Aldermore Group PLC Report and Accounts for the year ended 30 June 2020

Company Information 3

Strategic Report
Strategic Overview 4
Business Model 4
Market Overview 5
Financial Highlights 10

Business Review
Business Finance 16
Retail Finance 18
MotoNovo Finance 20
Central Functions 22
Corporate Responsibility 24
Section 172 Statement 27

Corporate Governance
Corporate Governance Structure 33
Wates Principles 34
Audit Committee Report 36
Risk Committee Report 38
Remuneration Committee Report 41
Directors' Report 46

Risk Management
The Group's Approach to Risk 50
Risk Principles 50
Risk Management and Internal Control 50
Risk Management Framework 51
Risk Governance and Oversight 51
Stress Testing 53
Principal Risks 55
Emerging Risks 58

Financial Statements
Statement of Directors' responsibilities 82
Independent auditor's report 83
Consolidated financial statements 95
Notes to the consolidated financial statements 100
The Company financial statements 168
Notes to the Company financial statements 171

Company Information

Non-Executive Directors

Pat Butler
Desmond Crowley – Appointed 1 May 2020
Danuta Gray
John Hitchins
Harry Kellan
Alan Pullinger
Peter Shaw
Christopher Stamper – Resigned on 3 July 2019
Cathy Turner

Executive Directors

Phillip Monks
Claire Cordell – Appointed 24 February 2020
Christine Palmer – Resigned on 31 July 2020
James Mack – Resigned on 31 January 2020

Secretary and Registered Office

Kerryn Bodell
Aldermore Bank Plc
4th Floor, Block D
Apex Plaza, Forbury Road
Reading
Berkshire
RG1 1AX

Independent Auditor

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

Company number: 06764335

Strategic Report

Strategic Overview

Aldermore Group's strategy is underpinned by its purpose of 'Backing people to fulfil life's hopes and dreams' and supports a wide range of customers including UK SMEs, homeowners, landlords, vehicle owners and savers. This is the first full year annual report of the newly enlarged Group which comprises of Aldermore Bank PLC ("Aldermore") and MotoNovo Finance Limited ("MotoNovo Finance"). MotoNovo Finance began trading as part of the Aldermore Group in May 2019. The Aldermore Group is part of the FirstRand Group and, with no branch network, services customers and intermediary partners predominantly online and by phone.

Continued progress and milestones

Significant milestones achieved during the year include lending surpassing £12 billion and reaching £12.4 billion by 30 June 2020, and savings exceeding £10 billion and now totalling £10.9 billion as at the year end. See page 11 for further details. The Group has almost 2,000 colleagues backing over 490,000 customers; delivering strong average customer performance ratings of 4.4 on Trustpilot for Aldermore and an NPS score of +67 for MotoNovo Finance.

Strong leadership and effective governance

The Group Board comprises of ten Directors, of which two are Executive Directors and eight are Non-Executive Directors. Aldermore has welcomed two new Non-Executive board directors this year. Desmond Crowley joined the Boards of Aldermore Group PLC, Aldermore Bank PLC, and MotoNovo Finance Limited with effect from 1 May 2020. From the same date, he also joined the Audit Committee and Risk Committee. Richard Banks will also join Aldermore as a Non-Executive Director later in the year and, on Peter Shaw's retirement later this year, will take on the Chair of the Board Risk Committee (subject to regulatory approval).

A number of internal promotions were made to the leadership team with Claire Cordell and Damian Thompson being appointed Chief Financial Officer and Group Managing Director of Retail Finance respectively, demonstrating the strength and depth of talent within the Group, and the interim Group Managing Director for Business Finance Tim Boag was confirmed in post. Andrew Lewis has been recruited and appointed as Chief Risk Officer, subject to regulatory approval, and will join Aldermore later this year.

After founding Aldermore 11 years ago, Phillip Monks, CEO, has advised the Board of his intention to retire during 2021. A search for his successor is being led by the Chairman of the Board.

The Group has adopted the Wates Corporate Governance Principles (the "Wates Principles"). The table on page 34 summarises the six Wates Principles and indicates where more information can be found in the strategic and governance reports.

Business Model

Aldermore Group operates across three customer facing divisions: Business Finance, Retail Finance, and MotoNovo Finance, lending in areas of the UK financial market which are chosen specifically for their size, attractive returns and strong collateral characteristics. Business Finance consists of Asset Finance, Invoice Finance and SME Commercial Mortgages. Retail Finance offers Residential Owner-Occupied Mortgages and Buy to Let Mortgages that have consistently featured in the best buy tables, as well as a competitive savings proposition. MotoNovo Finance is a vehicle financing business that operates findandfundmycar.com, which has nearly 2,500 dealerships and over 120,000 cars registered. Lending is primarily funded by retail and business customer savings, with the balance coming principally from wholesale markets.

The Group's success is spearheaded by operating consistently high levels of customer service to our intermediary partners and direct customers; which is demonstrated by Aldermore and MotoNovo Finance's Trustpilot scores being rated as 'Excellent'. Supporting this excellent customer service are back office systems that intelligently support specialist mortgage and business finance underwriters to make quick and informed lending decisions, as well as an efficient system within MotoNovo Finance for automatically processing vehicle finance applications. The Group's combined expertise manages risk across our diversified portfolio with this robust approach to risk extending to our prudent management of capital and liquidity.

Our brand voice and shaping the way we talk to customers

Aldermore Group remains focused on creating both economic and social value for a broader set of stakeholders, including customers, employees and society at large. Having reshaped its purpose statement in 2019 to support this, it has also introduced a new 'Clear, Caring and Curious' tone of voice, in order to respond to evolving customers' needs more effectively and appropriately in all written and verbal communications. It was piloted in Aldermore Retail Finance and following the success of the pilot, a Group-wide roll out is underway.

Customer feedback from the pilot suggests that Aldermore is demonstrating increased care and empathy in its communications; elevating the brand experience and reputation. As a result of the rollout so far it's achieved[1]:

- Supported Retail Finance achieving a net promoter of +62.7 from a low of +40.9 recorded earlier in the year[2]
- Retained its position as one of the leading mortgage specialist lenders
- Increased its social engagement to 9.76% compared to the industry average of 3.48%[3]
- Increased website traffic by 47% (pre-Covid-19)
- Increased customer email open rates to 68% compared to the industry average of 20.68%[4]
- Increased broker email open rates to 31.6% compared to the industry average of 25%[5]

Pat Butler, Aldermore Group chairman:
"In an industry where products are complex and jargon is widespread, Aldermore wants to change the game. So we've simplified our language. And now it's changing our culture, our customers are having a better experience, and our communications are much more effective."

[1] Aldermore data has been compiled internally by the Retail Finance division as part of the evaluation of the Tone of Voice pilot
[2] NPS averaged 59.2 during the year to 30 June 2020
[3] The 2019 Marketing Benchmarks Cheat Sheet, LinkedIn.com
[4] Email Marketing Statistics for the Mortgage Industry, Luminary Agent 2019
[5] CampaignMonitor.com 2019

Market Overview

Macro-economy

This financial year has seen unprecedented macroeconomic uncertainty with Brexit driving volatility in the markets for the first part of the year, followed by the impacts of Covid-19 since March 2020. As such, the UK economic outlook and performance has fluctuated significantly over the year. Throughout 2019, the Bank of England was under pressure to cut interest rates and many businesses and consumers were delaying borrowing activity pending a more settled economy. Following the general election in December 2019, a degree of confidence resumed and the outlook for 2020 looked increasingly positive.

In early 2020, the global Covid-19 pandemic has caused unparalleled uncertainty and restrictions to daily life in the UK, as with the rest of the world, which significantly negatively impacted the economy. The Bank of England made two cuts to the UK bank base rate within an eight day period in mid-March 2020, reducing it to a record low of 10bps where it remains at the time of writing. The UK Government introduced a number of schemes to support consumers and businesses across the UK through the pandemic, including payment breaks to bank loan holders, a furlough scheme to avoid mass redundancies, reduced VAT and stamp duty and a subsidy scheme for the hospitality industry.

It remains to be seen how the economy will recover as the UK returns to a "new normal" post Covid-19. Focus is now returning to Brexit as the period to request an extension to the transition period expired in June, and discussions on trade deals and other key policies continue. The direct impact of Brexit on the Group is likely to be minimal with the effects being felt more in the wider economy, especially in the current recessionary environment. Based on historical performance, in this kind of economic climate the big four UK banks are likely to reduce their lending appetite to SMEs outside of the Government Covid-19 schemes, which

could provide opportunities for the Aldermore Group, which has a successful legacy of supporting businesses during this period in an economic cycle. However, whilst the Group is prepared for a number of Brexit eventualities, including no deal, we would prefer an orderly Brexit to be delivered before the end of the calendar year.

Changing customer expectations

The increased use of technology in everyday life means customer expectations from their banks are also changing; from speed of application to delivery of goods, which also includes how they manage their financing needs. Aldermore remains vigilant to these expectations and, as an online challenger brand, we're increasingly investing in our digital capabilities both externally and internally to ensure we continue to deliver and back our customers through life's journey.

Increasingly, customers want their bank or financier to be more environmentally, sustainably and ethically driven; which is evidenced by the increasing number of correspondences Aldermore has received raising these issues. Aldermore has always strived to adhere to these values and, with its guiding purpose of 'Backing people to fulfil life's hopes and dreams', has also commenced a significant programme of work around its shared value proposition, which involves using its core business activities to help tackle social and environmental challenges in the UK and within the communities it operates in.

Covid-19

The global Covid-19 pandemic presented challenges on an unprecedented scale. The UK economy shrank by 2% in the first quarter of 2020, and the Bank of England warned that the economy is heading towards its sharpest recession on record; resulting in nearly 2.5 million people being unemployed by the end of the year. All of the Group's markets have faced significant challenges as a result. In mortgages, estate agents were closed for weeks, valuers were unable to assess properties, and solicitors, because of the manual processes involved that were unable to take place, contributed to the around £82billion of house sales in the UK being put on hold. In other business areas, car dealerships closed for nearly twelve weeks that impacted MotoNovo Finance's market and those SME customers in sectors like transport, construction and hospitality became severely affected with many requiring forbearance or additional support measures.

Within Aldermore, Covid-19 has had a significant financial impact, predominantly on impairments as provisions were adjusted to reflect the changing macroeconomic outlook, the higher expected level of defaults and the impact of payment breaks. However, despite these challenges Aldermore has delivered a resilient performance in the financial year with a pre-tax profit of £48.8 million (30 June 2019: £129.6 million). The Group's capital and liquidity position remains strong, with a CET1 ratio at the end of June 2020 of 13.3% (30 June 2019: 14.9%). The Group's financial position remains robust in spite of the current crisis, and no colleagues were furloughed or made redundant as a result of Covid-19. The Group is focused on supporting its customers and protecting its employees' wellbeing.

The Group also performs a series of formal risk management processes as set out in the Risk Management Framework, which include assessing Emerging Risks. Unlike our Principal Risks, the suite of Emerging Risks is designed to change on a regular basis to reflect the Group's operating environment. In recognition of the unprecedented political, fiscal and monetary measures put in place in response to Covid-19, the Emerging Risks have been updated to reflect this. More information can be found in Emerging Risks on page 58.

- *The Group's response to the Covid-19 pandemic*

In March, following the government's advice to stay at home, 99% of the workforce were moved to work from home within two weeks of lockdown, while a skeleton staff continued to carry out critical business functions in offices. No colleagues were furloughed or made redundant. The Group's systems and processes performed well for colleagues working from home, and existing robust IT systems were supported by additional measures; such as video conferencing. Additionally, there was a noticeable reduction in travel and marketing over the period, as colleagues travelled less and strategic business decisions were made to balance risk appetite with meeting customer needs.

There have been some positive changes that were introduced in response to Covid-19. Remote working and video conferencing technology have demonstrated a progressive way of flexible working and adaptability of the Group's workforce. The Group is now undertaking a review of how we move permanently to a blended working model that enables colleagues to work both in a dedicated office or remote environment. This is something colleagues have expressed a positive view on during our 'pulse surveys' we have carried out as part of our return to work planning.

At the end of March at the height of the crisis, customer facing employees dealt with thousands more customer queries than usual. Aldermore received around 23,000 customer calls in a month, double the normal amount, while MotoNovo Finance were handling around 30,000 calls, more than triple the normal amount.

- *Backing our SME customers*

Aldermore fast-tracked the launch of a new online broker portal: Asset Backer, to all its Asset Finance intermediaries. Asset Backer offers intermediaries a paperless end-to-end process, which includes electronic proposals, documents and signatures, enabling intermediaries to continue business with their customers at a distance.

Aldermore also produced advice guides for SME customers and brokers summarising the Government support options available; as well as to help them navigate the breadth of advice on People and HR topics to safeguard and protect their employees, through the immediate crisis and its recovery phase.

In agreement with UK Government's alignment with finance sector to support businesses and customers during the Covid-19 crisis, the Group offered forbearance measures, the outcome of which for Aldermore's Business Finance division is summarised in the data below and a more detailed breakdown can be seen on page 66:

- Total forbearance cases in Business Finance were nearly 20,000
- Asset Finance: 18,784 agreed forbearance cases 33.9% of the AF portfolio with total balance of £666 million
- Invoice Finance: 54 agreed forbearance cases, 6.2% of the IF portfolio with total balance of £22 million
- SME Commercial Mortgages: 677 agreed forbearance cases, 33.9% of the SME commercial mortgages portfolio with total balance of £358 million

Aldermore also became an accredited lender of the Asset Finance variant of the Coronavirus Business Interruption Loan Scheme ("CBILS"), a Government-backed guarantee enabling us to provide Asset Finance facilities to SMEs to support their investment in new and used assets. At the beginning of June, Aldermore extended its CBILS accredited lending variant to cover Invoice Finance.

- *Helping our mortgage customers*

The pandemic affected a number of Aldermore's retail mortgage customers and payment breaks (forbearance offered as a result of Covid-19) were offered to existing homeowners and landlords. Aldermore also provided three-month mortgage offer extensions to customers that had exchanged contracts.

In March, to cope with the huge number of customer contacts, Aldermore took the unprecedented decision to close its retail mortgage customer phone lines for a number of weeks. By closing the phone lines, Aldermore worked through the customer enquiries received up to that point, prioritised customers most in need and safeguarded colleagues' well-being. A one page online form was produced and available on the Aldermore website where customers could make a payment break request easily without the need to discuss it further.

Aldermore also streamlined mortgage product offerings at the beginning of April and capped Loan to Value ("LTV") levels on residential and buy to let products. Additionally, all Houses in Multiple Occupation ("HMO") and multi-unit freehold products up to six bedrooms/units were put on hold because critical physical valuations were unable to take place under the government restrictions. Aldermore adopted remote valuations for owner-occupied properties and buy to let single units which enabled the team to continue to be able to offer residential mortgages between 70-80% LTV for purchase and remortgages throughout the lockdown. Following updated government guidance in May, physical valuations resumed on properties for house purchase and remortgage in England, where strict social distancing and safety measures could be met.

In Retail Mortgages, the possibility of remote valuations has been realised. Whilst volumes were lower than normal and there will be a review into how this is undertaken when volumes return to normal, it will speed up straight-forward applications immensely going forward as remote valuations take a few hours, whereas physical valuations can take typically five days to turn around. This will benefit brokers, customers and Aldermore by being able to speed up our mortgage application process.

In agreement with UK Government's alignment with finance sector to support mortgage customers during the Covid-19 crisis, the Group offered forbearance measures, titled "payment breaks" for mortgages. Below is a summary of Aldermore's Retail Mortgages payment break data and a more detailed breakdown can be seen on page 66:

- Approximately 11,000 customers agreed a mortgage payment break, 25% of the retail mortgages portfolio
- Equates to a total balance of £1.96 billion
- Around 2,000 have requested a further extension of three months

- *Speedy response to support motor finance customers and dealers*

The motor finance sector was severely impacted by Covid-19 with dealerships closing and customers unable to test drive vehicles. MotoNovo Finance's team experienced a threefold increase in customer calls and forbearance management, and initiated a Covid-19 Mobilisation Action Plan that included quickly developing an automated payment deferral application process for customers.

The UK Government issued clarified guidance in late April that allowed vehicles to be delivered to any buyer's home, as long as there was adherence by dealerships to social distancing and cleansing measures. MotoNovo Finance provided a Covid-19 response plan for dealerships; including information packs and support for dealers, advice on Government support, advice on distance selling and related regulations.

In agreement with UK Government's alignment with finance sector to support businesses and customers during the Covid-19 crisis, the Group's motor finance division MotoNovo Finance offered forbearance measures, the outcome of which is summarised in the data below and a more detailed breakdown can be seen on page 66:

- Nearly 16,500 agreed forbearance cases, 9.6% of the MotoNovo Finance portfolio
- Automated payment deferral application process was used by 17,877 customers
- Equates to a total balance of £178 million

- *Savings proposition during the crisis*

We took steps to help customers by amending key processes that were affected by Covid-19 related disruption, such as swifter early access to fixed rate accounts and allowing customers to use email in place of post for sending in documents. As the pandemic progressed, pressure on the savings market increased and in May, in step with the radically changing economic conditions and reduced business need for liquidity, Aldermore temporarily removed all new non-Easy Access accounts from sale to new customers. Rates on Easy Access Accounts were reduced in line with market conditions but have remained open throughout the crisis to new customers.

- *Emergency Coronavirus Charity Appeal*

During the Covid-19 lockdown, the Group launched an Emergencies appeal for colleagues to donate to, with 70% of the monies going to the National Emergencies Trust Coronavirus appeal and the other 30% going to the Group's charities of the year Mind and Latch. In addition to this appeal, we made a further corporate donation to Mind's emergency appeal.

- *Outlook*

A number of Government Covid-19 measures are being wound down such as furlough and payment breaks, and the UK economy and customers face an uncertain period ahead. Significant numbers of retail jobs have been lost in the last few months and the Office for Budget Responsibility ("OBR") predicted in July that, if a second wave of infections hits the UK, around 15 per cent of those on furlough will lose their jobs when the scheme ends. In addition, whilst the initial national lockdown has ended, the UK and regional governments continue to implement new measures and changes to existing measures as they respond to local outbreaks. People therefore will be worried about employment and income security meaning consumer spending and confidence is likely to be low for some time.

Aldermore's current assumption is that the UK will have a long U-shaped recovery following the Covid-19 pandemic, starting in the calendar year third quarter of 2020 and gaining pace into the fourth quarter. However, it is recognised that the UK remains in an incredibly volatile period. It is expected that recovery will be slow, with lending activity remaining lower than previously observed for the remainder of 2020 and into 2021 as consumers and businesses await a more settled economic environment and the return to a degree of employment security. As Aldermore supports its customers through the uncertainty, we are also taking the opportunity to invest in infrastructure and further increase digitisation across the Group.

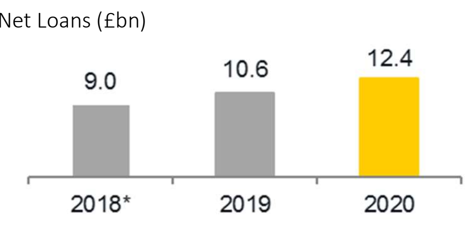
Aldermore was born in response to lending support drying up for SMEs as a result of the 2008 financial crisis. Today, Aldermore has an expanded lending range, remains operationally resilient and financially robust and will be there for its customers as the UK recovers from Covid-19 and into the future.

