrapolated using a constant growth rate of 2% (31 December 2016: 2%) into perpetuity.
- A pre-tax discount rate of 14.1% (31 December 2016: 13.0%) 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.

### 25. Amounts due to banks

	30 June 2018 £m	31 December 2016 £m
<b>Amounts repayable within 12 months:</b>		
Due to banks – repurchase agreements	–	354.8
Due to banks – deposits	–	0.7
Cash collateral received on derivatives	5.1	2.2
Due to banks – central banks – Term Funding Scheme interest accrual	2.1	–
	<b>7.2</b>	<b>357.7</b>
<b>Amounts repayable after 12 months:</b>		
Due to banks – central banks – Term Funding Scheme	1,671.0	396.1
	<b>1,678.2</b>	<b>753.8</b>

#### (a) Collateral given under repurchase agreements

The face value of securities sold under agreements to repurchase at 30 June 2018 was £nil (31 December 2016: £355.0 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 20.



## 26. Customers' accounts

	30 June 2018 £m	31 December 2016 £m
Retail deposits	5,163.4	4,766.8
SME deposits	1,997.9	1,647.2
Corporate deposits	615.0	259.7
	<b>7,776.3</b>	<b>6,673.7</b>
Amounts repayable within one year	6,786.9	5,397.1
Amounts repayable after one year	989.4	1,276.6
	<b>7,776.3</b>	<b>6,673.7</b>

## 27. Other liabilities

	30 June 2018 £m	31 December 2016 £m
<b>Amounts payable within 12 months:</b>		
Amounts payable to Invoice Finance customers	9.9	10.5
Other taxation and social security costs	1.9	4.1
Trade creditors	9.5	3.3
Other payables	2.3	7.1
	<b>23.6</b>	<b>25.0</b>

## 28. Accruals and deferred income

	30 June 2018 £m	31 December 2016 £m
<b>Amounts payable within 12 months:</b>		
Accruals	30.1	26.4
Deferred income	4.4	0.6
	<b>34.5</b>	<b>27.0</b>

## 29. Provisions

	Financial Services Compensation Scheme £m
1 January 2017	0.8
Utilised during the period	(1.0)
Provided during the period	1.2
<b>30 June 2018</b>	<b>1.0</b>
1 January 2016	1.1
Utilised during the year	(1.1)
Provided during the year	0.8
<b>31 December 2016</b>	<b>0.8</b>

### 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 30 June 2018 of £1.0 million (31 December 2016: £0.8 million) represents the interest element of the compensation levy for the 2017/2018 scheme year (31 December 2016: interest levy for the 2016/2017 scheme year).

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## Notes to the consolidated financial statements continued

### 30. Debt securities in issue

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

	30 June 2018 £m	31 December 2016 £m
Debt securities in issue	<b>77.9</b>	<b>130.6</b>

Debt securities in issue with a principal value of £78.0 million (31 December 2016: £131.2 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. The final maturity date is February 2052, with a call option exercisable on the notes falling due in May 2019. There is no obligation for the Group to make good any shortfall. Further disclosure relating to the underlying assets is contained in Note 20.

### 31. Subordinated notes

	30 June 2018 £m	31 December 2016 £m
Subordinated notes	<b>60.5</b>	<b>100.0</b>

On 28 October 2016, the Group issued £60 million subordinated 8.50% 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%. Unamortised issue costs of £0.4 million are included in the above balance (31 December 2016: £0.6 million).

In May 2017, the Group exercised its option to require the holders of the £40 million subordinated 12.875% loan notes issued in 2012 to redeem the notes at par value.

### 32. Financing activity

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	As at 31 December 2016 £m	Financing cash flows—repayment of debt £m	Financing cash flows—interest paid on debt £m	Non-cash changes—Interest expense per Income Statement £m	As at 30 June 2018 £m
Debt Securities in Issue—Note 30	130.6	(53.1)	(1.7)	2.1	77.9
Subordinated notes—Note 31	100.0	(40.0)	(10.2)	10.7	60.5

### 33. Share capital

Type	30 June 2018 £m	31 December 2016 £m
Ordinary shares of £0.10 each	34.9	34.5
	<b>34.9</b>	<b>34.5</b>

During the period, an additional 180,654 shares were allotted to an employee benefit trust ("EBT") in order to satisfy the vesting of nil-cost options granted under the Deferred Share Plan ("DSP").

An additional 3,443,054 shares were allotted to the same EBT on completion of the takeover of Aldermore Group PLC by FirstRand in March 2018 in order to satisfy the vesting of awards granted under the Company's various share schemes (see note 35 for more detail of number of options vesting). Following the takeover, all shares held by the EBT were released to participants. As at 30 June 2018, the EBT held no shares (31 December 2016: 466,179 shares) which had not vested. These were previously recorded as a deduction from retained earnings.

On the takeover of Aldermore Group PLC by FirstRand 630,513 shares were allotted in respect of options exercised under the three invitations to join the Sharesave Plan. These shares were allotted at the option prices of £2.52 for the 2015 plan, £1.54 for the 2016 plan, and £2.00 for the 2017 plan.

As at 30 June 2018, there were 348,993,805 ordinary £0.10 shares in issue resulting in share capital of £34,899,381 (31 December 2016: 344,739,584 and £34,473,958 respectively).

### 34. Share-based payments

The table below shows the charge to the income statement:

	30 June 2018 £m	31 December 2016 £m
Share plans issued in 2015	1.2	2.0
Share plans issued in 2016	1.9	1.5
Share plans issued in period ending 30 June 2018	2.5	–
<b>Total share-based payment charge</b>	<b>5.6</b>	<b>3.5</b>

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## Notes to the consolidated financial statements continued

### 34. Share-based payments continued

The below table summarises share awards which were active in the 18 months ended 30 June 2018.