Financial Highlights

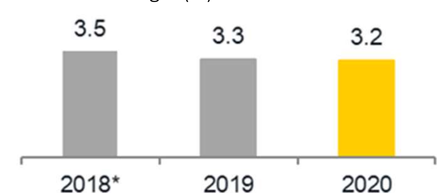
Financial performance affected by Covid-19

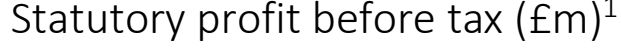
- Net loans to customers up by 17% to £12.4 billion (2019: £10.6 billion)
- Statutory profit before tax of £48.8 million (2019: £129.6 million), impacted by Covid-19 driven impairment increase
- Underlying Cost/income ratio improved slightly to 51% (2019: 52%)
- Statutory Cost/income ratio of 56% (2019: 55%)
- Cost of risk increased to 114bps (2019: 24bps) reflecting increased levels of impairments on advances and lease modifications as a result of Covid-19
- CET1 ratio has reduced to 13.3% (2019: 14.9%) as capital injected to support MotoNovo Finance growth has been utilised
- Return on equity decreased to 3.1% (2019: 10.9%) as a result of lower profitability

Net Loans (£bn)

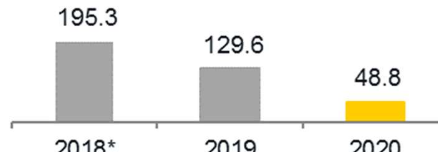


Net Interest Margin (%)^

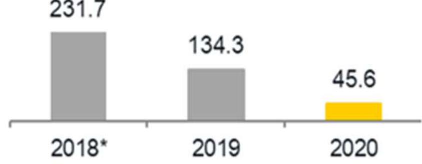




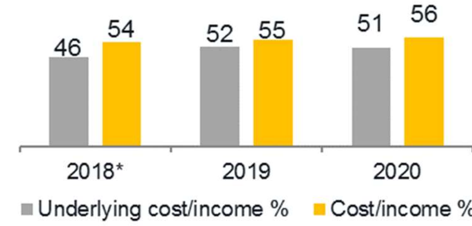
Statutory profit before tax (£m)[1]



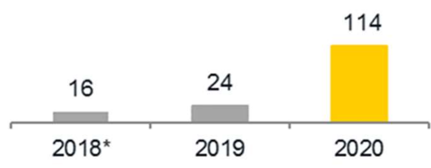
Underlying profit before tax (£m)[1]



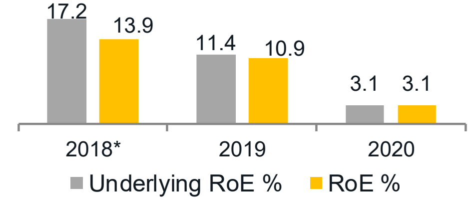
Cost/income ratio (%)[1]



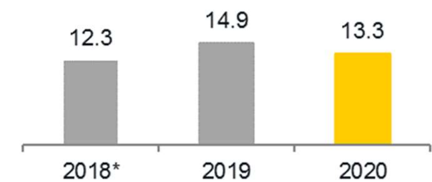
Cost of risk (bps)



Return on equity (RoE) (%)



CET1 ratio (%)



* 2018 represents the 18 month period to 30 June 2018.

^ 2018 NIM calculated in line with restated interest income to align with FirstRand Group policy.

[1] Underlying in 2020, excludes the costs and income incurred in MotoNovo Finance for servicing the MotoNovo back book recharged to FirstRand London Branch (£42.6 million). Underlying in 2019 excludes, integration costs (£5.4 million) and the costs and income incurred in MotoNovo Finance for servicing the MotoNovo back book recharged to FirstRand London Branch (£10.5 million). See page 15 for a reconciliation from the alternative profit measure to statutory profit. Underlying in 2018, excludes impairment of intangibles (£14.2 million), transaction costs (£19.8 million) and integration costs (£2.4 million).

Business Overview

Aldermore is structured as three distinct customer facing businesses: Business Finance (comprised of Asset Finance, Invoice Finance and SME Commercial Mortgages (includes Commercial Mortgages and Property Development), Retail Finance (comprised of Buy to Let Mortgages, Residential Owner Occupied Mortgages, and Savings) and MotoNovo Finance. From a financial perspective, Savings is reported with the rest of the funding base in Central Functions.

Summary balance sheet	30 June 2020 £m	30 June 2019 £m	Change %
Net loans	12,425.7	10,595.1	17
Cash and investments	2,712.1	1,835.9	48
Intangible assets	13.7	14.8	(7)
Fixed and other assets	160.3	84.5	90
Total assets	**15,323.6**	**12,530.3**	**22**
Customer deposits	10,886.4	8,971.8	21
Wholesale funding	3,099.3	2,291.2	35
Other liabilities	229.4	172.1	33
Total liabilities	**14,215.1**	**11,435.1**	**24**
Ordinary shareholders' equity	1,000.5	974.2	3
AT1	108.0	121.0	(11)
Equity	**1,108.5**	**1,095.2**	**1**
Total liabilities and equity	**15,323.6**	**12,530.3**	**22**

Net loans of £12.4 billion

Net loans have grown by £1.8 billion, or 17% in the year with the growth largely attributable to MotoNovo Finance. In its first full year of trading as part of the Aldermore Group, MotoNovo originated £1.7 billion of lending, whilst in Retail Mortgages an improved customer loyalty proposition supported net loan growth of 7%. Business Finance net loans reduced by 6% as volumes in this business, as in the other divisions, were significantly impacted by Covid-19 in the latter part of the year. Net loans to customers reached £12.4 billion (2019: £10.6 billion) as the number of customers grew 126% including MotoNovo (2% excluding MotoNovo). Total assets exceeded £15.3 billion, an increase of 22% on 2019, including increased cash and investments reflecting the level of excess liquidity held at the year end to provide a buffer against further economic stresses. The increase in Fixed and Other Assets is partly attributable to the transition to IFRS16, with a right of use asset of £38.9 million brought on to the balance sheet on 1 July 2019.

Funding strategy continues to be deposit-led

We continue to be primarily funded by deposits complemented with additional wholesale funding carefully managed to meet the Group's cashflow requirements. Our funding mix has not changed materially year on year with 77% in customer deposits (2019: 78%). However our loan to deposit ratio has reduced to 114% (2019: 118%).

Total deposits grew by 21% to £10.9 billion (2019: £9.0 billion), with strong growth in Personal savings of 29% despite market and rate pressures and a management decision to remove products from sale as a result of Covid-19 impacts to meet our funding requirements as lending reduced. Growth in Business savings was modest at 3%, reflective of market conditions, and our Corporate Treasury balances grew by 13% as we actively grew this book in the first half of year.

Our Retail Savings franchise has proved to be resilient during the Covid-19 pandemic as we saw a small increase in market share following a strong ISA season in April during which we opened a record number of accounts. Many of our savings products have continued to win industry awards including the Triple Gold Best Fixed Rate ISA Provider and the Best Fixed Rate Business Savings

Provider at the MoneyComms awards. We retained c70% of our maturing balances in the year, due to continued strong customer service reflected by high Net Promoter Score ("NPS") in Personal of +58 (2019: +55) and Business Savings of +57 (2019: +61). Similarly, we saw a significant improvement in our Trustpilot score increasing from 1/5 Poor to 4.5/5 Excellent, partly as we increased the volume of feedback requested from customers through marketing activity and maintained strong Voice of the Customer ("VoC") scores and low complaint volumes.

We actively managed our wholesale funding in the year to support business growth resulting in a 35% increase to £3.1 billion (2019: £2.3 billion). In September 2019, we issued our first Warehouse facility, backed by auto loans, of £100 million and in the same month issued a Residential Mortgage Backed Securities ("RMBS") vehicle of £343 million, further diversifying our funding base. Wholesale funding also includes £1.7 billion of Term Funding Scheme ("TFS") and £213.5 million of Tier 2 debt securities. We intend to replace some of our current TFS funding with TFSME funding over the coming year.

In April 2020, Aldermore Group redeemed £75.0 million of Additional Tier 1 Notes that had been issued to the market in 2014; these were replaced with £61.0 million of Additional Tier 1 Notes issued to FirstRand. Total liabilities and equity have increased by 22% to £15.3 billion (2019: £12.5 billion), including an increase of 33% in Other Liabilities partially due to finance lease liabilities following the transition to IFRS 16.

	Year Ended 30 June 2020	Year Ended 30 June 2019	Change
Summary income statement	£m	£m	%
Interest income	563.8	467.3	21
Interest expense	(193.3)	(149.2)	(30)
Net interest income	**370.5**	**318.1**	**16**
Net fee and other operating income	49.8	18.2	174
Net derivatives expense and gains on disposal of debt securities	(8.2)	4.0	(305)
Operating income	**412.1**	**340.3**	**21**
Expenses, depreciation and amortisation	(232.1)	(181.3)	(28)
Share of Profit of Associate	0.5	0.5	-
Transaction and Integration costs	-	(5.4)	(100)
Impairment of intangibles and goodwill	-	(0.7)	(100)
Impairment losses on loans and advances to customers	(120.5)	(23.8)	(406)
Impairment losses on lease modifications	(11.2)	-	100
Profit before tax	**48.8**	**129.6**	**(62)**
Tax	(10.2)	(32.7)	(69)
Profit after tax	**38.6**	**96.9**	**(60)**

Key performance indicators	2020	2019	Change %
Net interest margin %	3.2	3.3	(0.1)
Underlying cost/income ratio %	51	52	1
Cost of risk (bps)	114	24	(90)
Underlying return on equity %	3.1	11.4	(8.3)

[1] Underlying in 2020 excludes the costs and income incurred in MotoNovo Finance for servicing the MotoNovo back book recharged to FirstRand London Branch (£42.6 million). Underlying in 2019 excludes integration costs (£5.4m) and the costs and income incurred in MotoNovo Finance for servicing the MotoNovo back book recharged to FirstRand London Branch (£10.5 million). See page 15 for a reconciliation from the alternative profit measure to statutory profit.

Net Interest Income reflects business growth at robust margins

Interest income increased by 21% to £563.8 million (2019: £467.3 million) reflecting the £1.8 billion increase in the net loan book. Despite economic uncertainties and market driven rate pressures, our gross interest margin remained robust, increasing slightly to 4.9% (2019: 4.8%) partly due to the addition of higher margin MotoNovo business.

Interest expense of £193.3 million (2019: £149.2 million) reflects the increased funding base required to support the growth of the lending book and the costs associated with securitisation transactions in the year. Additionally, product rates in the savings market did not follow lower underlying economic rates, such as LIBOR and base rate, resulting in increased prices, which thereby increased cost of funds to 1.7% (2019: 1.5%).

Consequently, the Bank delivered net interest income of £370.5 million (2019: £318.1 million) with the net interest margin remaining broadly stable at 3.2% (2019: 3.3%).

Other operating income includes the addition of MotoNovo Finance and market driven impacts

Net fee and other operating income of £49.8 million (2019: £18.2 million) includes £42.6 million (2019: £10.5 million) of income received from FirstRand London Branch in relation to the cost incurred to support the MotoNovo back book operations plus an arm's length fee for this service. Excluding this, net fee and other operating income reduced to £7.1 million (2019: £7.7 million) as the addition of MotoNovo was offset by a reduction in fee income in both Retail Mortgages and Business Finance due to the continued trend towards fee-free products in the market.

Net derivatives expense and gains on disposal of debt securities includes an £8.1 million fair value loss as a result of mark to market losses on our loan portfolio hedging (2019: £3.8 million gain).

Operating Expenses show the impact of the enlarged Group

Operating expenses were £232.1 million (2019: £187.4 million), with the increase largely reflecting the full year impact of MotoNovo costs. The full year cost base for MotoNovo of £77.5 million (2019: £13.3 million) includes £39.5 million expenditure incurred in servicing the back book operations that is recharged to FirstRand London Branch. We continued to invest in our IT infrastructure in the year, setting the foundations for ongoing transformation in the coming years. Excluding the effects of MotoNovo, Aldermore Bank people costs reduced in the year with the number of contractors reducing and travel and marketing costs were lower as a result of the impacts of Covid-19 and an improved focus on cost consciousness across the Group. Additionally, MotoNovo integration costs were not repeated in the current year. People costs were also lower due to no bonuses being paid in relation to this financial year as a result of Covid-19.

Our underlying cost to income ratio, which excludes £39.5 million cost and £3.2 million fee income related to MotoNovo back book operations, improved to 51% (2019: 52%).

Cost of risk reflects the impact of Covid-19 at 114bps

Impairment charges were £131.7 million (2019: £23.8 million), significantly impacted by payment holidays, forbearance and macroeconomic volatility as a result of Covid-19. In the fourth quarter of the year, we reported an impairment charge of £82.3 million, 166% higher than the impairment charge for the first nine months of the year. The impairment charge includes £11.2 million lease modification adjustment to account for the impact of changing lease contracts following Covid-19 related payment holidays. Key macro-economic factors and expert judgment have been applied to our modelling and individual case assessment and while the impact on results is material we believe we are adequately provided for given the information currently available. More information on our macroeconomic assumptions can be found on page 110. The year on year increase is also impacted by the addition of MotoNovo to the Group and the recognition of impairment charges on an expected loss basis in accordance with IFRS9. Our approach to risk management remains robust. However, as a result of the increased impairment charges and lease modification our cost of risk has increased to 114bps (2019: 24bps).

Statutory profit of £48.8 million

Profit before tax at £48.8 million (2018: £129.6 million) was materially impacted by increased impairments as a result of Covid-19 and a £33.0 million loss (2 months to 30 June 2019: £5.5 million loss) in MotoNovo Finance Limited due to higher than expected impairments driven by Covid-19 and the impact of a growing book as costs are incurred ahead of income being earned. Return on equity was 3.1% (2019: 10.9%) as a result of lower profit as equity has remained broadly stable over the year.

Alternative profit measure reconciliation to Statutory Profit

Alternative profit measure reconciliation to Statutory profit	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Underlying profit before tax	45.6	134.3
MotoNovo Finance net back book recharges	3.2	0.7
MotoNovo Finance integration costs	-	(5.4)
Statutory profit before tax	48.8	129.6

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 management 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 for the years ended 30 June 2020 and 30 June 2019:

- MotoNovo Finance back book recharges
  These are the net impact of the recharges (being the arm's length mark-up on costs incurred) to the Branch in relation to MotoNovo Finance servicing the MotoNovo Finance backbook business. This is comprised of £42.7 million of income and £39.5 million of cost (30 June 2019: £10.4 million income and £9.7 million cost). Please see the MotoNovo Finance section of the Business Review for more details on the backbook.
- MotoNovo Finance integration costs
  These costs relate to the work to integrate MotoNovo Finance into the Aldermore Group during the year ended 30 June 2019.

Business Review

Business Finance

Highlights

- Organic origination of £1.4 billion (2019: £1.8 billion)
- Net lending to customers down 5% to £3.3 billion (2019: £3.4 billion)
- Segmental profit of £63.5 million (2019: £102.9 million)
- Cost of Risk increased 138bps to 187bps (2019: 49bps) due to Covid-19
- Asset Finance NPS significantly improved 34 points to +32 in the year (2019: -2)
- SME Commercial Mortgages successfully repositioned in the market following transformation project
- Payment breaks granted to almost 20,000 SME customers to support them through Covid-19

	Year ended 30 June 2020	Year ended 30 June 2019	Change
	£m	£m	%
Net loans to customers	3,275.7	3,438.7	(5)
Organic origination	1,432.3	1,832.2	(22)
Operating income	155.7	152.4	2
Administrative expenses	(29.4)	(33.4)	12
Impairment losses	(62.8)	(16.1)	(290)
Segmental result	63.5	102.9	(38)
Net interest margin (%)	4.5	4.4	0.1
Cost of risk (bps)	187	49	(138)

Performance

Business Finance loan balances were £3.3 billion (2019: £3.4 billion) with originations of £1.4 billion (2019: £1.8 billion), due to reduced levels of new lending in Asset Finance and Invoice Finance. Net lending in Asset Finance was down 8% to £1.9 billion (2019: £2.0 billion) due to adverse market conditions as a result of Covid-19 and a transfer of the dealer channel to MotoNovo in June 2019. Within Invoice Finance, the reduction of 30% to £0.3 billion (2019: £0.4 billion) is attributable to lower facility utilisation as a result of less demand during the Covid-19 pandemic. SME Commercial Mortgages net lending increased 12% to £1.1 billion (2019: £1.0 billion) as originations grew 8% to £374 million (2019: £347 million) following a successful strategic repositioning to focus on larger size deals with the average deal size increasing 23% year on year. In the first half of the year, originations were up 4% year on year across Business Finance. However, originations declined steeply in the second half (down 45%) as our markets were severely affected by Covid-19.

Net interest margin ("NIM") increased marginally to 4.5% (2019: 4.4%) as volume growth in the first half of the year increased interest income and pricing in Asset Finance remained strong in a competitive market, offsetting higher funding costs. Administrative expenses were down 12% to £29.4 million (30 June 2019: £33.4 million) as a result of economies of scale in Invoice Finance and SME Commercial Mortgages coupled with reduced people costs. Cost of risk has increased in the year to 187bps (2019: 49bps) largely driven by adverse changes in the macroeconomic outlook and models related to Covid-19, most materially impacting Asset Finance (increase of 184bps) and SME Commercial Mortgages (increase of 105bps). Asset Finance cost of risk was also impacted by a £10.9 million lease modification charge as a consequence of payment holidays, which is expected to be recovered over time with the income recorded in subsequent periods. Segmental profit for the year was £63.5 million (2019: £102.9 million) with the increase in impairments offsetting the impact of a robust margin and economies of scale.

Market and Strategy

Although the total Asset Finance market grew 2%[1] year on year, the broker market contracted by 12%[1] over the same period as a result of Covid-19. Within Aldermore, we saw our broker originations reduced by 27% causing a reduction in market share across a number of asset classes and a fall in our overall broker market share to 8.5%[1] from 12.1% in June 2019. Our 12-month rolling average market share is higher at 10%[1] (2019: 13%). Growth in the broker market is a key strategic focus moving forward and is

being supported by strengthening relationships with our key brokers through deeper insight and a more tailored approach. Through the Covid-19 pandemic, we have supported our customers by participating in the CBILS scheme and were one of the first to market with this product. Customer satisfaction improved significantly in the year with NPS increasing 34 points to +32 (2019: -2), and we were awarded NACFB 2019 Hard Asset Provider of the Year.

The Invoice Finance market fell 7%[2] in the 12 months to March 2020 while Aldermore's market share grew from 1.8%[2] to 2.0% over the same period as we continued to increase our presence in the specialist lending business. Market share for our Core Invoice Finance business also grew over the period, up to 1.3%[2] from 1.1%. In the second half of the year, we launched our Bad Debt Protection customer automation system to better support customers in managing their finances, and as of June we began offering the Invoice Finance variant of the CBILS scheme to customers to support them through Covid-19. Our NPS score was +46 (2019: +52) as strong performance from the prior year continued.

Despite a contraction in the SME Commercial Mortgages market from £50.0 billion to £43.8 billion[3], Aldermore market share increased to 1.0%[3] (2019: 0.6%) as we successfully repositioned ourselves to focus on larger commercial residential deals which are generally better credit quality. Our strategy to grow market share in SME Commercial Mortgages is focused on strengthening key broker relationships, supported by a greater focus on customer retention following completion of property developments. Customer satisfaction was impacted in the year as we transformed and re-organised our business to better support customers going forward, and as a result we saw NPS reduce to -2 in Commercial Mortgages (2019: +12) and to +23 in Property Development (2019: +27).

The asset finance market remained very competitive and service remained a key driver of performance and returns. The FLA market saw a large reduction in origination as a result of Covid-19 as SMEs sought working capital solutions over new capital expenditure. It is expected that it will take some time for the market to return to pre Covid-19 levels as SMEs evolve and resize for the new economic environment.

For much of the financial year, the invoice finance market had shown slow signs of growth with competition increasing across the "working capital" sector due to the entry of P2P lending, Fintechs and new invoice finance variants from large banks. The impact of Covid-19 on the sector has been substantial with many providers reporting a significant fall in invoices assigned and funding drawn and government support in the market has suppressed demand for funding. As the government assistance is withdrawn over the coming months, it is likely that this will present opportunities and risks for many in the sector as SMEs return to the market for funding. Specialist invoice finance markets continued to offer good returns in a competitive market with a limited number of other players. However, there will most likely be changes in the market following the Covid-19 pandemic with the big 4 banks, who dominate the SME and invoice finance market, reducing their lending appetite. Early indications are that there is likely to be a shortage of working capital in these sectors as a result which offers increased opportunities for Aldermore to help more customers, delivering further growth potential.

The continuing struggles on the high street and subsequent credit concerns over income have made non-essential retail property the most uncertain and difficult asset class to finance. However, the wider commercial property sectors (including food/essential retail) provided stable investments with industrial leading returns. Property development has become an increasingly dynamic financing market, driven by demand for private housing, Help to Buy and, with professionalisation of buy to let, refinancing. SME developers, cited as critical for solving the housing crisis, are often burdened by planning and access to finance issues, but Aldermore has been successful in nurturing an increasing portfolio across the UK. Modern Methods of Construction ("MMC"), sustainable development, affordable and low carbon housing are evolving trends in the market that Aldermore is increasing its interest in. It is too early to predict the extent that the Covid-19 crisis will impact market performance and investor demand, but it is expected that core residential, build to rent, industrial and logistics and essential retail should be the most resilient. Non-essential retail and hospitality are likely to take longer to recover, and there is a high degree of uncertainty with regard to office space.

[1] FLA Statistics, June 2020
[2] UK Finance, June 2020
[3] Cass YE-2019 CRE Lending Survey

Retail Finance

Highlights

- Organic origination of £1.3 billion (30 June 2019: £1.7 billion)
- Net lending to customers up 8% to £7.3 billion (2019: £6.8 billion)
- Segmental profit of £147.3 million (30 June 2019: £158.1 million)
- Cost of Risk at 19bps (2019: 6bps) reflects increased impairments due to Covid-19
- Winner of Best Guarantor/Assisted Mortgage Lender (What Mortgage Awards)
- Strong improvement in NPS to +55 (2019: +22) in the year reflecting continued excellent customer service
- Supported over a quarter of our customers with mortgage payment holidays relating to Covid-19

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m	Change %
Net loans to customers	7,326.5	6,791.6	8
Organic origination	1,293.3	1,725.0	(25)
Operating income	175.3	181.2	(3)
Administrative expenses	(15.1)	(19.1)	21
Impairment losses	(13.1)	(4.0)	(228)
Segmental result	147.1	158.1	(7)
Net interest margin (%)	2.5	2.9	(0.4)
Cost of risk (bps)	19	6	(13)

Performance

Retail Finance loan balances grew by 8% to £7.3 billion (2019: £6.8 billion) with originations of £1.3 billion (2019: £1.7 billion). Buy to let lending grew 4% in the year to £5.2 billion (2019: £5.0 billion) due to lower redemptions as increased focus on our customer loyalty proposition continued. Within our buy to let portfolio, there has been a slight shift in mix with Residential buy to let reducing to 75% (2019: 78%) and Specialist buy to let increasing to 25% (2019: 22%). After a strong first half, originations in Specialist buy to let fell back due to Covid-19 and overall were 15% down on the prior year. We continued to see lower originations (down 55% year on year) in Residential buy to let lending following regulatory changes, with customer activity also impacted by Covid-19 in the latter part of the year. Residential Owner Occupied balances grew 19% to £2.1 billion (2019: £1.7 billion) as originations increased 4% in the year due to strong growth in higher LTV products, supporting first time buyers and customers with non-standard credit profiles and redemptions reduced 10% reflecting our improved customer loyalty proposition.

Net interest income of £176.2 million (2019: £181.1 million) was impacted by a 28% increase in funding costs to £110.8 million (June 2019: £86.5 million), as a result of higher levels of deposit funding to support asset growth. Lower gross margins have also contributed to the reduction, particularly in buy to let where the gross interest margin reduced 27bps to 4.06% (2019: 4.33%) as a result of maturing loans at higher rates being replaced with new lower yielding loans as market rates generally reduced as uncertainty in the economy has remained high. Consequently, net interest margin has reduced to 2.5% (2019: 2.9%). The continued market trend of fee-free products further reduced income in the year. Administrative expenses reduced 21% to £15.1 million (June 2019: £19.1 million) due to lower marketing spend and a small reduction in people costs. Cost of risk increased to 19bps (2019: 6bps) driven by an impairment charge of £13.1 million (2019: £4.0 million) as a result of Covid-19.

Market and Strategy

Aldermore continues to have a strong reputation in the buy to let market as we have leveraged our expertise and experience in specialist buy to let to better support professional landlords. Our share of the specialist buy to let market currently stands at 7.1%[1] (2019: 11.2%), lower than the prior year due to reduced originations in the second half of the year as a result of Covid-19, more competition in the market and the positive impact of limited edition offerings on 2019 lending. The buy to let market appears to have been impacted to a lesser extent by Covid-19 than owner occupied, with originations for the five months to May 2020 at £16 billion[1] broadly in line with prior years. However, we have seen our market share reduce to 1.3%[1] at May 2020 (June 2019: 3.1%) due to limited edition product offerings in 2019 which have not been repeated coupled with the effects of Covid-19.

Within the Residential Owner Occupied market, originations remained broadly flat in 2019 compared to 2018, at £218 billion[1] (2018: £217 billion). In the five months to May 2020, originations were £72 billion[1], lower than in previous years as a result of an effective freeze on the property market during the Covid-19. At the end of 2019, we saw our share of originations reach 0.37%[1]. However, as at May 2020, this had fallen back to 0.25%[1], broadly in line with prior year (2019: 0.27%), as new entrants came to the market.

Our strategy for moving forward and growing the business will increasingly focus on Residential Owner Occupied. In the current environment and considering regulatory changes in the buy to let market, we believe that the Residential Owner Occupied market provides us with better and safer opportunities to grow our business. In the past year we have invested in a number of initiatives to simplify the broker journey, including the use of an Application Programming Interface ("API") to streamline data input requirements for applications, which was launched in early August 2020, and the roll-out of a Broker Switching Portal to all brokers. These investments will further improve our loyalty proposition by reducing the length and complexity of the broker journey.

During 2019, the mortgage market was relatively muted due to Brexit uncertainty with buyers and sellers taking a 'wait and see' approach. Furthermore, the buy to let sector has remained subdued due to the regulatory changes implemented in the past five years. However, in 2019 first-time buyer, home mover and buy to let lending performed broadly in line with 2018. Following the general election, many estate agents reported much higher interest levels emerging at the beginning of 2020, suggesting without Covid-19, a potential uptick in volumes in the Spring and Summer months.

During the Covid-19 lockdown restrictions, the property market saw an increase in the introduction of remote valuations by lenders which has been a major positive step forward, as they can be done in 24 hours rather than five days for a physical valuation. This was due to a reduction in the number of applications and focused around lower LTV products. However, it has provided increased confidence that the sector should be able to increasingly move to remote valuations sooner rather than later. Property sales are now beginning to recover, and physical evaluations have been reintroduced as higher LTV products return to the market, with HMRC reporting a 32 per cent jump month-on-month to 63,250 residential transactions in June 2020. However, this is still 36 per cent lower than June 2019. Savills updated their UK forecasts indicating a 7.5% drop in England in 2020 but they expect a bounce-back in 2021 and across their five-year forecast. Although limited product choice is hurting some would-be borrowers, most notably first time buyers, measures such as mortgage payment breaks, furlough schemes, and the low rate environment, have meant conditions are more positive for a quick recovery compared to previous downturns. The ability of businesses to remain afloat and keep people in employment will be crucial for many aspects of the UK's economic recovery, particularly in ensuring that consumers and landlords regain confidence in the property market and financial outlook to ensure mortgage volumes increase in the second half of 2020.

[1] UK Finance, May 2020

MotoNovo Finance

Highlights

- Organic originations of £1.7 billion (2 months to 30 June 2019: £0.3 billion)
- Net lending to customers at £1.8 billion (2019: £0.4 billion)
- Segmental loss of £33.0 million (2 months to 30 June 2019: £5.5 million loss)
- Impairment charge of £55.8 million (2 months to 30 June 2019: £3.8 million) reflects full year and Covid-19 impacts
- Supported over 16,000 customers (c.10%) with a Covid-19 related payment break
- NPS remained high at +69 (2019: +72), and TrustPilot rating continues to be "Excellent"
- Winner of multiple awards including 'Best Car Finance Provider' and 'Best Customer Service Provider'
- Launch of MotoRate risk-based pricing proposition in June 2020

	Year ended 30 June 2020 £m	2 month period to 30 June 2019 £m
Net loans to customers	1,823.5	364.8
Organic origination	1,714.5	293.1
Operating income	60.7	1.1
Administrative expenses	(38.0)	(2.1)
Non-underlying expenses	-	(0.7)
Impairment losses	(55.8)	(3.8)
Segmental loss	(33.1)	(5.5)
Net interest margin (%)	5.1	2. 4
Cost of risk (bps)	511	812

Performance

MotoNovo Finance started trading as part of the Aldermore Group on 5 May 2019 and all business written by MotoNovo Finance from this date is included within the financial statements of Aldermore Group. Additionally, MotoNovo Finance is responsible for servicing the existing MotoNovo Finance backbook business on behalf of the Branch, for which the Branch pay a service fee.

In MotoNovo Finance's first full financial year as part of the Aldermore Group, the loan book grew to £1.8 billion (2019: £0.4 billion) with originations of £1.7 billion (2019: £0.3 billion). Throughout the year, originations in MotoNovo Finance were broadly in line with previous levels seen in the MotoNovo Finance back book business.

Net interest margin of 5.1% (2019: 2.4%) was below expectations as a result of market driven rate pressures and the impact of better credit quality business which is written at lower gross margins reflecting the lower credit risk. The year on year improvement is reflective of the immaturity of the book in June 2019 which only included 6 weeks of origination. Administrative expenses of £38.0 million (2019: £2.1 million) exclude £39.5 million (2019: £9.7 million) of cost incurred in servicing the MotoNovo Finance backbook business which is recharged to FirstRand London Branch. Operating Income presented above excludes the corresponding income received from FirstRand London branch but includes the 8% arm's length mark-up of £3.2 million (2019: £0.7 million). Cost of Risk at 511bps (2019: 812bps) reflects an impairment charge of £55.8 million (2019: £3.8 million) as the impacts of Covid-19, including a worsening macroeconomic outlook, higher expected defaults and model changes, almost trebled impairment charges in the final four months of the year. 2019 Cost of Risk was affected by only 2 months of trading and opening net loans of zero.

Market and Strategy

The automotive industry is facing into a period of unprecedented change and investment as consumer preferences shift to electric vehicles supported by regulatory changes which promote desirability of electric vehicles by introducing restrictions and tariffs on traditional fuel vehicles. In addition, there continues to be uncertainty in the market related to Brexit and the potential impact of a 'no deal' Brexit on imports and exports in the market.

Competition is expected to intensify as new players gain traction and established players return their focus to the market, after a period of introspection and preparation for the FCA's final rules on the Motor Finance Review which were published in late July

2020. However, the recent Covid-19 pandemic and subsequent lockdown measures are likely to impact public sentiment for some time. Public nervousness around the use of public transport, together with social distancing measures in the workplace, will mean that online car sales will become increasingly important. This presents a great opportunity to drive the findandfundmycar.com platform which supports dealers and customers through a direct consumer website.

Demand levels in the new car market has been heavily impacted by Covid-19, with new car registrations down to 49%[1] in comparison to the prior year ending in June 2019. Despite major concerns around a potential price deflation in the used car market, the residual value has been steadily in line with CAP HPI Black Book prices, improving in July 2020 by 0.3%[2] following a significant deterioration in April. The car market is showing promising recovery indicators at this point. However, caution is advised as global economies remain volatile and speculation continues regarding a second wave of Covid-19. The impact of Covid-19 was felt towards the end of Q1 2020, with first quarter sales transactions falling by 8.3%[3] year on year. It is expected that April to June 2020 sales data will show a significant fall in the used car market year on year. However, for MotoNovo Finance, June and July have been record origination months as Government lockdown restrictions on car dealerships were lifted.

In June 2020, MotoNovo Finance launched MotoRate, its risk based pricing proposition, following a successful pilot scheme. MotoNovo Finance led the market in implementing MotoRate ahead of the FCA's final ruling on discretionary dealer commission and disclosure. MotoRate puts the customer at the centre of lending decisions based on their credit risk profile and increases fairness and transparency throughout the customer journey. For the dealer, it expands the market allowing them to advertise much more competitive rates and improve market penetration. For MotoNovo Finance it will allow the business to expand its market share, offer more competitive rates through the removal of discretionary dealer commissions and create better customer and dealer outcomes.

The FCA released its Policy Statement on 28 July 2020, which finalises new rules banning discretionary commission and updating its rules on commission disclosure. The rules come into effect from 28 January 2021. Following an extensive pilot period the business launched its risk based pricing proposition (MotoRate) in June 2020. MotoRate removes dealer discretion from the rate the customer receives and is being rolled out across the affiliated dealer network over the coming months. The business expects to be fully complaint with the new rules ahead of January 2021.

MotoNovo Finance holds an 18.2%[4] share (2019: 12.2%) of the used car finance market based on new business origination, gained through a mix of traditional MotoNovo Finance and the findandfundmycar.com platform which launched in January 2018. It had almost 2,500 dealers connected and over 120,000 live vehicles on the site as at the end of June 2020. Customer satisfaction remains high, with an NPS of +67 (2019: +72) and continued "Excellent" rating on TrustPilot while dealers rated their satisfaction at 8.7 out of 10 (2019: 8.9 out of 10). MotoNovo Finance has also won several awards in the year including Best Customer Service Provider (Collections and Customer Service Awards 2019) and Best Car Finance Provider (Consumer Credit Awards 2019) for the second year in a row.

[1] SMMT Car Registration
[2] CAP HPI Black book
[3] SMMT Used Car Sales
[4] FLA Motor Finance Benchmarking Statistics for the quarter to December 2019

Central Functions

Savings, Treasury and Support Functions

Highlights

- Retail deposits up by 29% to £7.7 billion (2019: £6.0 billion)
- SME deposits up by 3% to £2.2 billion (2019: £2.1 billion)
- Corporate deposits up by 13% to £974.6 million (2019: £862.0 million)
- Winner of moneynet.co.uk Best Fixed Rate ISA Provider in 2020 for the 3rd year running

Segmental result	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m	Change %
Operating loss	(19.1)	(4.8)	(298)
Underlying administrative expenses	(109.6)	(116.9)	6
Non-underlying MotoNovo Finance integration expenses	-	(4.7)	
Segmental loss	(128.7)	(125.9)	(2)
Retail deposits	7,701.1	5,967.2	29
SME deposits	2,210.7	2,142.5	3
Corporate deposits	974.6	862.1	13

Central Functions include Aldermore Group's Treasury function and Savings businesses, as well as Aldermore's 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. This does not include MotoNovo Finance central functions.

Performance

Operating loss includes net interest income and net fees and other income that is not recharged to the business segments. Net interest income predominantly includes the interest expense relating to the Tier 2 Notes. Net fees and other income includes income or expense arising from derivatives held at fair value in hedging relationships, net expense or income from derivatives not currently recognised as being in hedging relationships and gains or losses on disposals of debt securities. This year includes an £8.1 million fair value loss as a result of mark to market movements on the Group's loan portfolio hedging (2019: £3.8 million gain).

Central administrative expenses were £109.6 million (2019: £116.9 million) as continued investment in IT transformation and our change portfolio was offset by lower people costs driven by reduced headcount and lower travel costs partly driven by the impact of Covid-19. Non-underlying expenses in June 2020 were nil, whilst the prior year included £4.7 million of expense relating to integration activity for MotoNovo Finance into Aldermore Group.

The segmental result was a loss of £128.7 million (2019: charge of £125.9 million).

Market and Strategy

The UK savings market saw strong growth of 11%[1] over the last 12 months. This growth was particularly focused in the period of April to June 2020 as consumers reacted to Covid-19 by building up cash reserves to protect against future uncertainty. To support the economy as the Covid-19 pandemic hit the UK, the Government reduced the Bank of England base rate to a record low of 0.10% and introduced a Term Funding scheme with additional incentives for Small and Medium-sized Enterprises ("TFSME"). As a result, competition for deposits has fallen as Banks and Building Societies attempt to adjust their mix towards cheaper TFSME funding to preserve net interest margins and average product rates declined following the bank base rate cut. Within the Personal savings market, there have been relatively few new entrants. However, competition remained high as pricing did not follow underlying benchmark rates, such as the LIBOR, for the majority of the year. Despite the competition, Aldermore market share increased 0.1% to 0.6%[1]. Although the business savings market has seen increased competition from new entrants, our market share remained relatively stable.

The FCA announced proposals for a Basic Savings Rate ("BSR") that would mean banks and building societies would be required to apply a single interest rate to all easy access cash savings accounts, and to all easy access cash ISAs which have been open for a set

period of time (for example, 12 months). Whilst the proposal is that banks and building societies would decide the level of their own BSR and would be able to vary it, we believe it will incentivise the savings market, in an effort to retain more recently acquired customers, to offer higher rates than they have historically to the long term customers. It is our view, that the proposals in the consultation are a good step forward in ensuring that consumers can get the best possible rates on their savings. Existing savings customers of the Group already receive at least the same rate offered to new customers in equivalent current issue savings accounts.

[1] Bank of England

Corporate Responsibility

The Aldermore Group's purpose is to back people to fulfil life's hopes and dreams. Through our business approach, the Group backs customers, local communities and its own people through life's events. We know it's important to do this responsibly and in collaboration with our stakeholders. A business cannot deliver sustainable long-term returns without considering its wider impact on society.

Our people

Aldermore's key strength is its people and it is through them that we back our customers and continue to succeed. Recognising, valuing and rewarding their contribution is central to our philosophy. Therefore, Aldermore has continued to place significant focus on building a great place to work, including how we encourage diversity in our workplace.

During the past year, Aldermore has taken a range of steps to ensure that its employees are regularly provided with information and guidance on matters of concern to them, which has been even more important during the Covid-19 crisis. Examples include:

- Weekly and monthly Groupwide colleague newsletters;
- Intranet articles;
- Weekly CEO all-colleague briefing during the Covid-19 crisis;
- Weekly well-being sessions during the Covid-19 crisis; and
- Regular face to face sessions with senior leaders at many of our sites or by video conference.

Employees are regularly asked for their views on a range of issues, activities include:

- Quarterly employee 'pulse surveys';
- Monthly well-being surveys during the Covid-19 crisis;
- Colleague focus groups; and
- Network groups.

Aldermore also makes all colleagues aware of the financial performance and economic factors affecting the Group by ensuring they are briefed on a half-yearly basis when we publish our results. This is delivered in a multi-channel approach to ensure that the information is provided in a format which colleagues value.

1. Diversity in the workplace

Diversity and Inclusion ("D&I") is important to Aldermore and has become a standing item on its monthly Executive Committee ("ExCo") agenda, to give it the importance and visibility it deserves. Aldermore's D&I group has also provided increased support and focus, in the pursuit of promoting positive mental health and building more employee networks. Key work streams have been established with a broader D&I agenda, each with an accountable ExCo sponsor, and are committed to the delivery of practical and implementable solutions:

- *Value our Differences* – focussed on changing mind sets and increasing awareness of, education around, and engagement with D&I;
- *Inspiring Future Female Talent* - focus on female specific development to ensure we are recruiting, encouraging, empowering and elevating female talent;
- *BAME* – building mentoring and networking opportunities to help our BAME colleagues thrive;
- *Mental Health* – building on the good work to date supporting colleagues with 'Wellbeing Wednesday' webinars and a programme of events for Mental Health Awareness Week; and
- *LGBTQ+* – partnering with Stonewall to help better support our LGBTQ+ colleagues through the creation of employee networks, inclusive policies and events to increase awareness and engagement.