Plan	Eligible employees	Nature of award	Vesting conditions	Grant dates	Vesting date
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 & 2017	2018 <sup>3</sup>
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	Lapsed in 2016
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	2018 <sup>2</sup>
d) Restricted Share Plan	Selected senior employees	Conditional share award	Continuing employment or leaving in certain limited circumstances	2015, 2016 & 2017	2018 <sup>3</sup>
e) Recruitment Award	Selected senior employees	Conditional share award	Continuing employment or leaving in certain limited circumstances	2016	2018 <sup>2</sup>
f) 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 & 2017	See (f) below
g) Deferred Share Plan	Selected senior employees	Deferred conditional share award	Continuing employment or leavers in certain limited circumstances	2016 & 2017 <sup>1</sup>	March 2018 <sup>2</sup>
h) Transition Award	Selected senior employees	Conditional cash settled award	Continuing employment or leaving in certain limited circumstances	2018	Between 2019 & 2020

<sup>1</sup> Grants under the Deferred Share Plan were made the year following the financial year to which they relate.

<sup>2</sup> Outstanding awards on Court Sanction date vested in full.

<sup>3</sup> Outstanding awards on Court Sanction date vested on a time pro-rated basis, calculated with reference to the number of completed months from the date that the awards were granted to the Court sanction date. Lapsed shares were rolled over into a new cash-settled "Transition Award".

The terms of the schemes are as follows:

#### a) Performance Share Plan

The Performance Share Plan ("PSP") was open to senior employees including the Executive team. Awards were made under the plan over three years as per the table above. In order for awards to vest, individuals were required to remain in employment for three years following the grant date and the awards were subject to a two-year holding period following the required employment date.

Awards under the PSP were subject to performance conditions set by the Remuneration Committee and determined the extent to which awards became available to individuals. Performance conditions for the PSP awards related 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.

In addition, there were "underpin" performance conditions which had to be met in relation to both elements of the award and the result achieved had to 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 was required to be equal to or greater than the TSR of the median company of FTSE 350 companies, excluding Investment Trusts and the Company itself.

PSP awards vested on the Court sanctioning the Scheme of Arrangement by which the FirstRand transaction was effected. The vesting of the awards was subject to pro-rating for time and performance. Following review, the Remuneration Committee determined that the performance conditions had been met to the extent set out below:

	% of TSR element achieved	% of EPS element achieved
2015 award	54	86
2016 award	77	100
2017 award	100	100

#### 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, 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 the 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, whilst there was also an underpin whereby the Remuneration Committee would determine whether 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 were due to become exercisable on 31 December 2018 and were contingent on employment to this date, with time pro-rating being applied to the awards of leavers (for the period of service between 31 December 2016 and 31 December 2018 as a proportion of the full two-year holding period). However, if the individual ceased employment because of misconduct the whole award would lapse. Following the takeover of Aldermore Group PLC by FirstRand in March 2018, outstanding awards vested in full on the Court Sanction date (other than for leavers as set out above).

The amendment was made in the 12 months ended 31 December 2016 and the total incremental fair value arising from the modification of the awards is £1,188,000. £784,000 was reflected in the income statement for the period ended 30 June 2018 (31 December 2016: £16,000). The remainder of the anticipated fair value was not expensed due to the impact of lapsed awards in the period.

#### d) Restricted Share Plan

The Restricted Share Plan ("RSP") was open to a small number of senior employees engaged in risk and control functions. There was a requirement for individuals to remain in employment for three years following the grant date, following which the awards were subject to a two-year holding period. There were no financial performance conditions attached to the awards under the RSP. Following the takeover of Aldermore Group PLC by FirstRand in March 2018, outstanding awards vested on the Court Sanction date following the application of time pro-rating.

#### 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 were no performance conditions attached to this award. The award was due to be released in four tranches with twenty per cent vesting on each of the first, second and third anniversaries of the grant date and 40% on the fourth anniversary of the award. Following the takeover of Aldermore Group PLC by FirstRand in March 2018, the outstanding awards vested in full on the Court Sanction date.

#### f) Sharesave Plan

All employees were eligible to participate in the Group's annual invitation to join the Sharesave Plan. Individuals in the Plan contributed a set amount each month for three years. At the end of the savings period, participants had the option to buy shares in Aldermore Group PLC at an option price which was fixed at the grant date.

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

Prior to the completion of the takeover, all participants in the Sharesave Plan were given the opportunity to use the savings in their accounts to purchase Aldermore Shares at the Option price set at the start of the relevant invitation. The Aldermore

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## Notes to the consolidated financial statements

### continued

#### 34. Share-based payments continued

Shares were subsequently sold to FirstRand who paid the participant 313 pence in cash for each Aldermore Share. Alternatively, participants could elect to continue saving after the takeover and exercise their Option within the six-month period following the Court sanction of the Scheme. Again, these shares would be sold to FirstRand for 313 pence per Aldermore Share.

Those participants who took up the 2015 and 2016 invitations to join the Sharesave Plan were eligible to receive a compensation payment in respect of options that lapsed as a result of their Option being exercised ahead of the usual maturity date (provided that they elected to exercise their Option ahead of the Court Sanction date).

#### g) Deferred Share Plan

The Deferred Share Plan ("DSP") was open to senior employees, including the Executive team, and represented the portion of awards under the Annual Incentive Plan that was deferred to align the interests of senior employees and the Executive team with shareholders. The awards were due to vest in tranches of one-third on the first, second and third anniversary of the award date, subject to continued employment. There were no performance conditions attached to the awards made under the DSP.

Share awards representing the deferred element of the 2016 bonus payments, with a grant date fair value of £1.4 million, were granted in March 2017. Following the takeover of Aldermore Group PLC by FirstRand in March 2018, the outstanding awards vested in full on the Court Sanction date.

#### h) Transition Award

The shares under PSP and RSP awards which lapsed as a result of the application of time pro-rating were rolled over into cash-settled Transition Awards. The Transition Awards are accounted for as a cash-settled share based payment under IFRS 2, with a liability accruing on the Statement of Financial Position. The fair value is remeasured at the end of each reporting period, with changes to fair value recognised in profit or loss. The liability held on the Statement of Financial Position for the Transition Award as at 30 June 2018 was £0.8 million.