Aldermore is committed to equal opportunities for all of its people, irrespective of gender, race, colour, age, disability, sexual orientation, or marital or civil partner status.

2. Our Culture

Aldermore's Big Conversation Annual Survey has been reformed into quarterly 'pulse surveys' made up of short questions that reflect current trends or issues. This change will ensure there is regular insight as to how colleagues are feeling and what issues or changes need focusing on.

The new surveys will help create a more transformational approach, framed around our cultural values, which make employee engagement part of the everyday BAU, enabled through frequent, real time feedback that can be acted upon to deliver the best results for employees and customers. This is also aligned to the emerging themes we are seeing from our work in developing the Employee Value Proposition ("EVP") and directionally will help us make early changes to support our employee experience.

These pulse surveys are supported by quarterly Big Conversation starters which are manager led team conversations on key topics aligned to our Promises and encouraging the continuous improvement culture.

Impact of Covid-19

Of the two initial pulse surveys that were undertaken at the beginning of the Covid-19 lockdown, the response rates were 82% and 89%. In the April survey, we asked colleagues about how well Aldermore had responded to the crisis and 82% of colleagues scored eight out of ten for how well they felt the organisation had responded to the crisis (and over 50% scored 9 or 10). In addition, 82% of colleagues agreed or strongly agreed that their wellbeing was seen as a priority.

In June, we asked colleagues about how they were feeling about returning to the office. A majority of colleagues' concerns were social distancing in the office, travelling/commuting, and childcare. When it came to what would make them feel more comfortable returning to the office, top of the list was physical distancing at work, including a reduction of the number of people in the office, and flexible working. In response, as part of Aldermore's back to the office planning, the Group has begun to bring back a small number of colleagues into the main hub offices of Reading and Manchester, as well as beginning to introduce a blended working policy that allows colleagues to work partly remotely and partly in the office during the week.

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

- Development of employee value proposition underway to create the narrative of what it is like to work at Aldermore, and ensure consistency of employee experience to help attract and retain talent;
- Competency frameworks under development, which will provide the foundations for career mapping and clear development pathways – the first phase of which will be to develop the core/ leadership frameworks followed by functional competencies;
- Pilot launched of 'Leading for the Blueprint' management development programme;
- 10 Aldermore mentees and 10 mentors participated in the '30% Club' mentoring scheme which offers cross-company, cross-sector mentoring to women at every layer of the career pyramid;
- Through the "More Awards", Aldermore's colleague recognition awards, saw 188 peer to peer nominations, with 28 quarterly winners and 10 annual winners recognised.

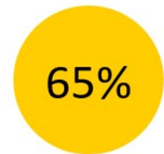
Our employee statistics for June 2020 and June 2019:

	June 2020	June 2019
Number of Group employees	1,966	1,806
Number of Group female employees	865	803
% of Group female employees	44%	44%

As at 30 June 2020, three out of ten Directors were female (2019: three out of 11 were female), and nine out of 42 Senior Managers were female (2019: 11 out of 44 were female).

Below are also some examples of the improving employee trends the Aldermore Group has recorded during the financial year:

Our Glassdoor rating for 'Culture and Values' has improved from 2.2 to 3.5 (out of 5) over the last 18 months



Percentage of people who would 'Recommend (Aldermore) to a Friend' has increased from 32% to 65%.

Since January 2018, employee turnover has steadily reduced from 23.3% to 15.3% in February 2020.

Perhaps more importantly in terms of establishing the right culture, voluntary turnover has reduced from 17.6% to 12.3% over the same period.

Our communities

The SMEs, landlords, homeowners, savers and vehicle owners that work with Aldermore, in turn support the communities in which they live and work. We understand that we have a responsibility to be part of these communities. We're also mindful of the effects of our actions on the environment and ensure that these are managed in a way that limits these impacts. Recycled paper is used throughout the Group for printing and recycling facilities are located in all offices to reduce the amount of waste we send to land fill.

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

- Actively involved with industry bodies including UK Finance, the FLA, and IMLA;
- A member of the Banking Standards Board; and
- A signatory of the Women in Finance Charter.

We give back to the communities where we operate

Aldermore and MotoNovo Finance both select a charity of the year that are nominated and voted for by their employees. Up until June 2020, Aldermore's charity was Mind with colleagues raising more than £25,000. Mind is a national charity which offers information and advice to people with mental health problems. From July 2020, Aldermore's Charity of the Year is Macmillan Cancer Support.

Aldermore also operates an employee £ for £ charity matching scheme. Many employees raise funds for their charity of choice and Aldermore supports them by matching up to £250 of money raised. This year over £8,000 has been paid to various charities under this scheme.

MotoNovo Finance raised over £99,000 for charity this year, with 50 per cent of funds raised going to their charity of the year Latch, a children's cancer charity based in Wales. Some other key donations were:

- £40,000 campaign to donate across the UK during Covid-19 to 20 different charities (donating £2000 to each charity)
- £13,819 of donations was paid out to 20 different charities that were nominated by staff from funds that had previously been collected from each member of staff paying a £1 for dress down Fridays

The Aldermore Group also launched a Covid-19 emergency appeal during the initial crisis which raised £39,641 in total and was distributed:

- National Emergencies Trust appeal (employees raised money for this which supports many charitable organisations across the UK to continue their great work during the pandemic) = £27,749 (70%)
- £5,946 to Mind (15%)
- £5,946 to Latch (15%)

Human Rights and Modern Slavery Act

Aldermore Group Plc, and its principal operating subsidiaries, Aldermore Bank Plc and MotoNovo Finance, take a zero tolerance approach to slavery and human trafficking.

As a UK group with a growing number of international suppliers, the Aldermore Group recognises that there is a risk (however small) for slavery or human trafficking to occur in its supply chains.

The Group has taken appropriate steps to ensure that slavery or human trafficking is not taking place in its supply chains by reviewing its existing business and supply chains; reviewing and revising its procurement processes; changing its due diligence processes; conducting a risk assessment with due regard to the sector and geographical locations in which its suppliers operate and disseminating relevant information through its businesses by means of its procurement and due diligence processes to ensure Group wide awareness of the risks of slavery and human trafficking in supply chains.

As part of its supplier on-boarding process, Aldermore engages with its suppliers to seek assurances about their anti-slavery and human trafficking policies and whether they are taking steps to prevent slavery and human trafficking in their respective business and supply chains. Aldermore will not support or engage suppliers where it is aware of slavery or human trafficking in such suppliers' businesses or supply chains.

In addition, Aldermore uses new supplier due diligence documentation to include confirmations from suppliers on anti-slavery and human trafficking compliance.

Anti-Bribery

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

Section 172 Statement

This section of the Strategic Report describes how our Directors have had regard to the matters set out in section 172 (1) (a) to (f) of the Companies Act 2006.

Directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Directors recognise that having regard for these matters through effective stakeholder engagement is crucial in shaping and working towards shared goals which deliver long-term sustainable success. The Board balances the competing priorities of the Company’s various stakeholders by considering the long-term implications of its decisions. This includes considering policies and decision making made by the shareholder which the Group is required to implement. The Board engages directly with stakeholders, and also indirectly through reporting from the Executive team. Details of how our Directors have engaged with the Company’s stakeholders during the year are set out below.

Decisions affecting stakeholders of the Company’s subsidiaries are made by the Board where matters are of Group-wide significance, or have the potential to impact the reputation of the Group, with directors of each company in the Group ensuring that they meet their duties to their respective companies.

Covid-19 impact

The global Covid-19 pandemic presented challenges not seen before on this scale. As a result, all of the Group's markets have faced significant challenges. In mortgages, estate agents were closed for weeks, valuers were unable to assess properties, and solicitors, because of the manual processes involved, had around £82 billion of house sales in the UK on hold. In other business areas, car dealerships closed which impacted on MotoNovo Finance's market and those SME customers in sectors like transport, construction and hospitality became severely affected with many requiring forbearance or additional support measures. Further detail of how Covid-19 affected different aspects of our business and how we have responded can be found on pages 6 to 9 of the Strategic Report.

Customers

Our long-term sustainable success is only possible with a customer-centric business model. Customer impact is therefore critical to the Board's decisions.

Our Chairman introduced a programme of deep dives in 2019, providing the opportunity for a focused discussion at each Board meeting on a particular area of the business, led by the Managing Director for that area. This has provided Directors with a greater depth of understanding of the needs of our customers, and the issues and opportunities in each area of the business.

Employees

Our people are the foundation of our business and underpin our business strategy.

During the past year, and as part of supporting the delivery of our One Aldermore Blueprint, we are developing our Employee Value Proposition which has helped us to communicate our culture; what it's like to work here, what matters to us and what we can expect from each other as we build a business we're all proud to be a part of. We have taken a range of steps to ensure that our employees are systematically provided with information on matters of concern to them, details of these can be found on page 25.

We have set out in our Corporate Responsibility statement how we make Aldermore a great place to work.

Our Chief People and Transformation Officer provides a people update to each Board meeting and during 2019, presented findings from our annual employee survey, as well as the results of our participation in the Banking Standards Board's ("BSB's") annual survey, which measures the key elements of the culture of member firms. The BSB is an independently-led body that promotes high standards of behaviour and competence across the UK banking industry. The Chairman invited BSB's CEO to present to the Board on findings from our participation in the 2019 survey as compared to peer firms and, as compared to findings in 2017, when we last participated. The Board's discussions centred around the customer focus questions in the survey, and management's work to embed those aspects of the One Aldermore Blueprint aimed at enhancing customer focus.

In 2020, the Board moved to holding its meetings across various regional offices, increasing its engagement with colleagues based at those offices. The first of these meetings was held in February 2020 at the offices of MotoNovo Finance, where the Board met MotoNovo Finance colleagues through a 'Meet & Greet' speed networking event. The Board has acted on feedback from that session on the desire for further integration between MotoNovo and Aldermore to be accelerated by supporting management to progress this.

In addition, informal "Chats with the Chairman" were held throughout the year at the Company's various offices, providing colleagues with the opportunity to engage openly on matters of significance to them. As an example, colleagues in our Retail Finance business based in our Manchester office took the Chairman through their successful initiative to simplify communications, both internally and with customers. The Chairman has since encouraged management to adopt learnings from that initiative across the wider business.

In reviewing the Company's Gender Pay Gap and Women in Finance data, the Board discussed initiatives to increase momentum in this area and support the career progression of women in Financial Services. The Board's wider diversity discussions have focused on the importance of attracting and retaining a strong pipeline of diverse talent, and the need to attract diverse candidates to certain under-represented areas, such as sales and distribution. The Board is supportive of the initiatives which management has put in place to accelerate the pace of progress towards a more diverse workforce.

Suppliers and Distribution Partners

The Board receives regular management information on supplier and distribution partners' performance, as well as updates at each Board meeting from the Chief Operating Officer, who has responsibility for third party oversight arrangements. Both of the Group's operating subsidiaries (MotoNovo Finance and Aldermore Bank) are required to report twice a year, their payment metrics, including the average time taken to pay supplier invoices, which provides insight into their underlying payment and procurement processes. We proactively reached out to suppliers when the Covid-19 crisis struck, highlighting who they should contact if they had an issue and encouraging them to go on-line during the period as we would be able to service their needs in a more timely fashion. Within the 6 month period to June 2020, we paid 83% of our suppliers within our pre-agreed credit terms (71% in the 6 month period to December 2019), and we continue to settle 99% of all invoices within a 60 day period, showing our ongoing commitment to support and engage with our suppliers during the period and most notably during Covid-19.

During the year, the Board considered the Company's annual statement setting out the steps taken to prevent modern slavery in the business and its supply chains. The Board requested a review of controls in place within supplier due diligence processes to prevent slavery and human trafficking, which was progressed by management.

Community and Environment

As part of our purpose, we feel strongly about backing people who have been underserved by the bigger banks and giving back to the communities we operate in. Details of how we support the communities which our customers and employees live and work in are set out in our Corporate Responsibility statement.

During the year, the Board supported management's plan for addressing the requirements within the PRA's Supervisory Statement on 'Managing the Financial Risks from Climate Change', approving the allocation of responsibility for identifying and managing financial risks from climate change to the Chief Risk Senior Management Function ("SMF 4"). The Board expects developments on climate change to evolve rapidly, seeing these as being consumer-led as opposed to being led by regulation.

Regulators

We have regular, open and transparent dialogue with our regulators, ensuring that we remain aligned with evolving regulatory priorities. Throughout the year, our Chairman and our Executive Directors have met with our regulators, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The PRA also held routine meetings during the year with other Non-Executive Directors. In addition, the Prudential Authority of the South African Reserve Bank, which regulates our parent company, FirstRand, met our Chief Executive Officer and our Senior Independent Director during the year.

Investors

The interests of our Shareholder are represented on our Board by our Shareholder Directors, Alan Pullinger and Harry Kellan. Shareholder representatives are also invited to attend meetings of our Risk Committee and our Audit Committee.

Our Senior Management team meets regularly with our securitisation programme debt investors.

Energy and Carbon Reporting

UK energy use and associated greenhouse gas emissions

The Group is pleased to report its current and historic UK based annual energy usage and associated annual greenhouse gas ("GHG") emissions pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") that came into force 1 April 2019.

Organisational boundary

In accordance with the 2018 Regulations, the energy use and associated greenhouse gas emissions are for those within the UK only that come under the operational control boundary. Therefore, energy use and emissions are aligned with financial reporting for the UK subsidiaries, Aldermore Bank PLC and MotoNovo Finance Limited. There are no non-UK based subsidiaries.

Reporting period

The annual reporting period is 1 July to 30 June each year and the Group has taken the opportunity to voluntarily report on energy consumption and emissions back to 1 July 2018 which coincides with the Energy Saving Opportunity Scheme ("ESOS") Phase 2 reference period.

Quantification and reporting methodology

This report was compiled independently by energy consultants Briar Associates (Briar Consulting Engineers Limited). The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed to ensure the Streamlined Energy and Carbon Reporting ("SECR") requirements were met and exceeded where possible.

The energy data was collated using existing reporting mechanisms (ESOS Phase 2 for 2018/19) to provide figures back to July 2018. These methodologies provided a continuous record of electricity and transport data (consisting of company cars and employee-owned vehicles) available within the ESOS reports.

This energy data was converted to carbon emissions using emission factors provided by the Department of Business, Energy & Industrial Strategy that relate to the beginning of each respective reporting year. The associated emissions are divided into the combustion of fuels and the operation of facilities (scope 1), purchased electricity (scope 2) and in-direct emissions that occur as a consequence of the Group's activities (scope 3).

Estimations

Estimates of energy consumption have been made in the limited cases where data has not been made available from suppliers or landlords. In some cases, data has been pro-rated to match the reporting period. Where office space is within multi-tenanted buildings with central building services, a mixture of benchmark and prorating has been used to estimate the heating and cooling loads.

Base Year

The year 1 July 2018 to 30 June 2019 has been chosen as the base year due to the completeness and accuracy of data reported in accordance with ESOS Phase 2. The base year will be retroactively recalculated in the event of significant changes to the company, such as structural changes, changes in methodology or improvements in the accuracy of data. Our base year recalculation policy defines the significant threshold as 10% of base year emissions. The data for year ended 30 June 2019 includes 12 months of data for MotoNovo Finance.

Breakdown of energy consumption used to calculate emissions (kWh):	Year ended 30 June 2020	Year ended 30 June 2019
Company owned vehicles	1,280,093	2,276,366
Diesel	-	3,265
Electricity	1,261,974	1,727,942
Heat, steam and cooling[1]	1,396,713	1,256,077
Employee owned vehicles where the Group purchases the fuel	675,142	721,546
Total gross energy consumed	4,613,922	5,985,196

[1]This includes heat provided by natural gas-fired plant not under direct operational control as a result of occupying multi-tenanted buildings where space heating is part of the service costs. For the purposes of SECR this is treated as a Scope 2 emission.

The impact of Covid-19 has significantly reduced the Group's emissions due to changes in working practices with reduced office occupancy and reduced business travel.

Breakdown of emissions associated with the reported energy use (tCO_2e)	Year ended 30 June 2020	Year ended 30 June 2019
Scope 1		
Company owned vehicles	317	634
Diesel	-	1
Total Scope 1	317	635
Scope 2		
Electricity	323	442
Heat, steam and cooling	257	231
Total Scope 2	580	673
Scope 3		
Employee owned vehicles where the Group purchases the fuel	193	207
Total Scope 3	193	207
Total gross emissions	1,090	1,515

Intensity Ratio

We have chosen to use gross tonnes of carbon dioxide equivalent emissions per employee. This metrics is chosen as they are the most readily available and complete data over the period and help ‘normalise’ the data.

	Year ended 30 June 2020	**Year ended 30 June 2019**	**Change %**
Tonnes of CO_2e per employee[1]	0.6	0.8	(34)

[1] Average number of employees within the reporting period was 1,966 (2019: 1,792). This includes 12 months emission data for MotoNovo Finance to 30 June 2019 and 12 months average employee numbers to 30 June 2019.

The reduction in the emissions per employee per year of 34% from the base year reveals that the gross emissions reduction of 28% (425 tCO2e) is consistent with a positive business performance while continuing to bring emissions down. It is also recognised, that significant reductions in energy use have been due to changes in working practices in response to Covid-19, which has reduced occupancy within office spaces and reduced business travel.

Energy efficiency action during current financial year

The management of resources is an important issue for the Group. Energy management issues fall within the remit of the Climate Change Working Group made up of members from key departments. Some of the actions implemented follow recommendations that were identified in the latest ESOS audits. In the year 1 July 2019 to 30 June 2020, the Group has undertaken the following actions to improve energy efficiency:

- Regular reporting to the Climate Change Working Group;
- Reviewed and implemented office-based initiatives as highlighted in the ESOS audit, including:
    - Air Conditioning usage across the estate, including server and comms rooms, which is estimated to have reduced energy associated with IT cooling by 10%; and
    - Implemented energy saving modes in high use peripherals such as coffee machine, boiler taps and AV equipment.
- Held regular reviews with third party suppliers, including building management teams and contractors to ensure energy efficiency is highlighted and implemented where possible for new and existing measures. Savings for these changes have not been quantified.

This Strategic Report on pages 4 to 15 and the principal risks and uncertainties on pages 38 to 40, were approved by the Board and signed on its behalf by:

Claire Cordell

Director

27 August 2020

Corporate Governance Structure

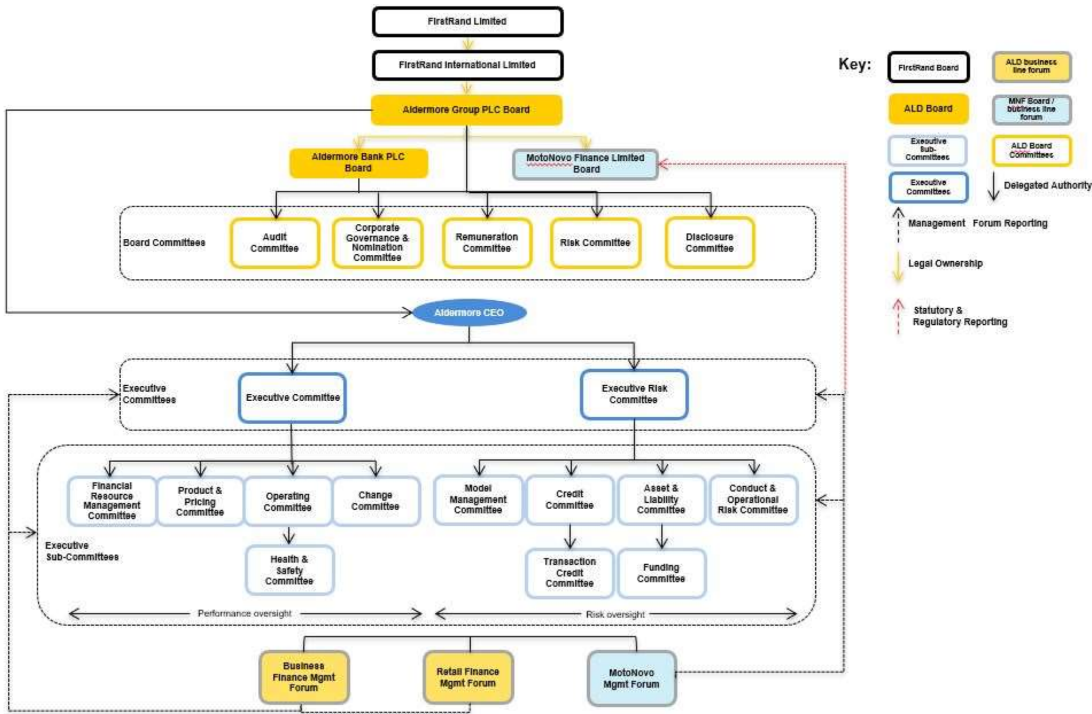
The Board has delegated a number of its responsibilities to Board Committees, which utilise the expertise and experience of their members to examine subjects in detail and make recommendations to the Board where required. This delegation allows the Board to focus more of its time on strategic and other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

The Board of Aldermore Group and its subsidiary undertakings are committed to implementing a well-defined and well-structured corporate governance framework to achieve long-term sustainable success.

Aldermore Bank and MotoNovo Finance are wholly owned operating subsidiaries of the Aldermore Group. The Boards of the Group, the Bank and MotoNovo Finance generally meet concurrently. The Bank is authorised by the PRA and regulated by the FCA and the PRA. MotoNovo Finance is authorised and regulated by the FCA.

The Board is committed to the highest standards of corporate governance and best practice. The Board recognises that effective governance is key to the implementation of our strategy for our shareholder and wider stakeholders. Aldermore Group has applied the Wates Corporate Governance Principles for Large Private Companies for its financial year ending 30 June 2020.

Governance Structure Diagram



The Wates Corporate Governance Principles

For the year ended 30 June 2020 the Group has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles" or the "Principles"), published by the Financial Reporting Council ("FRC") in December 2018.

The Wates Principles provide a framework for the Board to monitor corporate governance standards across the Group, ensuring that the business remains aligned to its purpose, and seeing where governance standards can be raised to a higher level. We believe application of the Principles results in better engagement with our stakeholders, including customers and distribution partners, employees, and suppliers, and ultimately better outcomes for those groups, and for our wider stakeholders, including the communities in which the business operates, and the environment.

The table below summarises the six Wates Principles and indicates where more information can be found in the strategic and governance reports. Throughout 2021, the Board will continue to review opportunities to strengthen corporate governance.

Principle	Summary	Page
Purpose and leadership	The Board is responsible for the overall leadership of the Group, and for promoting the Group's culture and values, whilst at the same time considering how to implement policies and decisions made by the shareholder. The focus of the Board and the Executive Committee over the past year has been on the implementation of the One Aldermore Strategic Blueprint (the "Strategic Blueprint"), which is made up of three parts: i. Our Purpose – "Backing people to fulfil life's hopes & dreams"' is why we exist; ii. Our Shared Value Drivers define what we'll do to drive progress and deliver our purpose. (Nimble, lean and strong, compelling customer service, and, transformative partnerships and communities); iii. Our cultural values define how we behave, and how we do things. The Board is responsible for approval of the Group's strategic plans, which aim to generate long-term sustainable value.	4 24 27
Board composition	The Board comprises ten directors – the Chair, two executive directors, six independent non-executive directors, and two shareholder non-executive directors. The non-executive directors bring outside experience across a range of areas, including finance, banking, strategy, risk, communications, brand and technology, and provide constructive challenge and influence. The composition of the Group Board is partly determined by the agreement with the shareholder. All Board appointments are subject to a formal, rigorous and transparent procedure and are made on individual merit against a defined job specification and criteria. The Company seeks to ensure that at least half the Board, excluding the Chairman, is made up of independent non-executive directors, and is diverse in terms of gender, social background and ethnicity. The process is overseen by the Board Corporate Governance and Nomination Committee, which ensures candidates from a diverse range of backgrounds are considered on merit and against objective criteria, with due regard for the benefits of diversity on the Board. The effectiveness of the Board and its committees is formally evaluated on an annual basis by means of completion of a self-assessment questionnaire by each Board member, followed by review meetings between the Chair and individual Directors. The Senior Independent Director is responsible for appraising the performance of the Chair. Progress against recommendations arising from the annual effectiveness review is monitored by the Board, and findings inform Board succession planning. The Board assessed its effectiveness in June 2020, with a combination of questionnaires and discussions. It examined board composition, dynamics, decision-making and how the	4 45 24

	Board spent its time. It evaluated the effectiveness of individual directors, the Board committees and the company secretary. It assessed its governance response to the Covid-19 pandemic. This assessment concluded that the Board and the individual directors have been effective over the last year and identified preparation needed for future challenges. The Board agreed to fine-tune board composition to add more digital expertise and to become more diverse. It identified areas where it should improve its oversight of strategy execution and change. It resolved to build more forward and outward looking time into the Board agenda. It also decided to plan for an environment where board meetings alternate between face-to-face and remote.	
Directors' Responsibilities	The Board has an independent Chair to ensure that the balance of responsibilities, accountabilities and decision making is effectively maintained. The non-executive directors provide constructive challenge in the Board's decision-making processes. The Board receives regular reports on business, financial performance, colleague matters and engagement, stakeholders, and key business risks. The Board has established an Audit Committee, a Risk Committee, a Remuneration Committee and a Corporate Governance and Nomination Committee. Each of these committees has clearly defined Terms of Reference, and the Board receives regular updates on the activities and decisions of each committee. The Audit Committee is comprised entirely of independent non-executive directors, and the Risk, Remuneration and Corporate Governance and Nomination Committees are comprised entirely of non-executive directors, the majority of which are independent. The Board regularly reviews governance processes the quality and integrity of management information and the effectiveness of internal processes and controls. The Board adheres to rigorous processes for the identification and management of conflicts of interest which might arise.	33
Opportunity and Risk	The Board seeks out opportunity while mitigating risk. Long-term strategic opportunities are evaluated by the Board. The Risk Committee plays a key role in providing oversight of and advice to the Board on the current risk exposures and future risk strategy of the Group, including the development and implementation of the Group's Risk Management Framework. It also oversees performance against the Group's approved risk appetite. The Executive Risk Committee assists the Chief Executive Officer in designing and embedding the Group's Risk Management Framework, monitoring adherence to risk appetite statements, and identifying, assessing and controlling the principal risks within the Group.	38
Remuneration	The Remuneration Committee has clearly defined terms of reference and is responsible setting the remuneration policy, and recommending and monitoring the level and structure of remuneration for the Chair of the Board, all executive directors, members of the senior leadership team, and any identified staff, including pension rights and any compensation payments. Pay is aligned with performance, taking into account fair pay and conditions across the Group's workforce. The committee takes advice from independent external consultants who provide updates on legislative requirements, market best practice and remuneration benchmarking.	41 42
Stakeholder relationships and engagement	At the heart of the Strategic Blueprint is our Purpose – "*Backing people to fulfil life's hopes and dreams*. It's a statement fundamentally aimed at our customers (including our intermediary partners) because they are the reason we exist and it signifies the role we play in their lives. The Section 172(1) Statement on pages 27 to 29 sets out the details of some of the engagement that takes place at an operational or Group-level with key stakeholders.	47 24 4

Audit Committee Report

The Committee is comprised of Independent Non-Executive Directors. John Hitchins, a qualified chartered accountant, was appointed Chair of the Committee in May 2014, and the Board remains satisfied that he has recent and relevant financial experience. The other members of the Committee are Peter Shaw (appointed 4 September 2014), Danuta Gray (appointed 3 July 2019), Cathy Turner (appointed 3 July 2019) and Desmond Crowley (appointed 1 May 2020). Chris Stamper was a member of the Committee until his resignation from the Board on 3 July 2019.

The Committee's principal responsibilities are:

- Monitoring the integrity of the Group's financial statements, including reviewing whether appropriate accounting standards have been followed, and reviewing key areas of judgement.
  During 2019/20, the Committee:
  - Approved the Pillar 3 disclosures as at 30 June 2019;
  - Recommended the Annual Report and Accounts of the Company, the Bank and MotoNovo Finance, for the year-ended 30 June 2020, to the respective Boards for approval;
  - Significant matters and key areas of judgement reviewed by the Committee in respect of the Annual Report and Accounts for the year to 30 June 2020 were:
    - Loan impairment provisions, reviewing the Group's approach to interpreting the IFRS 9 accounting standard, particularly in the light of the Covid-19 pandemic, challenging and reviewing the key assumptions and judgements underlying the provisions, including management overlays and the validity of forward looking indicators applied as well as the adequacy of disclosures shown in the Annual Report. In particular this year the Committee reviewed the implementation of the FirstRand Group's approach to identifying the level of provision needed for those cases among customers requesting forbearance in relation to the Covid-19 pandemic who represented a significant increase in credit risk. The Committee concluded that management's approach and assumptions were appropriate;
    - Assumptions on loan asset expected lives within the Effective Interest Rate accounting models. The Committee endorsed the judgements made by management;
    - The review and approval of the transition and disclosures relating to IFRS 16. The Committee further considered the accounting treatment of Asset Finance and MotoNovo Finance leases under IFRS16 for all new transactions from 1 July 2019 as well as the lease modifications proposed within these portfolios due to Covid-19. The Committee concluded that management had adopted the appropriate disclosures and treatment for these portfolios in light of Covid-19; and
    - As a result of the Covid-19 pandemic, recognising that management would need to undertake a far more detailed and rigorous analysis of the Group's Going Concern statement, which would include additional stress scenarios and a thorough review of the long-term planning of the Group. The Committee further considered the need for enhanced disclosures in the Annual Report. The Committee recommended that the Group's Annual Report and Accounts should be prepared on a Going Concern basis and the statement should be approved by the Board.

- Monitoring the effectiveness of the Group's internal control systems.
  During 2019/20, the Committee:
  - Approved the annual Money Laundering Officer's Report;
  - Conducted an annual review of the Group's whistleblowing arrangements, concluding that these were adequate;
  - Assessed the Group's systems of risk management and internal controls and concluded that, overall, the internal control environment was satisfactory; and
  - Concluded, following the annual review of the Group's disclosure controls and procedures, that these remain fit for purpose.

- Reviewing the effectiveness of the Group's Internal Audit ("GIA") function, and reviewing GIA reports and monitoring management's responsiveness to findings and recommendations. Due to the Covid-19 pandemic, the GIA effectiveness review has been rescheduled to be undertaken in the first quarter of 2020/21 and will be assisted by a questionnaire to Committee members and members of senior management in order to obtain feedback on GIA's calibre and approach.
  Specifically, during 2019/20, the Committee:

- Approved audit plans for GIA reviews across both Aldermore and the MotoNovo Finance business covering the period from July 2020 to June 2021;
- Approved an updated GIA Charter;
- Approved the GIA 2020/21 Skills and Capability Self-Assessment;
- Reviewed quarterly reports from GIA on the output of the function's work, progress against the plans for 2019 to 2020 and management's progress on remediation of issues;
- Considered the impact of working from home arrangements on the work of GIA; and
- The Chair of the Committee met regularly with the Director of GIA. The Committee also held a private session with the Director of GIA. Due to the Covid-19 a planned meeting between the Committee and the wider GIA team has had to be postponed.

- Overseeing the relationship with and independence of the external auditor, Deloitte LLP ("Deloitte"), appointed with effect from 1 January 2017.
  Specifically, during 2019/2020, the Committee:
  - Approved the appointment of Deloitte to review the consolidated interim net profits of the Bank for the period from 1 July 2019 to 31 December 2019;
  - Reviewed the external audit plan for 2019/2020, as well as Deloitte's terms of engagement and approved their 2019/20 fee proposal. This review included consideration of the experience of the audit team assigned;
  - Considered the impact of working from home arrangements on Deloitte's ability to execute the annual external audit;
  - Considered the external auditor's assessment of their own independence;
  - Reviewed the Group's Combined Policy on Non-Audit Services, Auditor Independence and employment of former employees of the Auditor and monitored non-audit services provided by the external auditor. The Committee also monitored adherence to additional governance requirements in relation to the engagement for non-audit services of PricewaterhouseCoopers LLP, joint auditor with Deloitte for the FirstRand Group;
  - Reviewed control observations made by the external auditor, including management's responses;
  - Reviewed representation letters to the external auditor and recommended these for Board approval;
  - Met privately with the senior members of the Deloitte audit team. In addition, the Audit Committee Chair met regularly with Deloitte during the period to facilitate effective and timely communication; and
  - Assessed the effectiveness of the external auditor and recommended the re-appointment of the external auditor. In addition to the matters above, this assessment considered periodic reviews by the Financial Reporting Council ("FRC") of the audits carried out by Deloitte and the Deloitte audit team's contribution to the Audit Committee's discussions. This conclusion was supported by the receipt in 2020 of a report from the FRC on their review of the Deloitte audit of the Aldermore Group for the year ended 30 June 2019. The FRC concluded that only limited improvements were required to the audit, all of which the external auditors have addressed in the 2020 audit.

Additionally, the Committee undertook a review of its own effectiveness as part of the wider Board and Committee evaluation exercise. The review took the form of an internal evaluation and was principally conducted by way of a questionnaire that was issued to all Committee members.

The review covered various areas including: the role and remit of the Committee; the effectiveness of the Chair; the appropriateness of information provided to the Committee and the relationship with management. In August 2020, the Corporate Governance and Nomination Committee discussed the outcome of the review, concluding that the Audit Committee operated effectively and there were no significant areas for concern.

The Committee also carried out a review of its own Terms of Reference during 2019/20. A number of minor updates were recommended to and approved by the Board.

Risk Committee Report

The Committee is comprised of Non-Executive Directors. Peter Shaw was appointed as a member of the Committee on 4 September 2014, and as Chair with effect from 27 February 2015. The other members of the Committee are Desmond Crowley (appointed 1 May 2020), Danuta Gray (appointed 3 July 2019), John Hitchins (appointed 28 May 2014), Harry Kellan (appointed 1 July 2020), Alan Pullinger (appointed 1 July 2020) and Cathy Turner (appointed 3 July 2019).

The Committee's key role is to provide oversight of and advice to the Board on the current risk exposures and future risk strategy of the Group, including the development and implementation of the Group's Risk Management Framework, and for ensuring compliance with the Group's approved risk appetite.

The Committee continued to have an open and transparent relationship with our regulators and during the year considered feedback in respect of the ongoing suite of regulatory reviews and activity, both specific to the Aldermore Group and industry-wide.

Areas of focus

Key matters discussed by the Committee during the year are set out below. In addition, pages 55 to 57 provide a summary of the principal risks faced by the Group and key mitigating actions and an overview of emerging risks, along with recent and anticipated future developments. Further information on the Group's approach to risk, including the associated governance framework for managing risk, stress testing and a full analysis of the principal risks, are set out in the risk management section on pages 50 to 57.

Overarching risk profile

The Committee carried out reviews across the Group's principal risks on a regular basis. In addition, the Committee approved changes to risk metrics, triggers and limits.

Covid-19 impact

A key focus for the Group during the latter part of 2019/20 was the impact of Covid-19. The Committee scrutinised key risks emerging from the crisis and their impact on the Group's risk profile. The Committee's discussions focused on operational resilience, liquidity and funding considerations, customer vulnerability, and the impact of material increases in forbearance requests on the Group's credit portfolios and on its operational capacity. In considering these matters, the Committee took into account the views of first line personnel, Risk and Group Internal Audit.

Frameworks

During the year, the Committee approved reviews of the effectiveness of Risk Frameworks and that of the Group Policy Framework. The Committee supported a proposal to assess the appropriateness of the Group Policy Framework, to ensure that this is reflective of the scale and maturity of the business, and to ensure policies continue to be introduced and implemented effectively. Further details of frameworks and polices approved by the Committee during the year are outlined in the following sections.

Risk culture

The Committee is required to review the Group's risk culture and the effectiveness of its embedding across the Group on an ongoing basis.

During the year, the Committee received management's qualitative assessment of Risk Culture across the Group, and supported the development of a framework for assessing Risk Culture.

Credit risk

The Committee regularly reviews the credit risk profile of the Group, with a clear focus on performance against risk appetite statements and risk metrics. The Committee considered credit conditions during the year, and in particular the impact of the Covid-19 crisis on performance against both credit risk appetite and a range of key credit risk metrics.

The Committee discussed findings from the annual review of the Credit Risk Management Framework, and supported actions arising from the review, as well as approving changes to the Credit Risk Management Framework.

Capital and liquidity risk

The Committee monitors capital and liquidity risk and receives regular reports on actual and forecast levels in relation to key Risk Appetite Framework ("RAF") metrics. During the year, the Committee approved the Group's Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP").

The Committee also approved changes to the Capital Risk Management Framework and the Liquidity Risk Management Framework following annual reviews of those documents.

Market risk

Although the Group does not seek to take market risk, the Committee reviewed the interest rate risk that the Group carries as part of the ICAAP review process and the impact of market risk as it relates to writing MotoNovo Finance business.

Operational risk

The Committee received a number of updates on operational risk matters, particularly in respect of the impact of Covid-19 on the Group's operational risk profile. The Committee also received updates on enhancements to business assurance (controls) testing and its evolution to key controls testing, and the alignment of controls testing across Aldermore and MotoNovo Finance.

The Committee also considered the results of the annual review of the Group's Operational Risk Management Framework, which was deemed fit for purpose and proportionate.

In terms of the operational risk profile, the Committee received regular updates on business continuity, disaster recovery, cyber security and cyber risk management. Cyber security remains an area of focus for the Group. During the year, the Committee received updates on progress against the Group's cyber strategy, which focuses on key areas such as access management and control, data protection, security architecture and governance.

In addition, the Committee monitored the performance of key systems and significant projects, as well as noting material outsourced arrangements.

As part of its focus on developing its approach to Operational Resilience, the Committee received a training session covering Operational Resilience, and the approach to defining and mapping Critical Business Services.

The Committee also received updates on the impact of the UK's exit from the EU which will affect the Group.

Compliance, conduct and financial crime risk

Conduct risk management continues to be a key area of focus. The Committee approved updates to the Conduct Risk Management Framework following the annual review of its effectiveness. In addition, the Committee received regular reports on performance against conduct risk metrics and developments regarding new and existing products.

The Committee also received an update on vulnerable customers, which concluded that the Group has an appropriate control framework in place to manage the risks associated with vulnerable customers. In conjunction with the Audit Committee, the

Committee reviews the Group's arrangements for anti-money laundering on an annual basis. The effectiveness of the Financial Crime Risk Management Framework and Compliance Risk Framework were also reviewed. The Committee additionally considered the Anti-Bribery and Corruption Policy as part of its annual review.

The Committee also received an annual update from the Group's Data Protection Officer on GDPR compliance.

Reputational risk

The Committee received monthly reporting on reputational risk throughout the year.

Financial risks from climate change

The Committee recommended for Board approval the allocation of responsibility for identifying and managing financial risks from climate change to the Chief Risk Officer. Committee members attended a training session on the financial risks from climate change, and regular updates were received by the Committee on the Group's approach to addressing these risks.

Remuneration matters

The Committee has a duty to advise the Remuneration Committee regarding both the design of senior executive annual and long-term incentive plans, to ensure that management are not being incentivised to take undue risks; and any risk management and control issues that have arisen that it believes should be taken into account when determining executive remuneration payments under the aforementioned plans.