#### 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 30 June 2018:

Plan	Awards outstanding at 1 January 2017	Awards / options granted	Awards / options forfeited	Awards / options expired	Awards / options vested	Awards outstanding at 30 June 2018 Number	Average fair value per award granted during the period at grant date (rounded)
Performance Share Plan	2,639,937	700,126	(283,483)	(1,334,210)	(1,722,370)	–	£1.88
"Top Up" Pre IPO Award under the PSP	513,589	–	(129,968)	–	(383,621)	–	–
Restricted Share Plan	256,993	553,503	(33,608)	(432,293)	(344,595)	–	£2.22
Recruitment Award	466,179	–	–	–	(466,179)	–	–
Sharesave Plan	1,550,471	421,722	(292,120)	(952,450)	(630,513)	97,110	£1.04
Deferred Share Plan	541,987	648,805	(145,320)	–	(1,045,472)	–	£2.22
Transition Award	–	1,279,202	(11,996)	–	–	1,267,206	£3.13
<b>Total</b>	<b>5,969,156</b>	<b>3,603,358</b>	<b>(896,495)</b>	<b>(2,718,953)</b>	<b>(4,592,750)</b>	<b>1,364,316</b>	

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)
Performance Share Plan	1,406,231	1,526,448	(292,742)	–	–	2,639,937	£1.46
Pre-IPO award under the PSP	6,920,420	–	(134,274)	(6,786,146)	–	–	£0.31
"Top Up" Pre IPO Award under the PSP	513,589	–	–	–	–	513,589	£2.31
Restricted Share Plan	105,753	175,875	(24,635)	–	–	256,993	£2.09
Recruitment Award	–	466,179	–	–	–	466,179	£1.91
Sharesave Plan	794,966	1,379,516	(624,011)	–	–	1,550,471	£0.73
Deferred Share Plan	–	543,837	(1,850)	–	–	541,987	£2.28
<b>Total</b>	<b>9,740,959</b>	<b>4,091,855</b>	<b>(1,077,512)</b>	<b>(6,786,146)</b>	<b>–</b>	<b>5,969,156</b>	

## Determination of grant date fair values

Share awards were not entitled to dividends until the awards vested, but the number of shares subject to vested PSP, RSP and DSP awards increased to reflect the value of dividends that would have been paid up to the end of the holding period for the awards. This was designed to deliver a benefit similar to that which ordinary shareholders may have received 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 was taken as the market value of the Company's ordinary shares at the grant date.

In respect of awards for which there were non-market performance conditions (e.g. EPS), the grant date fair value per award was taken as the market value of an ordinary share at the grant date. A forecast was 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 were market performance conditions (e.g. TSR), the grant date fair value of each award was 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:

	<b>PSP 2017</b>
Ordinary share price	£2.23
Risk-free rate	0.20% 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	52% <sup>1</sup>
Annual volatility (of logarithm of TSR) for median of FTSE 350 (excluding Investment Trust companies) (based on five years' data)	40% <sup>1</sup>
Correlation between volatilities	None

<sup>1</sup> Based on Aldermore Group PLC share price volatility annualised, from date of listing (13 March 2015) to the grant date (21 March 2017) there was an expected volatility of 52%. However 40% was used based on an expectation at the time that volatility would fall towards more normal levels for the FTSE 350.

## 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:

	<b>2017 Sharesave plan</b>
Share price at grant date	£2.56
Exercise price	£2.00
Risk-free rate	0.57% p.a.
Expected volatility of Company share price	45% <sup>1</sup>
Expected life	3.14 years

<sup>1</sup> Based on Aldermore Group PLC share price volatility annualised, from the date of listing (13 March 2015) to the grant date (12 October 2017).

## 35. Contingent convertible securities

	<b>30 June 2018 £m</b>	31 December 2016 £m
Contingent convertible securities	<b>74.0</b>	<b>74.0</b>

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.

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## Notes to the consolidated financial statements continued

### 35. Contingent convertible securities continued

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.

### 36. Statement of cash flows

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

	30 June 2018 £m	31 December 2016 £m
Depreciation and amortisation	8.4	5.3
Impairment of intangibles and goodwill	14.2	4.1
Amortisation of securitisation issuance cost	0.5	0.4
Discount accretion on subordinated notes	–	1.6
Impairment losses on loans and advances	19.5	15.5
Unwind of discounting	(6.8)	(3.4)
Write-offs net of recoveries	(14.9)	(5.4)
Losses/(gains) on hedged available for sale debt securities recognised in profit or loss	8.6	(2.1)
Net gains on disposal of available for sale debt securities	(1.2)	(3.8)
Interest expense on subordinated notes	10.7	6.1
Interest income on debt securities	(14.5)	(12.4)
Interest expense on debt securities in issue	1.6	1.9
Share of profit of associate	(0.3)	–
Equity settled share-based payment charge	4.9	3.5
	<b>30.7</b>	<b>11.3</b>

#### (b) Increase in operating assets

	30 June 2018 £m	31 December 2016 £m
Loans and advances to customers	(1,511.0)	(1,339.2)
Loans and advances to banks	(12.3)	9.5
Derivative financial instruments	(10.3)	(5.7)
Fair value adjustments for portfolio hedged risk	12.2	4.6
Other operating assets	(12.7)	(2.0)
	<b>(1,534.1)</b>	<b>(1,332.8)</b>



**(c) Increase in operating liabilities**

	<b>30 June 2018 £m</b>	31 December 2016 £m
Amounts due to banks	924.4	348.7
Customers' accounts	1,102.6	931.7
Derivative financial instruments	(19.1)	0.4
Fair value adjustments for portfolio hedged risk	1.4	(0.4)
Other operating liabilities	6.3	4.1
	<b>2,015.6</b>	<b>1,284.5</b>

**(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.

	<b>2018 £m</b>	2016 £m
Cash and balances at central banks	508.8	116.4
Less restricted balances	(16.3)	(9.6)
Loans and advances to banks	52.2	34.1
	<b>544.7</b>	<b>140.9</b>

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 30 June 2018 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 2016: £10.9 million).

## Financial statements

## Notes to the consolidated financial statements continued

### 37. Commitments and contingencies

At 30 June 2018, the Group had undrawn commitments to lend of £442.8 million (31 December 2016: £715.3 million). These relate mostly to irrevocable lines of credit granted to customers. Note the December 2016 comparative has been adjusted to exclude revocable commitments (where there is no firm commitment to lend) in order to align with the figure reported for the period ending 30 June 2018.

The reduction in undrawn commitments to lend is driven by a reduction in the BTL pipeline as at 30 June 2018 compared with 31 December 2016. Buy-to-Let pipeline at 31 December 2016 reflected the impending tax changes on BTL properties which were effective from 6th April 2017.