In 2019/20, the Committee reviewed regular reports from the Chief Risk Officer in relation to these matters.

Recovery Plan

The Committee recommended for Board approval the Group's Recovery Plan, noting that this was materially more comprehensive than the previous year's plan.

Risk management function

The Committee reviewed the remit and performance of Aldermore's risk management functions to confirm that these functions have the requisite skills, experience and resources, along with unrestricted access to information, to discharge their responsibility effectively, in accordance with the relevant professional standards and ensuring also that the functions have adequate independence.

Risk Committee effectiveness

The Committee undertook a review of its own effectiveness during 2019/20 as part of the wider Board and Committee evaluation exercise. The review took the form of an internal evaluation and was principally conducted by way of a questionnaire that was issued to all Committee members.

The review covered various areas including the role and remit of the Committee, the effectiveness of the Chair, the appropriateness of information provided to the Committee and the relationship with management. In August 2020, the Corporate Governance and Nomination Committee discussed the outcome of the review, concluding that the Risk Committee operated effectively and there were no significant areas for concern.

The Committee also carried out a review of its own Terms of Reference during 2019/20. A number of updates were recommended to and approved by the Board.

Remuneration Committee Report

This report presents (i) details of the remuneration of our Executive Directors, Chairman and independent Non-Executive Directors and aggregate remuneration for our senior management team, and (ii) a summary of our Directors' Remuneration Policy.

In setting the Directors' Remuneration Policy and individuals' remuneration, the Committee is mindful of pay and benefits for the wider employee population. The Remuneration Committee and the Board as a whole, takes a keen interest in Aldermore's Gender Pay Gap reporting, our progress against the HM Treasury Women in Finance Charter and our approach to equality and diversity more generally.

As a retail bank, Aldermore is subject to the CRD IV regulations, albeit our size has allowed us to disapply certain aspects of the regulations where these are not appropriate for Aldermore ("proportionality"). With CRD V on the horizon, the Directors' Remuneration Policy will be kept under review.

The year to 30 June 2020 was clearly impacted by Covid-19. This, in turn, impacted the remuneration out-turn with:

- No Annual incentive Plan (AIP) awarded for the year (although some limited contractual bonuses were paid below Board level)
- No salary increases awarded to the Executive Directors for the forthcoming year (and no fee increases to NEDs) although the Committee reserves discretion to review the position later in the year. The changes reported below reflect increases awarded at the start of financial year ended 30 June 2020; and
- While no normal annual LTIPs vested for Executive Directors, the final tranche of awards made in 2018 as part of the terms of the Company's takeover by FirstRand were released in accordance with their terms (and certain other outstanding deferred awards held below Board level were also permitted under their terms).

Remuneration received by the Directors[1] in the year ended 30 June 2020 and 30 June 2019 is shown below:

£'000	Total fixed pay 2020	Total fixed pay 2019	Total variable pay 2020	Total variable pay 2019	Total pay 2020	Total pay 2019
Pat Butler, Chairman	247.5	220.0	-	-	247.5	220.0
Phillip Monks[2], CEO	902.8	814.4	678.6	867.0	1,581.4	1,681.4
James Mack[2], CFO Resigned 31 January 2020	328.5	546.6	-	589.0	328.5	1,135.7
Claire Cordell, CFO Appointed 24 February 2020	189.1	-	-	-	189.1	-
Christine Palmer[2], CRO Resigned 31st July 2020	630.2	611.0	-	460.7	630.2	1,071.7
Desmond Crowley, Independent Non Executive Director Appointed 1 May 2020	13.0	-	-	-	13.0	-

£'000	Total fixed pay 2020	Total fixed pay 2019	Total variable pay 2020	Total variable pay 2019	Total pay 2020	Total pay 2019
Danuta Gray, Senior Independent Non Executive Director	108.0	90.0	-	-	108.0	90.0
John Hitchins, Independent Non Executive Director	98.0	90.0	-	-	98.0	90.0
Peter Shaw, Independent Non Executive Director	103.0	95.0	-	-	103.0	95.0
Cathy Turner, Independent Non Executive Director	103.0	85.0	-	-	103.0	85.0

[1] Two non-executive directors are appointed by the FirstRand Group and receive no remuneration personally although an equivalent sum is paid to the FirstRand Group in respect of their services.

[2] The total variable pay for Phillip Monks, James Mack and Christine Palmer in relation to 2020 (with 2019 comparatives shown in brackets below) reflected LTIP awards granted in 2018 relating to the takeover of the Group by FirstRand as noted above; Phillip Monks £678,600 (2019: £296,300), James Mack £nil (2019: £207,400), and Christine Palmer £nil (2019: £109,500).

The aggregate emoluments (i.e. salary/fees, market adjusted allowances, benefits and AIP) for the Directors in the year was £3.5 million.

James Mack left during the year and his pay reflects the position until his departure on 31 January while Christine Palmer left following the year-end. Due to their resignations, neither was eligible for the vesting of the last tranche of the award relating to the takeover. Claire Cordell was appointed a Director during the year and the remuneration in the above table is only for the period since she was appointed a Director.

Remuneration for other members of the senior management team

The senior management team consisted of 9 employees in the year. The aggregate total remuneration for the senior management team (including the Chief Executive Officer) was £5.0 million. Of this, £3.6 million was fixed pay (salary, market adjusted allowance, benefits and pension) and £1.4 million was variable pay (relating to release of LTIP awards from prior years, given no AIP was awarded for 2020).

The principles and remuneration structures described within the Directors' Remuneration Policy apply throughout the whole senior management team, with slight differences for employees within key control functions (risk, compliance and internal audit).

Employees who work within key control functions and who would otherwise participate in the AIP and LTIP are subject to the following treatments:

- AIP performance measures will be set on the basis of non-financial measures relating to personal performance and the effectiveness of their functions. Measures will not relate to the financial performance of the unit of which they have oversight; and
- Other than the Chief Risk Officer (given her status as an Executive Director with wider responsibilities), key control functions employees will not participate in the standard LTIP and will instead participate in lower-value awards without financial measures.

Remuneration for wider employees

Aldermore seeks to pay all of its staff competitively and fairly for the roles they undertake. Aldermore applies similar principles for remuneration across the workforce to those which apply to our Executive Directors. All permanent employees are eligible to receive a bonus on a discretionary basis, subject to company and individual performance.

We have reported our Gender pay gap on three occasions (2017-19). We are working on our reporting for 2020 and, while there is still a long way to go, we are working hard to ensure that our pay gap continues to come down.

We are signatories to the HM Treasury Women in Finance Charter, and we see gender representation as an integral part of our Diversity and Inclusion agenda. By signing up to the Charter, we have committed as a business[1] to its four key pillars.

[1] As at 31 December 2019

We have also gone one step further and set ourselves the target to close our pay gap year on year. See our Women in Finance and Gender Pay Gap disclosure on our website for more information.

Directors' Remuneration policy

The Directors' remuneration policy is based on the following key principles:

- Aligned to the long-term success of the Company;
- Competitive but not excessive;
- Appropriate and balanced proportion of variable pay; and
- Simplicity and transparency in the design.

Remuneration committee effectiveness

The Remuneration Committee undertook a review of its own effectiveness during 2019/20 as part of the wider Board and Committee evaluation exercise. The review took the form of an internal evaluation and was principally conducted by way of a questionnaire that was issued to all Committee members.

The review covered various areas including the role and remit of the Committee, the effectiveness of the Chair, the appropriateness of information provided to the Committee and the relationship with management.

The Committee also carried out a review of its own Terms of Reference during 2019/20.

The structure of remuneration for our Executive Directors' is summarised in the table below:

Element of remuneration	Policy and operation	Performance measures and Committee flexibility
Salary *To provide a fair level of fixed pay which reflects the individual's experience and contribution*	Typically paid monthly in cash and reviewed annually. The annual review takes into account corporate and individual performance, any change in role and responsibilities, market benchmarking and pay increases awarded across the Company as a whole.	No performance measures apply. Base salary increases will be awarded at the Remuneration Committee's discretion, taking into account the factors listed.

Market Adjusted Allowance *To ensure appropriate weighting of fixed and variable remuneration within an overall competitive package*	A fixed monthly allowance, typically paid in cash. Paid on the same basis as salary but is not taken account when calculating other elements of remuneration.	No performance measures apply. Market Adjusted Allowance increases will be awarded at the Remuneration Committee's discretion, but will only be increased if there is a meaningful change in the appropriate market benchmarks.
Benefits *To provide competitive benefits*	A range of benefits is provided which includes a car allowance, insurance benefits and, if appropriate, certain relocation costs.	No performance measures apply. The Remuneration Committee may introduce new benefits as appropriate.
Pension *To enable Executive Directors to build long-term savings for retirement within an overall competitive package*	Contributions may be paid into personal pension arrangements or as a cash supplement (reduced for the impact of employers' NICs) with the levels aligned to those available to staff.	No performance measures apply.
Annual Incentive Plan ("AIP") *To motivate Executive Directors and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of our strategy*	A bonus plan which operates annually. The maximum level of AIP outcome is 125% of salary p.a. Performance measures are set by the Remuneration Committee at the start of the financial year and targets are assessed following the year-end. At least 33% of any annual bonus payable will be deferred (where the total bonus outcome is at least £50,000), released in equal tranches on the first, second and third anniversaries of making the deferred award. Deferral will be made in equity-linked instruments which mirror the percentage change in FirstRand's share price, albeit not subject to changes in the Rand: GBP exchange rate. Malus and clawback provisions apply to both the cash bonus and the deferred bonus.	Performance measures will be a balanced scorecard based on four quadrants comprising financial, assessment of customer/strategic performance, risk and people objectives. For all performance measures, there is a robust discretionary override available to the Remuneration Committee to ensure that outcomes are consistent with affordability and overall appropriateness. The performance measures for employees within key control functions will be set only on the basis of measures which are predominantly non-financial and relate to personal performance. Performance is not assessed over the financial performance of the unit in respect of which they have oversight.

Long-Term Incentive Plan ("LTIP") *To motivate Executive Directors and incentivise delivery of performance over the long-term*	A long-term incentive plan which operates annually. The maximum award is 135% of salary p.a. Awards are settled 50% in equity linked instruments (where the headline amount vesting will be multiplied by the percentage change in FirstRand's share price) and 50% in cash if performance conditions are achieved over a 3 year performance measurement period. Malus and clawback provisions apply to both the cash and equity portions of the LTIP.	Performance for the first awards is assessed 20% against FirstRand performance measures and 80% against a balanced scorecard of growth in earnings, return on equity and conduct risk. In the view of the Remuneration Committee, the proposed performance measures for LTIP awards are supportive of the Company's risk appetite and do not promote undue risk inconsistent with that appetite. Colleagues in control functions will be subject instead to conduct risk.

The structure of remuneration for our Chairman and Non-Executive Directors is summarised in the table below. Remuneration for the Chairman is determined by the Remuneration Committee and remuneration for the independent Non-Executive Directors is set by the Board. No individual is involved in decision making on their own remuneration.

Element of remuneration	Policy and operation	Board flexibility
Fees *To enable the Company to recruit and retain, at an appropriate cost, Non-Executive Directors with the necessary skills and experience to oversee the delivery of the business strategy*	Fees are reviewed annually, taking into account time commitments and equivalent benchmarks to those used for the Executive Directors. Fees are structured as a basic fee with additional fees for chairmanship or membership of Board Committees or further responsibilities (such as acting as Senior Independent Director). The Chairman receives a basic fee only.	The Company may permit the Chairman or Non-Executive Directors to participate in any benefits in kind.

Directors' Report

The Directors present their report and the financial statements of the Group for the twelve months ended 30 June 2020. 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
Business review	Information regarding the business review and future developments, key performance indicators and principal risks are contained within the Strategic Report.	Strategic Report	Pages 4 to 9 (Business review) Page 12 (Key performance indicators) Pages 55 to 57 (Principal risks)
Strategic report	The contents of the Strategic Report fulfil Section 414C of the Companies Act 2006.	Strategic Report	Pages 4 to 14
Results	The results for the year are set out in the income statement. The profit before taxation for the year ended 30 June 2020 was £48.8 million (year ended 30 June 2019: £129.6 million). A review of the financial performance of the Group is included within the Strategic report.	Income statement Strategic Report	Page 95 Page 10
Dividend	The Directors do not propose to recommend a final dividend in respect of the year ended 30 June 2020 (2019: nil).	–	–
Financial instruments	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	Page 50
Post balance sheet events	On 20 August 2020, the Group successfully made an initial £300 million drawing on the Bank of England's new Term Funding Scheme which provides funding for four years.	Note 41 to the consolidated financial statements.	Page 166
Share capital	At 30 June 2020, the Company's share capital comprised 2,439,016,380 ordinary shares of £0.10 each. The Company did not repurchase any of the issued ordinary shares during the twelve months ended 30 June 2020 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 152
Rights and obligations attaching to shares	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: • 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 • 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. 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.		
Employee share scheme rights	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.	Note 34 to the consolidated financial statements	Page 152
Employees	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 with respect to entering into and continuing employment with the Group. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development. Information on employee involvement and engagement can be found in the Strategic report.	Strategic Report S172(1) Statement Corporate Responsibility	Page 4 Page 27 Page 24
Suppliers	Information on supplier engagement can be found in the Strategic report.	Strategic Report S172(1) Statement Corporate Responsibility	Page 4 Page 27 Page 24
Corporate Governance Arrangements	For the year ended 30 June 2020, under the Companies (Miscellaneous Reporting) Regulations 2018, the Aldermore Group PLC applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ("FRC") in December 2018. Further information can be found in the Corporate Governance report.	Corporate Governance	Pages 33
Directors	The names of the current Directors who served on the Board and changes to the composition of the Board that have occurred during 2020 and 2019 and up to the date of this report are provided on page 3 and are incorporated into the Directors' Report by reference.	Company Information	Page 3
Appointment and retirement of Directors	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. 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.	Corporate governance Election and re-election	–
Directors'	The Directors who served on the Board up to the date of this	–	–

indemnities	report have benefitted 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. The Group also maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its Directors.		
Significant agreements	None for 2020 (2019: None)	–	–
Political donations	The Group made no political donations during the twelve months period (12 months to 30 June 2019: nil).	–	–
Research and development activities	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 are reviewed and approved by the Group's Product and Pricing Committee.	Note 24 to the consolidated financial statements	Pages 147
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) and that there are no material uncertainties to disclose. In making this assessment, the Directors have considered a wide range of information and the impact of the Covid-19 pandemic on the current state of the balance sheet, future projections of profitability, cash flows and capital resources, operational resilience and the longer-term strategy of the business. In particular, the Directors have considered the following: • The impact on the Group's profitability from increases in Expected Credit Losses in the future. As part of this, the Directors considered revised macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 19, and sensitivities are disclosed in note 3; • Sufficiency of headroom over minimum regulatory requirements for liquidity and capital, including the ability of the Group to access sources of additional liquidity and / or capital if required; • Stress testing performed using the latest ICAAP scenarios presented to the PRA and applied to current forecasts still resulted in sufficient capital headroom; • Current and forecasted conditions are significantly less severe than the reverse stress scenario considered in the latest ICAAP presented to the PRA, and also noting that the likelihood of the reverse stress scenario crystallising being remote; • Although successful during the Covid-19 pandemic	–	–

	• to date, plans for further improving the operational resilience of the Group including call centres, operations and support functions; • Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position; • The validity of the Group's current strategy and its achievement of its longer-term strategic ambitions. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors as noted above. 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 the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.		
Disclosure of information to auditors	Each person who is a Director at the date of this Directors' Report confirms that: • so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and • 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.	–	–
Auditor	Deloitte LLP was reappointed as the Company's auditor with effect from the 2019 AGM, at which a resolution authorising the Board to set Deloitte's remuneration was passed.	-	Page 36

This report was approved by the board on 27 August 2020 and signed on its behalf:

Claire Cordell

Director

27 August 2020

Risk Management

All areas of the following report are covered by the external auditor's opinion on pages 83 to 94, except for those areas highlighted in grey which are the yield curve on page 78, the leverage ratio and the risk weighted assets and associated capital ratios on page 79.

The Group's approach to risk

The Board is ultimately responsible for establishing and ensuring maintenance of a sound system of risk management and internal controls and approving the Group's overall risk appetite.

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 approach on how the Group manages risk. The following sections provide a summary of the RMF within the Group. It highlights our governance structure, approach to risk, key risk management processes and the principal and emerging risks we face and the mitigating actions taken to address these.

The Risk Management approach applies across Aldermore Bank and MotoNovo Finance.

Risk principles

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

- All colleagues should adopt the role of "risk manager" and take a prudent approach to risk management in all aspects of their role. The Board and senior management "lead from the front" and set the example with regard to risk management;
- Risk management is structured around the Group's principal risk categories, which are reviewed at least annually as part of the RMF;
- The Group maintains a robust Risk Appetite Framework ("RAF"), manages to a consistent appetite using an approved set of metrics, and reports to senior management at least monthly;
- The Group ensures that it remains sustainable, including during plausible but severely adverse economic and/or idiosyncratic conditions; and
- 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 55.

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, 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 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.

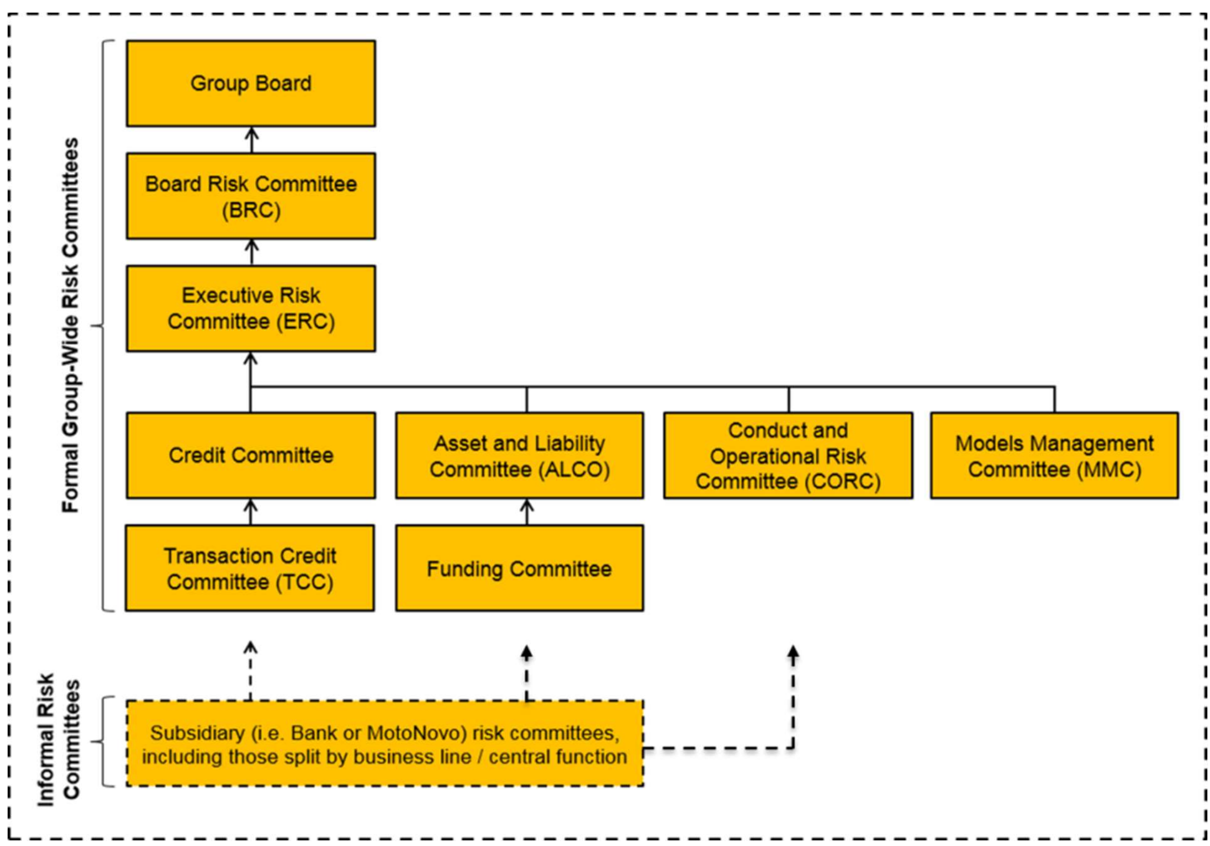
Based on this assessment, the Board is satisfied with the effectiveness of the Group's risk management and internal control systems.