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

	<b>30 June 2018 £m</b>	31 December 2016 £m
<b>Land and buildings</b>		
In less than one year	2.8	1.9
Between one and five years	8.7	5.4
More than five years	3.7	1.6
	<b>15.2</b>	<b>8.9</b>
<b>Equipment</b>		
In less than one year	0.3	0.2
Between one and five years	0.6	—
	<b>0.9</b>	<b>0.2</b>

At 30 June 2018, the majority of operating leases for equipment related to 36 cars that the Group held under lease (31 December 2016: 64). The majority of these leases are due to expire in 2021.

### 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.

## 38. Related parties

### (a) Controlling parties

Until the purchase by FirstRand International Guernsey Limited in March 2018, 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 5.21%, 6.89%, 7.05% and 5.97% of the Company's ordinary share capital respectively. Although the Principal Shareholders were no longer a controlling party for the Group they continued to have significant influence and are therefore considered to be a related party for the period ending 30 June 2018 from 1 January 2017 until 14 March 2018.

FirstRand International Guernsey Limited acquired 100% of the share capital of Aldermore Group PLC in March 2018. They therefore became the immediate parent of Aldermore Group PLC. FirstRand International Limited is a company incorporated in Guernsey (registered number 17166), and is a wholly owned subsidiary of FirstRand Limited a company incorporated in South Africa (registered number 1929/001225/06) and the ultimate parent.

During the period to 30 June 2018, the Group also incurred fees of £30,000 (2016: £nil) in relation to the Directors who represent the ultimate parent company. Prior to the FirstRand International Guernsey Limited acquisition the Group incurred fees of £0.1 million in relation to the Directors who represented the principal shareholders until March 2018 (2016: £0.1 million).

### b) Associates

During the period from 28 September to 30 June 2018, the Group held a 48% holding in AFS Group Holdings Limited. During this period the Group paid commission of £1.4 million to the associate.

### c) 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:

	30 June 2018 £'000	31 December 2016 £'000
Emoluments	7,938.8	5,207.8
Payments in respect of personal pension plans	181.3	104.4
Contributions to money purchase scheme	59.3	37.3
Termination benefits	780.0	1,161.9
Share-based payments	2,365.2	2,439.1
	<b>11,324.6</b>	<b>8,950.5</b>

## Notes to the consolidated financial statements continued

### 38. Related parties continued

The Group made payments of £59,300 in aggregate in respect of two key persons' money purchase schemes during the period ended 30 June 2018 (31 December 2016: £37,300, four key persons).

Key persons' emoluments includes £2.4 million of deferred bonus (31 December 2016: £1.0 million).

#### Share-based payments ("SBP")

During 2017 KMP were granted awards over 1,817,012 shares. Further details of the share schemes, including performance conditions are provided in Note 34. In addition, a number of KMP participated in the Sharesave Plan, holding options over a total of 88,828 shares at 31 December 2017. Following the acquisition by FirstRand International Ltd all the share schemes, including the Sharesave Plan, vested and the shares were acquired for cash from the individuals. As per note 34, the shares under PSP and RSP awards which lapsed as a result of the application of time pro-rating were rolled over into cash-settled Transition Awards.

#### 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:

	<b>30 June 2018 £'000</b>	31 December 2016 £'000
Deposits		
At 1 January	965.5	2,019.2
Net movement	(116.6)	(1,053.7)
At 30 June/31 December	<b>848.9</b>	<b>965.5</b>

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

At 30 June 2018, there are no loans held with KMP (31 December 2016: one loan, £40,000). All current transactions, loans and deposits, with KMP are conducted through the ordinary course of business with the Group. All deposit arrangements have been operated by the Group on commercial terms and conditions.



## Financial statements

## Notes to the consolidated financial statements continued

### 39. Financial instruments and fair values continued

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. 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.

	30 June 2018		31 December 2016	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and balances at central banks	508.8	508.8	116.4	116.4
Loans and advances to banks	96.6	96.6	67.2	67.2
Loans and advances to customers	8,990.5	8,979.4	7,477.3	7,613.0
Other assets	6.2	6.2	2.9	2.9
<b>Total financial assets</b>	<b>9,602.1</b>	<b>9,591.0</b>	<b>7,663.8</b>	<b>7,799.5</b>
Amounts due to banks	1,678.2	1,678.2	753.8	753.8
Customers' accounts	7,776.3	7,778.8	6,673.7	6,705.9
Other liabilities	21.8	21.8	20.9	20.9
Debt securities in issue	77.9	78.3	130.6	131.9
Subordinated notes	60.5	61.9	100.0	101.8
<b>Total financial liabilities</b>	<b>9,614.7</b>	<b>9,619.0</b>	<b>7,679.0</b>	<b>7,714.3</b>

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. Incurred loss provisions are deducted from the fair value amounts, as well as adjustments for changes in future credit risk.

#### (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.

**(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 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:

	Level1 £m	Level2 £m	Level3 £m	Total £m
<b>30 June 2018</b>				
<b>Financial assets:</b>				
Derivatives held for risk management	–	22.7	–	22.7
<b>Debt securities:</b>				
Asset-backed securities	–	30.1	–	30.1
UK Gilts and Supranational bonds	482.2	–	–	482.2
Corporate bonds	–	–	–	–
Covered bonds	280.0	–	–	280.0
	<b>762.2</b>	<b>52.8</b>	<b>–</b>	<b>815.0</b>
<b>Financial liabilities:</b>				
Derivatives held for risk management	–	16.7	–	16.7
	<b>–</b>	<b>16.7</b>	<b>–</b>	<b>16.7</b>
<b>31 December 2016</b>				
<b>Financial assets:</b>				
Derivatives held for risk management	–	12.4	–	12.4
<b>Debt securities:</b>				
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
	<b>594.1</b>	<b>82.8</b>	<b>–</b>	<b>676.9</b>
<b>Financial liabilities:</b>				
Derivatives held for risk management	–	35.8	–	35.8
	<b>–</b>	<b>35.8</b>	<b>–</b>	<b>35.8</b>

## Notes to the consolidated financial statements continued

### 39. Financial instruments and fair values continued

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.



The results of the securitisation vehicle listed in Note 30 are consolidated into the results of the Group. The table below shows the carrying values 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.

	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
<b>30 June 2018</b>					
<b>Oak No. 1 PLC</b>	<b>103.2</b>	<b>77.9</b>	<b>110.8</b>	<b>78.3</b>	<b>32.5</b>
	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
<b>31 December 2016</b>					
<b>Oak No. 1 PLC</b>	<b>148.7</b>	<b>130.6</b>	<b>155.0</b>	<b>131.9</b>	<b>23.1</b>

#### 40. 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 21 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	30 June 2018 £m	31 December 2016 £m
Total operating income	UK	<b>467.4</b>	267.5
Profit before tax	UK	<b>195.3</b>	128.7
Corporation tax (paid)	UK	<b>(44.9)</b>	(31.5)
Employees (average FTE equivalent)	UK	<b>936</b>	874

#### 41. Post balance sheet events

The Directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

## Financial statements

## The Company statement of financial position

### As at 30 June 2018

	Note	30 June 2018 £m	31 December 2016 £m
<b>Assets</b>			
Loans and advances to banks	3	1.0	0.8
Investment in Group undertakings	4	419.9	415.0
Investment in associated companies	6	4.8	–
Amounts receivable from Group undertakings	7	60.9	60.9
<b>Total assets</b>		<b>486.6</b>	<b>476.7</b>
<b>Liabilities</b>			
Other liabilities		0.2	–
Amounts payable to Group undertakings	8	20.4	0.9
Subordinated notes	9	60.9	60.9
<b>Total liabilities</b>		<b>81.5</b>	<b>61.8</b>
<b>Equity</b>			
Share capital	10	34.9	34.5
Share premium account	10	74.4	73.4
Contingent convertible securities	12	74.0	74.0
Capital redemption reserve		0.1	0.1
Share-based payment reserve	11	–	6.9
Retained earnings		221.7	226.0
<b>Total equity</b>		<b>405.1</b>	<b>414.9</b>
<b>Total liabilities and equity</b>		<b>486.6</b>	<b>476.7</b>

The notes and information on pages 123 to 125 form part of these financial statements.


Aldermore Group PLC loss for the period ended 30 June 2018 was £1.6 million (31 December 2016: profit of £6.5 million).

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



**Phillip Monks**  
Director

31 August 2018



**James Mack**  
Director

Registered number: 06764335

## The Company statement of cash flows

### For the period ended 30 June 2018

	Note	30 June 2018 £m	31 December 2016 £m
<b>Cash flows from operating activities</b>			
Profit before taxation	2	1.1	6.5
Decrease in operating assets		–	0.4
Increase in operating liabilities		0.2	–
Adjustments for non-cash items within the income statement		0.1	–
<b>Net cash flows generated from operating activities</b>		<b>1.4</b>	<b>6.9</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment in an associate	6	(4.8)	–
<b>Net cash used in investing activities</b>		<b>(4.8)</b>	<b>–</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	10	1.0	–
Proceeds from subordinated notes	9	–	60.0
Issue of subordinated notes	9	–	(60.0)
Interest received on subordinated loan	9	7.6	0.9
Interest paid on subordinated loan	9	(7.6)	(0.9)
Loan received from Bank for the purchase of treasury shares		–	0.9
Purchase of treasury shares		–	(0.9)
Coupon paid on contingent convertible securities		(17.8)	(6.6)
Proceeds received on new intercompany loan raised	8	20.4	–
<b>Net cash from/(used in) financing activities</b>		<b>3.6</b>	<b>(6.6)</b>
<b>Net increase in cash and cash equivalents</b>		<b>0.2</b>	<b>0.3</b>
Cash and cash equivalents at start of the year	3	0.8	0.5
Movement during the year		0.2	0.3
<b>Cash and cash equivalents at end of the year</b>		<b>1.0</b>	<b>0.8</b>

## Financial statements

## The Company statement of changes in equity

### For the period ended 30 June 2018

	Share capital £m	Share premium account £m	Contingent convertible securities £m	Capital redemption reserve £m	Share-based payment reserve £m	Retained earnings £m	Total £m
<b>Period ended 30 June 2018</b>							
<b>As at 1 January 2017</b>	34.5	73.4	74.0	0.1	6.9	226.0	414.9
Loss for the period	–	–	–	–	–	(1.6)	(1.6)
– Share-based payments, including tax reflected directly in retained earnings	–	–	–	–	4.9	–	4.9
– Coupon paid on contingent convertible securities issue costs	–	–	–	–	–	(15.0)	(15.0)
– Exercise of share options	0.4	1.0	–	–	–	(0.4)	1.0
– Release of loan payable by the Employee Benefit Trust	–	–	–	–	–	0.9	0.9
– Transfer of share based payment reserve to retained earnings	–	–	–	–	(11.8)	11.8	–
<b>As at 30 June 2018</b>	<b>34.9</b>	<b>74.4</b>	<b>74.0</b>	<b>0.1</b>	<b>–</b>	<b>221.7</b>	<b>405.1</b>
<b>Year ended 31 December 2016</b>							
<b>As at 1 January</b>	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)
<b>As at 31 December</b>	<b>34.5</b>	<b>73.4</b>	<b>74.0</b>	<b>0.1</b>	<b>6.9</b>	<b>226.0</b>	<b>414.9</b>

# 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.

### 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.

	30 June 2018 £m	31 December 2016 £m
Net (loss)/profit attributable to equity shareholders of the Company	<b>(1.6)</b>	<b>6.5</b>

## 3. Loans and advances to banks

	30 June 2018 £m	31 December 2016 £m
Repayable on demand	<b>1.0</b>	<b>0.8</b>

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

	30 June 2018 £m	31 December 2016 £m
<b>As at 1 January</b>	415.0	411.5
Capital contributions – Share-based payments	4.9	3.5
<b>As at Period End</b>	<b>419.9</b>	<b>415.0</b>

As at 30 June 2018, £nil investments (31 December 2016: £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 21 to the consolidated financial statements.

All the companies listed in Note 21 to the consolidated financial statements are related parties to the Company.

## Financial statements

## Notes to the Company financial statements continued

### Additional Tier 1 Perpetual Loan

On 9 December 2014, the Company made 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 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 38 to the consolidated financial statements.

### 6. Investment in associated companies

	30 June 2018 £m	31 December 2016 £m
Investment in AFS Group Holdings Limited	4.8	—
	<b>4.8</b>	<b>—</b>

Details of the acquisition of the associate can be found in note 23 to the consolidated financial statements. Aldermore Group PLC transferred consideration via Aldermore Bank PLC, with two tranches of £0.5 million deferred and held in an escrow account in Aldermore Bank PLC until 2018 and 2019, subject to certain targets being met.