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. The RMF articulates the Group's principal risks, i.e. the categories of risk that are most significant given the Group's business model and operating environment.

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:

- Risk management as part of business activities;
- Risk oversight; and
- 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") and the Recovery and Resolution Plan ("RRP").

Third line of defence – 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 internal and external audit actions to completion.

Risk appetite framework

The RAF defines the Group's approach to setting risk appetite and underpins the approach to monitoring Principal Risks. This Framework applies to Aldermore Group and to all colleagues responsible for defining risk appetite metrics and/or statements, providing risk appetite data or monitoring risk appetite reports. The Framework defines the Group's approach to monthly risk reporting to senior and working level committees and is a core component of the Group's RMF. The Framework is subject to Board approval at least annually.

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 Group 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:

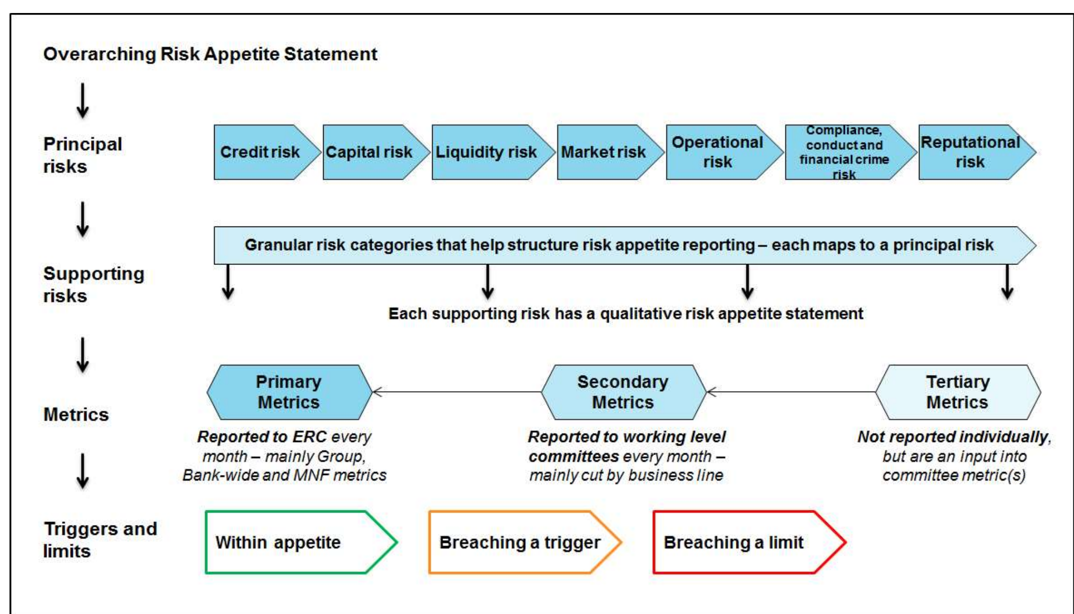
"Operate a sustainable and safe Group that conducts its activities in a prudent manner, taking into account the interests of customers and ensuring its obligations to key stakeholders are met." Key stakeholders are defined as customers, parent company, regulators and employees.

The principal risks identified within the Risk Management Framework have 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 adherence to risk appetite 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 the 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.

Scope of the stress testing framework:

Purpose of Stress Tests	Type of Stress Tests	Result of Stress Tests
ICAAP Annual process that determines capital requirements	**Top Down** Tests overall financial resilience to adverse events	**Capital** Estimates the impact of balance sheet movements and financial losses (typically credit related) on capital resources and requirements
ILAAP Annual process that determines liquidity requirements	**Sensitivity Analysis** Tests the overall impact of a single risk driver, typically an economic variable	**Liquidity** Estimates cashflows, funding supply and liquid asset availability under a market-wide, idiosyncratic or combined liquidity shock
Recovery Plan Annual process that determines recovery options and tests their efficacy	**Reverse Stress Test** Identifies the severity of stress that would cause the Bank to fail	
Other Other internal stress tests that support strategic decision making	**Account Level *** Tests the resilience of a loan applicant to adverse events such as interest rate rises	

* Out of scope of this Framework

Stress testing governance

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

- Review and approve the 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, the BRC will assess the approach to scenario design, stress testing methodologies and results.

The Chief Risk Officer ("CRO") owns the Stress Testing Framework, with the Director 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 recommendations from the Board Risk Committee and Executive Risk Committee.

Principal risks

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.

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
Credit risk 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 63	• Operate in selected sectors and products, where we have expertise to originate and underwrite transactions within the agreed risk appetite; • Maintain controlled levels of credit losses within an agreed expected loss appetite, operating through the economic cycle; • Where appropriate, obtain physical or financial collateral; • Origination is supported by robust post-completion credit stewardship and in-life management of the credit portfolio; • Perform strict daily management of customer credit risk, including adherence to explicit concentration and credit rating limits; • Credit risk profile is monitored and reported systematically against appetite through a set of credit risk metrics with associated triggers and limits, driving management actions where appropriate; • Throughout the current Covid-19 crisis there has been a specific focus on managing customer forbearance and the associated impact on ECL movements.	Cost of Risk for the full year has materially increased as a result of Covid-19. The main driver for the increase to 114bps (2019: 24 bps) is the impact that the macro-economic outlook for the UK has on our credit risk models and the post model adjustments made to recognize the additional impacts of Covid-19 on the customer base.
Capital risk The risk that the Group has insufficient capital resources, e.g. retained profits and qualifying financial instruments, to cover regulatory requirements and/or support growth plans. Refer to page 79	• Maintain robust controls for Pillar 1 reporting; • Perform a comprehensive annual ICAAP assessment of all material capital risks; • Plan to meet capital requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules; and • To a quantity deemed appropriate, maintain an internal capital buffer over and above fully loaded regulatory requirements to protect against unexpected losses or risk-weighted asset growth.	The Group's capital remains stable despite Covid-19, as increased impairments are more than offset by lower volumes and RWAs. Moreover, the Group's Capital remains well above internal targets and regulatory minimums.
Liquidity risk 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 76	• Maintain a sufficient portfolio of cash and high quality liquid assets ("HQLA") to absorb liquidity shocks; • Perform a comprehensive annual ILAAP assessment of all material liquidity risks and meet internal buffers on an ongoing basis; and • Monitor the Group's liquidity position on a daily basis, with intra-month escalation of material risks as appropriate.	The Group's liquidity position remains stable despite Covid-19 and has been managed well within liquidity buffers.

Market risk The risk arising from adverse movements in market prices given long or short positions in impacted assets and/ or liabilities. Refer to page 77	• Seek to match the interest rate structure of assets and liabilities, creating a natural hedge; • Where a natural hedge is not possible or desirable, hedge any material market risk exposure by using financial instruments as outlined in the Treasury Risk Limits and Standards; • Perform a comprehensive assessment of market risk drivers as part of the ICAAP and assess new/emerging risks on an ongoing basis; • Maintain a strong control framework to ensure exposures are managed in line with risk appetite; and • Monitor the Group's Market Risk exposure on a regular basis (including daily monitoring), with intra-month escalations as appropriate.	The Group's approach remains prudent and underlying risks remain unchanged.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	• Maintain a comprehensive Risk Control Self-Assessment ("RCSA") process. Assess the efficacy of these controls by maintaining a robust approach to business assurance testing; • Maintain the risk event reporting process; • Mandate detailed and coherent committee reporting that brings together a diverse range of supporting risks; • Ensure a significant emphasis on IT resilience given the pace of evolution of the business and continued exposure to the risk of cyber-crime; and • Systematically monitor operational losses on both a net (overall financial impact) and gross (excluding recoveries) basis to understand risk profile and identify trends.	The Operational Risk profile was reported as stable prior to Covid-19 and throughout the financial year. For a short period, due to the changing operational environment (i.e. remote working), the level and pace of change, as well as the inherent risk around cyber/fraud increasing, this outlook was updated to deteriorating as a precautionary measure. However, after an excellent operational response, the close monitoring of the risk related MI as a number of pieces of assurance work, this has since been changed back to stable.

Compliance, conduct and financial crime risk 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.	• Maintain a well-defined and embedded process for regulatory and legislative horizon scanning, and preparation for confirmed and potential changes; • Maintain processes that focus on fair customer outcomes, including the use of metrics on staff performance, training, customer feedback, complaints and product cancellation; • Ensure that recruitment and training processes have a clear customer focus, including the use of mandatory training modules; • Ensure the approach to remuneration incentivises fair customer outcomes and prudent decision-making within risk appetite; and • Perform the requisite checks on all customers, including money laundering, sanctions and fraud at origination, and where appropriate, on an ongoing basis. Tightly monitor remedial actions relating to financial crime breaches.	The Compliance, Conduct and Financial Crime key risks remain unchanged. However, the impact of Covid-19 and the resulting changes to regulatory guidance around forbearance has elevated the Group`s exposure to conduct and financial crime risks, which continue to be monitored and managed within risk appetite.
Reputational risk 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.	• Maintain a clear and explicit set of reputational risk policy requirements to which all colleagues must confirm their understanding and adherence; • Ensure that the reputational impact of changes to products, pricing, systems and processes is formally considered at the relevant committee; and • Ensure that the Corporate Affairs function assesses material risk events for reputational impact and initiate mitigating actions as appropriate.	The Group's risk profile remains within appetite. We remain mindful of media focus and regulatory scrutiny as key drivers of the profile's ongoing status.

Emerging risks

We define emerging risks as those risks that are specifically forward-looking, the likelihood and/or impact of which cannot be readily quantified and which have not yet crystallised. Emerging risks for the Group include:

<table>
<tr><th>Themes</th><th>Risk</th><th>What we are currently doing</th></tr>
<tr><td colspan="3">Regulatory Change or Intervention</td></tr>
<tr><td>Government and regulatory response to Covid-19</td><td>The Government and regulatory response to Covid-19 has been unprecedented in terms of scale and speed of change, with significant operational and credit risk impacts. Key measures include:
The FCA set out its guidance for firms offering mortgage deferrals;
The FCA proposed that firms offer a three month payment freeze on motor finance; and
The BoE announced the reduction of the UK countercyclical buffer to 0% on UK bank exposures.
The PRA issued guidance on the application of regulatory capital requirements and IFRS 9 to payment deferrals that had been granted to individuals. It clarified that deferrals extended because of Covid-19, in line with FCA guidance would not automatically result in a loan being considered to have increased credit risk or being impaired for ECL purpose.
The UK Government introduced the 'Covid-19 Business Interruption Loan Scheme' which enables banks to lend up to £5m in the form of term loans, overdrafts, invoice finance and asset finance to SMEs with a turnover under £45m.</td><td>The Group has full plans across all of its business lines to manage forbearance with customers who needed temporary support due to the impacts of the Covid-19 pandemic, adhering to and in compliance with regulatory guidance. Whilst many of those customers have returned to making full payments normal performance under their financial customers or will do so by 31 October 2020, many will need ongoing support. We continue to monitor the problems faced, what help is needed and the number of customers impacted as the situation unfolds. As the Government help and temporary measures expire, we anticipate this may cause further stress. The Group will continue to focus on supporting its customers, managing risks appropriately and meeting regulatory obligations.</td></tr>
<tr><td>Transition from LIBOR</td><td>UK regulatory authorities expect members to transition from LIBOR to SONIA by 2021. While the industry generally accepts the principles driving this change, a number of very significant operational and technical challenges have become apparent.</td><td>All business lines remain on track in their plans for transition.</td></tr>
<tr><td>Financial Risks from Climate Change</td><td>Climate change and society's response to it, presents financial risks which impact the Group's objectives. The risks arise through two primary channels: the physical effects of climate change, and the impact of changes associated with the transition to a lower-carbon economy (i.e. increased energy efficient standards on buy to let properties).</td><td>We are undertaking an assessment of our plan to identify: current actions that are on track to meet the above, actions that require expansion or acceleration, and any new actions required. Notably, our current plan reaches out to the end of calendar year 2022 and therefore requires re-baselining. This will be completed including a view on the resources and SME inputs required to deliver this.
Key actions remain in focus including a governance review, and development of climate scenarios to support in understanding the risks to the Group's</td></tr>
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		business model and strategy, reporting on our operational emissions as part of the Annual Report and using this as a baseline for energy efficiency / emissions reducing activity.
FCA study into the motor finance market	• The FCA has been conducting a review of the Motor Finance Market since 2017. As part of the process, it selected a number of Motor Finance firms to assist with the review and MotoNovo Finance was one of the chosen firms. Participation consisted of an in depth data gathering exercise as well as an on-site presentation walking the FCA through the business, the market, our products, control environment, strategy, etc. • In October 2019, the FCA issued a consultation paper with final rules being issued in July 2020 announcing an outright ban of certain commission models. • The original emerging risk was that MotoNovo Finance and / or the market could be found to be not operating in alignment with FCA regulations and principals. This could lead to negative publicity at a firm or market level that could in turn lead to enforcement action being taken. It could give risk to increased Claim Management Company ("CMC") activity in the space and the negative press could also result in customers opting to use other products to finance their motor vehicle purchases.	• MotoNovo Finance has continued to progress the identified measures which address the regulatory requirements. Progress made includes: • Expansion of Risk Based Pricing into a greater number of dealers in multiple formats. • In June 2020, MotoNovo Finance launched MotoRate, a "risk-based pricing" solution. MotoRate provides the MotoNovo Finance and its dealer partners with an FCA compliant set of pricing and commission schemes ahead of the new policy rules becoming mandatory in January 2021. • Expansion of Risk Based Pricing into additional Point of Sale platforms. • Amendments made and live within the document signing process to refine and simplify the wording in relation to commission disclosure. • Incorporation of a dedicated Dealer Oversight function.
Economic and Political Environment		
Declining Retail customer income or affordability	• The key risk to mortgage credit performance is loss of income or declining affordability, for example customers becoming unemployed, increasing their debt burden or facing higher interest rates.	• We are reviewing our product range, with a view to increase our offering at the appropriate time, but continue to be mindful of economic conditions and lending capacity. • We are closely monitoring credit performance as payment holidays roll-off and are enhancing tools such as pre-delinquency. • We have enhanced our underwriting guidelines and requirements to provide increased focus on the sustainability of new applicant's income, and reduced the ability to include some non-contractual income sources within the affordability calculation.
Covid-19 – Operational impacts on Credit	• The economic environment created by the Covid-19 shutdown has introduced two strategic risks:	• Business lines developed contact strategies and operational plans for payment holidays that were aligned to the Group's forbearance framework.

	1. Our ability to support customers in financial distress or under strain, potentially emerging from a period of agreed forbearance; and 2. Our ability, from an operational and capacity perspective, to move from an organisational focus on in-life management and back book issues to origination and business growth.	• The impact on provisions has been managed by updating models with the latest macro-economic scenarios and considering management overlays to reflect the economic uncertainty created by Covid-19.
Covid-19 – impact on credit provisioning	• The economic environment created by the Covid-19 shutdown has meant that provisioning models and economic forecasts underpinning the forward looking assumptions have been revised at pace. • There is a significant degree of uncertainty in economic forecasts. • Regulatory advice and requirements have been issued on IFRS 9 assumptions, treatment of payment holidays etc. • Risk of either being overly conservative during a short term shock or not sufficiently provisioned is significant and relies on accurate assumptions around the shape of a UK recovery.	• The impact on models, resulting from Covid-19 is being monitored and reported to internal committees on a regular and timely basis. • Scalars/Post Model Adjustments ("PMAs")/Overlays will be reviewed monthly through Credit Committee. • Our Forward Looking Indicator ("FLI") models will be re-visited on a frequent basis over the next 3 to 6 months.
Significant UK downturn	• As a UK-only firm, the Group is exposed to a deteriorating UK economy, including adverse impacts on economic growth, unemployment, consumer credit, inflation, property prices and interest rates.	• A wide range of mitigating actions are taken as part of "business as usual", including the use of robust stress tests (both for individual loan applicants and the entire balance sheet), the purchase of Mortgage Indemnity Guarantees and the hedging of interest rate risk.
Auto market uncertainty / change	• Driven by a shift in social conscience, exacerbated by a number of high profile scandals, and enabled by technological development, the auto industry is amidst a period of uncertainty and is starting to embark on a period of significant change that will impact a number of key areas including: Alternative Fuel Vehicles, Autonomous Vehicles, Access v Ownership, and Vehicle Values • The risks are that a shift in these scenarios could result in high levels of exposure on the current book of Aldermore vehicle assets, that this shift happens, and we aren't positioned to take advantage and provide mobility solutions. Covid-19 could also impact in the short term.	• With the largest exposure from an Aldermore Group perspective, the MotoNovo Finance strategy remains well placed to further support the market post crisis recovery and reinvention with a digital offering and focus on future trends that could accelerate as a consequence of the Covid-19. • As to the Asset Finance business, its proposition is more focused in specific niches. Whilst the overall market dynamics will impact, we will adapt origination and risk management to reflect the changes and outlook. • Continue to monitor the threats and opportunities.
Brexit and exposure to /geopolitical risk	• The UK has left the EU and the transition period after Brexit comes to an end on 31 December 2020. There remains uncertainty as to the UK's relationship with the EU once this date has passed. This risk could	• An internal Brexit Working Group is in force to assess the implications should a trade deal not be agreed by the end of this calendar year. The focus has been on managing exposures that could be affected

	exacerbate the impacts that have resulted from Covid-19. • South Africa is listed in the Allianz Risk Barometer 2019 report as a "top risk" country. Aldermore Group is exposed to political and economic risks associated with South Africa through its Parent, FirstRand.	and ensuring provisions remain appropriate. Aldermore's Treasury are also monitoring the impact on the Liquidity Buffer and the cost of funds. • Plans are already in place for management to respond at pace, should no trade deal between the UK and EU be agreed. In addition, communications to customers have also been prepared. • Aldermore Group will continue to monitor the South African context.
Competitive Environment		
Competitive dynamics in Retail Finance	• Competition in the Group's selected markets arises from a range of sources, including challengers and non-bank lenders. Heightened competition may lead to margin compression and lower growth, both key drivers of profitability.	• Retail Finance are reviewing the product suite across both mortgages and savings recognising the changing retail landscape as a result of Covid-19 with any amendments to products made in line with the Group's target returns and risk appetite. • Focusing on enhancing the customer and broker experience, including via technology change
Heightened competition in motor finance market	• Traditionally, new entrants into the motor finance space will have been from the asset finance or general banking/finance space. However, not only are returns in the market currently healthy, giving rise to increase in traditional new entrants, but with the development of technology, and the level of change on the horizon for the auto industry in general, the barriers to entry have reduced and therefore the risk of new players from a variety of different sources entering the market is increasing.	• Progression of the MotoNovo Finance Platform strategy, which improves focus upon the consumer and builds non-interest income, coupled with constant horizon scanning, keeps MotoNovo Finance abreast of the competitor developments
Technology Risk		
Cyber-crime incidents	• The cyber threat remains significant and high profile across all industries. Cyber security continues to be a focus area for regulators and is increasingly assessed as an integral part of Operational Resilience. This is coupled with an increase in public awareness and regulatory focus specifically on cyber resilience in the face of increasingly targeted, destructive ransomware attacks experienced over the last 12 months.	• The Group continues to focus on the cyber threat and continues to invest in enhancements to the systems and controls to prevent, identify and respond to cyber threats. • As part of the Group's cyber strategy there is a funded initiative to improve Identity Governance Administration, Threat and Vulnerability Management and to deliver a Data Leakage Prevention capability. • MotoNovo Finance are currently focusing on risk and control reviews in order to update cyber security risk improvement plans for the next 24 months. • Motonovo Finance are aligning with Aldermore Bank's 365 security strategy and Microsoft security capabilities.