### 7. Amounts receivable from Group undertakings

	30 June 2018 £m	31 December 2016 £m
Subordinated loan to Aldermore Bank PLC	60.9	60.9
	<b>60.9</b>	<b>60.9</b>

On the 28 October 2016, the Company made a £60 million subordinated 8.50% 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.

### 8. Amounts payable to Group undertakings

	30 June 2018 £m	31 December 2016 £m
Employee Benefit Trust	—	0.9
Intercompany loans from Aldermore Bank PLC	20.4	—
	<b>20.4</b>	<b>0.9</b>

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 34 of the consolidated financial statements. Following the vesting of the executive share awards in 2018 this loan was forgiven in 2018.

Amounts payable to Aldermore Bank PLC carry interest of between 1.0% per annum above LIBOR to 1.30% per annum above LIBOR charged on the outstanding loan balances.

### 9. Subordinated notes

	30 June 2018 £m	31 December 2016 £m
Subordinated notes	60.9	60.9

On 28 October 2016, the Company issued £60 million subordinated 8.50% 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. Issue costs of £0.4 million (31 December 2016: £0.6 million) are held in Aldermore Bank PLC.

### 10. Share capital

Details of share capital and share premium account of the Company are provided in Note 33 to the consolidated financial statements.

## 11. Share-based payments

Details of share-based payments issued by the Company and movements in the period are provided in Note 35 to the consolidated financial statements.

## 12. Contingent convertible securities

Details of the contingent convertible securities issued by the Company are provided in Note 36 to the consolidated financial statements.

## 13. 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 36 to 59 apply to the Company where relevant and therefore no additional disclosures are included in this note.

## 14. Fair value of financial assets and liabilities

The Directors consider that the fair value of its financial assets and liabilities, apart from its investments in Group undertakings and associates, are approximately equal to their carrying value. Accordingly no further disclosures in respect of fair values are provided. The investment in Aldermore Bank PLC is considered to be greater than the carrying value.

## 15. Controlling party information

Details of controlling party information of the Company are provided in Note 38a to the consolidated financial statements.

## 16. Post balance sheet events

The Directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

# Appendix



# Glossary

**AIP:** Annual Incentive Plan.

Annual bonus scheme that is open to selected senior employees.

**ALCO:** Asset and Liabilities Committee.

Responsible for managing the Group's exposure to capital, liquidity, interest rate and market risk.

**Allowance for impairment losses:** Allowances held against assets on the statement of financial position as a result of the raising of a charge against profit for the incurred losses in the lending book. The allowance represents management's best estimate of losses incurred in the loan portfolio at the reporting date.

**Annualised ratios:** Figures and Ratios over the 18 month accounting period scaled to a 12 month period.

**Arrears:** Customers are said to be in arrears or non-performing when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue. Corporate customers may also be considered non-performing prior to being behind in fulfilling their obligations. This can happen when a significant restructuring exercise begins.

**AT1 Capital:** See "Contingent Convertible Securities" below.

**Bank:** Aldermore Bank PLC, the principal subsidiary of Aldermore Group PLC. The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register Number: 204503). It is registered in England (company number: 00947662).

**Basel II:** A statement of best practice issued by the Basel Committee on Banking Supervision, that defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the then FSA Handbook.

**Basel III:** A strengthening of the requirements laid out in Basel II which has been phased into the Group from 2014 ahead of full implementation by 2022. Basel III is implemented within the European Union (including the UK) through CRD IV.

**Basis points (bps):** One hundredth of a per cent (0.01%). 100 basis points is 1%. It is used in quoting movements in interest rates or yields on securities.

**BBR:** Bank of England Base Rate.

**Board:** The Board of Directors of Aldermore Group PLC.

**Capital Requirements Directive (CRD IV):**

This encompasses the Capital Requirements Directive and the Capital Requirements Regulation (CRR) as well as the PRA's Policy Statement PS7/13: "Strengthening capital standards". CRD IV implements Basel III within the European Union (including the UK) and is a strengthening of the requirements laid out in Basel II.

**Capital Requirements Regulation (CRR):**

The European Union has implemented the Basel III capital proposals through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), collectively known as CRD IV. CRD IV was implemented on 1 January 2014.

**Capital resources:** Capital held, allowable under regulatory rules, less certain regulatory adjustments and deductions that are required to be made. Capital includes retained earnings, share capital and share premium.

**Capital risk:** The risk that the Group has insufficient capital to cover regulatory requirements and growth plans.

**CCA:** Consumer Credit Act.

**CET1:** See Fully Loaded CRD IV Common Equity Tier 1 (CET1) capital.

**CFP:** Contingency Funding Plan.

Outlines what actions the Group could take to ensure it complies with the liquidity adequacy rules, maintains sufficient capital and operated within its risk appetite and limits, as set and approved by the Board. Forms part of the Group's Recovery and Resolution Plan (see "RRP" below).

**CML:** Council of Mortgage Lenders, the main trade body representing UK mortgage lenders, of which Aldermore Bank PLC is a full member.

**Collateral:** A borrower's pledge, usually a property, which acts as security for repayment of the loan.

**Company:** Aldermore Group PLC as a standalone entity. Aldermore Group PLC is registered in England (company number: 06764335).

**Conduct risk:** The risk of detriment to the Group's customers due to the inappropriate execution of its business activities and processes.

**Contingent Convertible Securities:** Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities also referred to as AT1 Capital. The Group issued £75 million of AT1 securities on the Irish Stock Exchange on 9 December 2014.

**Cost of risk:** Cost of risk is defined as credit impairment losses divided by average gross loans for a given period.

**Cost/income ratio:** Administrative expenses including depreciation and amortisation divided by total operating income.

**Coverage ratio:** The proportion of individually impaired loans and advances that are covered by individual allowances for impairment losses.

**CRD IV:** The Fourth Capital Requirements Directive issued by the EU, intended to implement the Basel III agreement. Preceded by CRD III.

**Credit impairment:** Impairment losses on loans and advances to customers.

**Credit risk:** The risk of financial loss arising from a borrower failing to meet their financial obligations to the Group in accordance with agreed terms.

**Credit Support Annex (CSA):** The swap Credit Support Annex agreement requires the Group or a swap counterparty to hold cash in a deposit account, depending on whether the swap is in or out of the money.

**Customers' accounts:** Money deposited by individuals and companies that are not credit institutions. Such funds are recorded as liabilities in the Group's statement of financial position under "customers' accounts".

**Customers' deposits:** Monies our customers have deposited.

**Customers' numbers:** The number of customers selecting Aldermore for their savings or borrowing needs.

**Debt securities in issue:** Securities issued by the Group that are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicle, Oak No. 1 PLC.

**Derivative:** A financial instrument that has a value based on the expected future price movements of the instrument to which it is linked.

**DRR Regulations:** Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

# Glossary

## continued

**DSP:** Deferred Share Plan. A share plan under which a proportion of the annual bonus earned by selected senior employees was deferred into shares.

**Effective Interest Rate (EIR):** The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or financial liability. Calculation of the effective interest rate takes into account all contractual terms of the financial instrument but includes all amounts received or paid that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

**Emergence Period (EP):** The time between a trigger event occurring and the loans being identified as individually impaired.

**Expected loss (EL):** A measure of anticipated loss for exposures captured under an internal ratings based credit risk approach. The 12 month expected loss amount is the exposure, arising from a potential default of a counterparty, over the next 12 months in respect of the amount expected to be outstanding at default.

**Exposure at default (EaD):** An estimate of the amount expected to be owed by a customer at the time of a customer's default.

**Fair Value:** Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

**Financial Conduct Authority (FCA):** The FCA is responsible for the regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets.

**Financial instruments:** Any document with monetary value. Examples include cash and cash equivalents, but also securities such as bonds and stocks which have value and may be traded in exchange for money.

**Financial Services Compensation Scheme (FSCS):** The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers, up to a specified limit, if a firm is unable, or likely to be unable, to pay claims against it, usually because it

has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

**Forbearance:** Forbearance takes place when a concession is made on the contractual terms of a loan in response to borrowers' financial difficulties. Forbearance options are determined by assessing the customer's personal circumstances.

**Forced Sale Discount (FSD):** The difference in sale proceeds between a sale under normal conditions and a sale at auction.

**FTSE 250:** The share index consisting of the 101st to 350th largest company listed on the London Stock Exchange. Aldermore Group PLC was a member of the FTSE 250 from June 2015 until March 2018.

**Fully loaded CRD IV Common Equity Tier 1 (CET1) capital:** A measure of capital that is predominantly common equity as defined by the Capital Requirements Regulation. CET 1 capital is the highest quality of capital and comprises share capital, share premium, capital redemption reserve, available for sale reserve, net assets and retained earnings. The book values of goodwill and intangible assets as well as other regulatory adjustments, including the full 12 month amount of expected loss over provisions, are deducted from Common Equity Tier 1 capital for the purposes of capital adequacy.

**Funding for Lending Scheme (FLS):** Launched by The Bank of England and HM Treasury. Originally due to end in January 2015, the FLS was subsequently extended and ended in January 2018.

**Gap:** The Bank's net exposure between fixed and variable rate elements being managed within its market risk, e.g. interest rate movements (see Market risk).

**Group:** The Aldermore Group PLC standalone entity and its subsidiary undertakings, including its principal subsidiary, Aldermore Bank PLC. Aldermore Group PLC is registered in England (company number: 06764335).

**Hedging:** A technique used by the Group to offset risks on one instrument by purchasing a second instrument that is expected to perform in the opposite way.

**Help to Buy:** "Help to Buy" was formed as part of the 2013 Budget announcement by the Government and is part of a package of measures designed to increase the availability of low-deposit mortgages for credit worthy households and to boost the supply of new housing.

**HMO:** Houses of multiple occupancy. A property rented out by at least three people who are not from one "household" (e.g. a family) but share facilities like the bathroom and kitchen. It is sometimes called a "house share".

**HPI:** House Price Index.

**IASB:** International Accounting Standards Board. A London-based organisation which seeks to set and enforce standards for accounting procedures. It is responsible for maintaining the International Financial Reporting Standards (IRFS).

**IFRSs:** International Financial Reporting Standards, the accounting standards subject to endorsement by the EU by which the Group prepared its statutory accounts commencing from 1 January 2014.

**Impaired loans:** Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

**Impairment allowance:** A loss allowance held on the statement of financial position as a result of the raising of a charge against profit for the incurred losses in the lending book. An impairment loss allowance may be either individual or collective.

**Individual Capital Guidance (ICG):** The PRA's statement as to the regulatory capital under Pillar 2a that it expects the Group to hold over the Pillar 1 requirement.

**Individual Liquidity Adequacy Assessment (ILAA):** The Group's assessment of its liquidity risks, controls and quantification of liquid assets required to survive severe financial shocks addressed through the use of stress tests prescribed by the PRA (see Liquidity risk).

**Individually significant:** Large value loans that exceed a balance threshold established by the Group, above which it is deemed appropriate to assess accounts for impairment on an individual basis.

**Interest rate risk:** The risk of financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates.

#### Internal Capital Adequacy Assessment

**Process (ICAAP):** The Group's own assessment, as part of Basel II and Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.

**KMP:** Key management personnel, namely Directors of the Group and members of the Executive Committee.

**KPIs:** Key performance indicators.

**Leverage ratio:** A CRD IV measure, calculated as the ratio of Tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives. The leverage ratio is a supplementary measure to the risk based capital requirements and is intended to constrain the build-up of excess leverage in the banking sector.

**LIBOR (London Interbank Offered Rate):** The interest rate participating banks offer to other banks for loans on the London market.

**Liquid Asset Buffer:** The stock of assets which the Bank has available in order to manage its liquidity risk. These assets have relatively short maturity dates.

**Liquidity risk:** The risk that the Group is not able to meet its obligations as they fall due, or can only do so at excessive cost.

**Loan to value (LTV):** A ratio which expresses the amount of a mortgage outstanding as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).

**Loans to Deposit Ratio:** The ratio of loans and advances to customers net of allowance for impairment losses divided by customer deposits.

**Loss given default (LGD):** An estimate of the actual loss that would occur in the event of default expressed as a percentage of the Exposure at Default.

**LPA:** Law of Property Act.

**Market risk:** The financial impact from movements in market prices on the value of assets and liabilities. The majority of the Bank's market risk arises from changes in interest rates.

**Medium term:** Two to three years.

**MIA:** Months in arrears.

**Monte Carlo simulation:** A broad class of computational algorithms that rely on repeated random sampling to obtain numerical results.

**Net interest income:** The difference between interest received on assets and interest paid on liabilities after taking into account the effect of hedging derivatives.

**Net Interest Margin (NIM):** Net interest income as a percentage of average net loans.

**Net Loans:** Monies our customers have borrowed from us.

**Net revenue margin:** Total operating income as a percentage of average interest-earning assets.

**NPL (non-performing loans) ratio:** Individually impaired loans expressed as a percentage of gross loans.

**Oak No 1 PLC:** The Group's securitisation vehicle. Oak No.1 PLC is registered in England (company number: 08814635).

**Operational risk:** The risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime.

**Origination:** The process of creating or acquiring a loan or mortgage.

**Parent Company:** FirstRand International Guernsey Limited, a company incorporated in Guernsey (registered number 17166), a wholly owned subsidiary of FirstRand Limited a company incorporated in South Africa (registered number 1929/001225/06), the ultimate parent company.

**Past due:** When a counterparty has failed to make a payment when contractually due.

**Pillar 1:** Minimum capital requirement under Capital Requirements Regulation.

**Pillar 2a:** PRA's guidance as to regulatory capital it expects a bank to hold above Pillar 1.

**Pillar 3:** The part of CRD IV that sets out disclosure requirements in relation to their risks, the amount of capital required to absorb them and their approach to risk management. The aim is to strengthen market discipline.

**Probability of default (PD):** The likelihood that a loan will not be repaid and will fall into default. To calculate PD, the Group assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating.

#### Prudential Regulation Authority (PRA):

The FSA was replaced as the UK's financial regulator on 1 April 2013 with two new regulatory bodies: the PRA and the FCA. The PRA, a subsidiary of the Bank of England, is responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks.

**PSP:** Performance Share Plan. A share plan that was open to selected senior employees.

**Pts:** Percentage points.

**RAF:** Risk Appetite Framework.

**Recovery and Resolution Plan (RRP):** The FSA required all UK deposit takers and large investment firms to draw up a Recovery and Resolution Plan by 31 December 2012. The Recovery Plan assesses and documents the recovery options available in situations of financial stress or negative financial shocks, either market-wide or idiosyncratic. The Resolution Plan will provide authorities with sufficient information to enable them to determine a detailed roadmap to resolve a failed financial institution, without resorting to government (effectively taxpayer) support.

**Reported profit before tax:** Profit before tax (PBT) gives an overall measure of the performance of the business model.

**Return on Equity (RoE):** The ratio of profit for the year (after tax) to average equity, expressed as a percentage.

# Glossary

## continued

**Risk Weighted Assets (RWA):** A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with Basel II.

**RMBS:** Residential Mortgage Backed Securities. See "Securitisation" below.

**RMF:** Risk Management Framework. The Risk Management Framework outlines the governance, policies, procedures, systems, tools, techniques and activities by which the Board and senior management establish and monitor the Group's risk appetite and effectively manage risk.

**RSP:** Restricted Share Plan. A share plan that was open to selected senior employees.

**SBP:** Share-based payments.

**Securitisation:** Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. A company sells assets to a securitisation vehicle which then issues securities backed by the assets. This allows the credit quality of the assets to be separated from the credit rating of the original company. Assets used in the securitisations undertaken to date include mortgages to create residential mortgage backed securities (RMBS). The Group established Oak No 1 PLC as part of its funding and capital management activities.

**SIP:** Share Incentive Plan. A share plan that was open to all employees.

**SMEs:** Small and medium sized businesses engaging with the Group as customers.

**SREP:** Supervisory Review Evaluation Process. The SREP is a process by which the PRA will (taking into account the nature, scale and complexity of a firm's activities) review the arrangements, strategies, processes and mechanisms implemented by a firm to comply with its regulatory requirements laid down in PRA rules and the CRR, evaluate the risks to which the firm is or might be exposed, assess the risks that the firm poses to the financial system, and evaluate the further risks revealed by stress testing.

**Standard Variable Rate (SVR):** A variable and basic rate of interest charged on a mortgage. This may change in reaction to market conditions resulting in monthly repayments going up or down. Within Aldermore the SVR is called the Aldermore Managed Rate (AMR).

**Supervisory Authority:** The UK Prudential Regulation Authority.

**Term Funding Scheme (TFS):** Designed to reinforce the transmission of Bank Rate cuts to those interest rates actually faced by households and businesses by providing term funding to banks at rates close to Bank Rate. The TFS also provides participants with a cost effective source of funding. The scheme closed in February 2018.

**Tier 1:** A regulatory measure of financial (capital) strength. Tier 1 is divided into Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital. CET 1 capital comprises share capital, share premium, capital redemption reserve, available for sale reserve and retained earnings. The book values of goodwill and intangible assets are deducted from CET1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as Contingent Convertible Securities are included in Additional Tier 1 capital.

**Tier 1 ratio:** Tier 1 capital divided by Risk Weighted Assets.

**Tier 2:** Tier 2 capital comprises the Group's subordinated notes and collective impairment allowance (for exposures treated on a Basel II standardised basis). Certain regulatory deductions may be made for the purposes of assessing capital adequacy.

**Total capital ratio:** The sum of the Tier 1 capital ratio and the Tier 2 capital ratio.

**Underlying cost/income ratio:** Administrative expenses including depreciation and amortisation, but excluding expenses that the Executive assesses as distorting underlying performance, divided by total operating income.

**Underlying profit before tax:** The figure as reported under IFRS, adjusted to reflect how the Executive assesses the Group's underlying performance without distortions caused by items that are not reflective of the Group's ongoing business activities. For details of the individual adjustments, see the reconciliation in the CFO's review on page 16.

**Underlying Return on Equity (RoE):** The ratio of underlying profit for the year (after tax) to average equity, expressed as a percentage.

**Unsecured lending:** Lending for which there is no collateral for the loan.

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Aldermore are committed to caring for the environment and looking for sustainable ways to minimise our impact on it.

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