Failure of an outsource provider or supplier	• 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.	• The Group continues to maintain controls and governance in relation to the operating framework for suppliers. • We continue to work closely with our suppliers and outsource partners to understand and respond to any potential issues especially during the Covid-19 period. To date we have not seen any issues. • As part of the implementation of the Operational Resilience Roadmap there is a focus on the Supplier Pillar to ensure that we meet the EBA outsourcing guidelines, and meet the emerging PRA requirements on outsourcing.
Detrimental impact on customers from an IT failure	• The Group deploys services through a mix of hosted systems, both externally hosted or hosted on behalf of the Group. • The risk is the potential detrimental impact to the Group from an IT failure.	• The Group has invested in a significant programme of activity to move our systems and applications to a new third party data centre over the coming 18 months. As part of the programme this will result in increased resilience. • The Group continues to perform robust risk assessments and mitigation of the risks from an IT failure. • Scenarios and simulated exercises are run, as part of incident management testing, to mitigate this risk.

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 and any other receivables, 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 concentration within our loan portfolio;
5. Details of provisioning coverage and the value of assets against which loans are secured; and
6. Information on credit risk within our treasury operations.

Due to the more bespoke nature of the Property Development business, the portfolio is excluded from a number of the following tables, as indicated by the footnotes. Gross Property Development exposure at 30 June 2020 was £244 million (30 June 2019: £211 million), and net exposure was £242 million (30 June 2019: £210 million).

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 2020 was £15,510.3 million (30 June 2019: £13,181.6 million), an increase of 17.7%. The main factors contributing to the increase were:

i) the growth in gross loans and advances to customers (our largest credit risk exposure), by £1,937.6 million;
ii) the growth in debt securities by £733.3 million; and
iii) an increase in loans and advances to banks by £83.4 million.

Included in the statement of financial position:	Note	30 June 2020 £m	30 June 2019 £m
Cash and balances at central banks		542.4	482.9
Loans and advances to banks		228.6	145.2
Debt securities		1,941.1	1,207.8
Derivatives held for risk management		9.3	9.1
Loans and advances to customers	19	12,586.5	10,648.9
Other financial assets	39	20.7	25.9
		15,328.6	12,519.8
Irrevocable Commitments to lend	37	342.5	715.6
Gross credit risk exposure		15,671.1	13,235.4
Less: allowance for impairment losses	19	(160.8)	(53.8)
Net credit risk exposure		15,510.3	13,181.6

2. Credit quality and performance of loans

The credit quality of loans and advances to customers are analysed internally in the following tables, which also include the fair value of collateral held capped at the gross exposure amount.

Stage 1 per IFRS 9 – no significant increase in credit risk since initial recognition:

30 June 2020	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	49.9	-	535.1	3,705.7	1,315.5	1,047.6	6,653.8
Medium risk	1,153.8	148.7	359.4	924.3	539.1	641.7	3,767.0
High risk	345.9	97.1	25.0	24.5	25.0	54.1	571.6
Total	**1,549.6**	**245.8**	**919.5**	**4,654.5**	**1,879.6**	**1,743.4**	**10,992.4**
Fair value of collateral held	**1,027.0**	**245.8**	**876.5**	**4,654.5**	**1,879.6**	**1,743.4**	**10,426.8**

Stage 2 per IFRS 9 – a significant increase in credit risk since initial recognition:

30 June 2020	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	5.5	-	68.6	196.2	23.5	25.9	319.7
Medium risk	185.9	16.6	116.4	249.8	54.5	84.6	707.8
High risk	128.2	15.7	22.8	89.4	61.1	11.6	328.8
Total	**319.6**	**32.3**	**207.8**	**535.4**	**139.1**	**122.1**	**1,356.3**
Fair value of collateral held	**182.9**	**33.3**	**193.5**	**535.4**	**139.1**	**122.1**	**1,206.3**

Stage 3 per IFRS 9 – credit impaired assets:

30 June 2020	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
High risk	38.2	6.3	28.3	79.2	72.0	13.8	237.8
Total	**38.2**	**6.3**	**28.3**	**79.2**	**72.0**	**13.8**	**237.8**
Fair value of collateral held	**19.9**	**2.1**	**28.3**	**79.2**	**72.0**	**13.8**	**215.3**

[1] The above analysis includes Property Development.

Stage 1 per IFRS 9 – no significant increase in credit risk since initial recognition:

30 June 2019	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance[2] £m	Total £m
Low risk	263.7	20.1	514.6	3,330.6	999.1	171.7	5,299.8
Medium risk	1,236.4	229.8	401.9	1,020.5	533.2	180.7	3,602.5
High risk	338.6	119.4	22.7	13.9	24.0	15.5	534.1
Total	**1,838.7**	**369.3**	**939.2**	**4,365.0**	**1,556.3**	**367.9**	**9,436.4**
Fair value of collateral held	**1,201.7**	**369.3**	**846.3**	**4,356.0**	**1,555.0**	**367.9**	**8,696.2**

Stage 2 per IFRS 9 – a significant increase in credit risk since initial recognition:

30 June 2019	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance[2] £m	Total £m
Low risk	1.2	4.1	13.5	254.9	23.2	0.2	297.1
Medium risk	75.4	13.5	40.9	316.3	69.2	0.4	515.7
High risk	96.1	12.4	16.8	82.8	62.4	0.1	270.6
Total	**172.7**	**30.0**	**71.2**	**654.0**	**154.8**	**0.7**	**1,083.4**
Fair value of collateral held	**96.0**	**30.0**	**70.8**	**654.0**	**154.8**	**0.7**	**1,006.3**

Stage 3 per IFRS 9 – credit impaired assets:

30 June 2019	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance[2] £m	Total £m
Low risk	-	-	-	-	-	0.1	0.1
Medium risk	-	-	-	-	-	0.3	0.3
High risk	30.5	5.8	13.6	37.2	41.4	0.2	128.7
Total	**30.5**	**5.8**	**13.6**	**37.2**	**41.4**	**0.6**	**129.1**
Fair value of collateral held	**14.9**	**3.0**	**12.2**	**35.8**	**40.1**	**0.6**	**106.6**

[1] The above analysis includes Property Development.
[2] Amounts have been amended to be consistent with IFRS 9 staging.

The credit quality in respect of irrevocable commitments to lend, which, as at 30 June 2020 and 30 June 2019, were all stage 1 exposures was as per the following table, which also includes the fair value of collateral to be provided capped at the gross exposure amount.

30 June 2020	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	-	-	26.4	50.0	34.2	-	110.6
Medium risk	-	-	17.7	12.4	14.0	23.4	67.5
High risk	-	-	1.2	0.3	0.7	17.4	19.6
Total	**-**	**-**	**45.3**	**62.7**	**48.9**	**40.8**	**197.7**
Assessed fair value of collateral to be provided	**-**	**-**	**45.3**	**62.7**	**48.9**	**40.8**	**197.7**

[1] The above analysis excludes Property Development.

30 June 2019	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	-	-	46.8	200.7	91.1	-	338.6
Medium risk	-	-	4.5	3.6	60.1	27.5	95.7
High risk	-	-	-	-	-	0.6	0.6
Total	**-**	**-**	**51.3**	**204.3**	**151.2**	**28.1**	**434.9**
Assessed fair value of collateral to be provided	**-**	**-**	**51.3**	**204.3**	**151.2**	**28.1**	**434.9**

[1] The above analysis excludes Property Development.

Not included in the above are £144.8 million (30 June 2019: £280.7 million) of irrevocable commitments to lend for 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. The anticipated gross development value of the committed lending for Property Development is £1,094.6 million (30 June 2019: £853.4 million).

The categorisation of high, medium and low risk is based on internal IFRS 9 Probability of Default ("PD") and Loss Given Default "LGD" models. Drivers for the PDs and LGDs 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.

The resulting classification of balances between low, medium and high is consequently driven by a combination of the PD and 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.

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. Forborne amounts disclosed as stage 1 in the below table relate to such accounts which are now performing but still reported as forborne following the end of concessionary arrangements. In all cases, the above definitions are subject to no further concessions being made and the customers' compliance with the new terms.

Forbearance levels have increased due to Covid-19 payment holidays. The balance of forborne accounts by payment status is shown in the tables below. Forbearance is usually a trigger for accounts to be moved into stage 2 or stage 3. Where payment holidays have been provided in relation to Covid-19 the accounts have been retained in stage 1 but an additional Post Model Adjustment ("PMA") has been applied to reflect the increased risk in this population (See note 3(a) for further detail on management overlays which the Bank applies to the modelled IFRS 9 ECL provisions):

30 June 2020	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Stage 1	333.9	0.4	49.6	683.4	404	165.3	1636.6
Stage 2	100.3	20.3	25.6	103.7	33.8	26.8	310.5
Stage 3	6.1	1.2	8.5	11	21.8	5.1	53.7
Total	440.3	21.9	83.7	798.1	459.6	197.20	2,000.8

[1] The above analysis includes Property Development.

30 June 2019	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Stage 1	0.2	2.3	5.7	0.1	1.9	-	10.2
Stage 2	3.2	1.0	2.9	2.5	4.7	-	14.3
Stage 3	5.3	1.4	0.8	1.5	8.5	-	17.5
Total	**8.7**	**4.7**	**9.4**	**4.1**	**15.1**	**-**	**42.0**

[1] The above analysis includes Property Development.

As at 30 June 2020, we had undertaken forbearance measures as follows in the following segments (forbearance levels in MotoNovo Finance were immaterial as at 30 June 2019 and therefore excluded from the below analysis):

	30 June 2020 £m	30 June 2019 £m
Asset Finance		
Capitalisation	-	0.6
Reduced monthly payments	0.3	0.8
Loan-term extension	0.7	4.0
Deferred payment	439.3	3.3
Total Asset Finance	**440.3**	**8.7**
Forborne as a percentage of the total divisional gross lending book (%)	23.20%	0.43%
Invoice Finance		
Agreement to advance funds in excess of normal contractual terms	21.9	4.7
Total Invoice Finance	**21.9**	**4.7**
Forborne as a percentage of the total divisional gross lending book (%)	7.40%	1.16%
SME Commercial Mortgages[1]		
Temporary or permanent switch to interest only	2.4	2.6
Reduced monthly payments	-	0.5
Linked to forbearance	-	6.3
Deferred payment	81.5	-
Total SME Commercial Mortgages	**83.9**	**9.5**
Forborne as a percentage of the total divisional gross lending book (%)	7.20%	0.92%
Buy to Let		
Reduced monthly payments	0.8	0.8
Payment, waiver or lower rate product switch	0.5	1.1
Deferred payment	796.7	2.1
Total Buy to Let	**798.0**	**4.1**
Forborne as a percentage of the total divisional gross lending book (%)	15.10%	0.08%
Residential Mortgages		
Temporary or permanent switch to interest only	1.4	2.4
Reduced monthly payments	6.7	9.5
Payment, waiver or lower rate product switch	0.4	0.5
Deferred payment	451.2	2.7
Total Residential Mortgages	**459.7**	**15.1**
Forborne as a percentage of the total divisional gross lending book (%)	22.10%	0.86%

MotoNovo Finance		
Reduced monthly payments	3.4	
Deferred payment	193.8	
Total MotoNovo Finance	197.2	
Forborne as a percentage of the total divisional gross lending book (%)	11.20%	
Total forborne		
Total capitalisation	-	0.6
Total temporary or permanent switch to interest only	3.8	5.0
Total reduced monthly payments	11.2	11.6
Total loan-term extension	0.7	4.0
Total Payment, waiver or lower rate product switch	0.9	1.6
Total deferred payment	1,962.5	8.2
Total linked to forbearance	-	6.3
Total agreement to advance funds in excess of normal contractual terms	21.9	4.7
Total forborne	**2,001.0**	**42.0**
Total forborne as a percentage of the total gross lending book (%)	16.80%	0.39%

[1] The above analysis includes Property Development.
[2] The above analysis excludes MotoNovo Finance for 30 June 2019.

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 concentration within our 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 2020		30 June 2019	
	£m	%	£m	%
Asset Finance	1,857.9	15	2,017.7	19
Invoice Finance	278.7	2	400.4	4
SME Commercial Mortgages[1]	1,139.1	9	1,020.6	10
Buy to Let	5,246.9	42	5,043.7	48
Residential Mortgages	2,079.6	17	1,747.9	16
MotoNovo Finance	1,823.5	15	364.8	3
	12,425.7	**100**	**10,595.1**	**100**

[1] The above analysis includes Property Development.

Credit concentration by geography[1]

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

	30 June 2020 %	30 June 2019 %
East Anglia	10.6	9.9
East Midlands	6.3	5.9
Greater London	17.0	17.5
North East	3.0	3.1
North West	10.4	10.7
Northern Ireland	1.4	1.6
Scotland	6.7	6.4
South East	18.1	18.1
South West	8.9	9.0
Wales	3.8	4.3
West Midlands	6.8	6.6
Yorkshire and Humberside	7.0	6.9
	100.0	100.0

[1] The above analysis includes Property Development.

Credit concentration by sector[1]

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

	30 June 2020 %	30 June 2019 %
Agriculture, hunting and forestry	0.3	0.5
Construction	4.2	5.2
Education	0.2	0.2
Electricity, gas and water supply	0.3	0.4
Financial intermediation	0.2	2.0
Health and social work	0.2	0.3
Hotels and restaurants	0.4	0.4
Manufacturing	2.7	2.4
Mining and quarrying	0.1	0.2
Private households with employed persons	3.0	2.2
Real estate, renting and business activities	17.9	19.4
Residential	66.4	61.1
Transport, storage and communication	2.4	3.2
Wholesale & retail trade repair of motor vehicles & household goods	1.7	2.5
	100.0	100.0

[1] 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:

30 June 2020	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m
£0 - £50k	737.7	4.5	1.4	47.9	19.2	1,749.1
£50 - £100k	370.6	8.5	24.8	672.6	306.1	15.7
£100 - £150k	193.7	8.5	30.8	675.9	497.7	6.2
£150 - £200k	109.9	8.4	33.9	646.1	394.2	5.2
£200 - £300k	128.9	15.5	47.7	1,222.1	510.0	10.4
£300 - £400k	71.3	10.3	42.8	848.3	200.8	4.7
£400 - £500k	44.2	9.4	46.0	375.6	61.6	6.7
£500k - £1m	105.1	30.3	157.1	475.3	87.0	16.7
£1m - £2m	36.0	17.7	164.0	178.0	1.0	5.9
£2m+	60.5	165.6	348.2	105.1	2.0	2.9
Total	1,857.9	278.7	896.7	5,246.9	2,079.6	1,823.5

[1] The above analysis excludes Property Development

30 June 2019	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m
£0 - £50k	777.3	4.1	1.6	43.5	15.4	282.5
£50 - £100k	415.2	9.6	25.2	642.7	265.8	10.7
£100 - £150k	217.3	9.8	30.5	648.7	428.1	6.7
£150 - £200k	137.8	12.2	30.6	620.2	328.9	9.8
£200 - £300k	135.8	18.6	48.3	1,176.8	420.9	10.7
£300 - £400k	75.4	16.3	39.5	833.5	164.9	6.2
£400 - £500k	55.0	17.2	43.8	372.7	44.6	7.5
£500k - £1m	103.5	60.1	142.2	464.8	75.0	19.4
£1m - £2m	45.9	45.2	165.6	152.9	2.2	5.9
£2m+	54.5	207.3	283.1	87.7	2.0	5.4
Total	2,017.7	400.4	810.4	5,043.5	1,747.8	364.8

[1] The above analysis excludes Property Development.
Values as at 30 June 2019 have been restated from the gross to the net loan value in line with Pillar 3 disclosure.

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. Values as at 30 June 2019 have been restated from the gross to the net loan value in line with Pillar 3 disclosure in the following tables.

SME Commercial Mortgages[1]

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

	30 June 2020 £m	30 June 2019 £m
100%+	4.0	0.1
95-100%	5.3	-
90-95%	18.2	0.1
85-90%	18.9	2.3
80-85%	29.3	4.1
75-80%	79.2	15.0
70-75%	116.3	61.4
60-70%	190.8	237.8
50-60%	205.6	195.2
0-50%	229.1	294.4
	896.7	**810.4**
Capital repayment	494.0	520.5
Interest only	402.7	289.9
	896.7	**810.4**
Average loan-to-value percentage	60.17%	53.90%

[1] The above analysis excludes Property Development.
Values as at 30 June 2019 have been restated from the gross to the net loan value in line with Pillar 3 disclosure.

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 2020 was 66.1% (30 June 2019: 61.0%).

Buy to Let

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

	30 June 2020 £m	30 June 2019 £m
100%+	17.7	1.6
95-100%	9.9	0.3
90-95%	17.1	1.6
85-90%	54.6	19.4
80-85%	213.3	232.5
75-80%	722.3	1,169.8
70-75%	1,274.9	1,205.4
60-70%	1,594.6	1,286.8
50-60%	753.1	647.0
0-50%	589.4	479.1
	5,246.9	**5,043.5**
Capital repayment	310.7	300.8
Interest only	4,936.2	4,742.7
	5,246.9	**5,043.5**
Average loan-to-value percentage	65.82%	67.10%

Values as at 30 June 2019 have been restated from the gross to the net loan value in line with Pillar 3 disclosure.

Residential Mortgages

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

	30 June 2020 £m	30 June 2019 £m
100%+	13.4	0.1
95-100%	38.6	19.1
90-95%	178.9	212.8
85-90%	207.9	186.3
80-85%	165.4	110.4
75-80%	207.0	144.2
70-75%	253.0	246.2
60-70%	372.9	316.6
50-60%	267.1	210.1
0-50%	375.4	302.0
	2,079.6	1,747.8
Capital repayment	1,885.0	1,549.7
Interest only	194.6	198.1
	2,079.6	1,747.8
Average loan-to-value percentage	67.70%	68.42%

Values as at 30 June 2019 have been restated from the gross to the net loan value in line with Pillar 3 disclosure.

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 2020, 97% of the exposures with an LTV in excess of 85% relate to either HTB or MIG (30 June 2019: 99%). The average indexed LTV for mortgages with a guarantee was 85% (30 June 2019: 87%). As at 30 June 2020, the average indexed LTV of the non-mortgage guarantee owner occupied book is 58% (30 June 2019: 59%).

Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 30 June 2020, 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 67.5% (30 June 2019: 70.0%).

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 2020, the total amount of such unsecured lending was £37.0 million (30 June 2019: £40.1 million).

MotoNovo Finance

In respect of MotoNovo Finance Limited, collateral is provided by our rights and/or title to the underlying assets, which we are able to repossess in the event of default. A proportion of loans are sanctioned at LTVs higher than 100% of the estimated retail value

and, although the whole agreement is secured on the vehicle, there may be a shortfall in the event of repossession. Loans where LTV exceeds 100% are subject to more stringent underwriting criteria. LTV information on MotoNovo Finance's vehicle finance portfolio is set out as follows:

	30 June 2020 £m	30 June 2019 £m
100%+	642.9	106.5
95-100%	237.6	39.3
90-95%	214.5	35.1
85-90%	170.4	28.9
80-85%	126.8	21.6
75-80%	97.6	17.6
70-75%	71.9	14.0
60-70%	96.5	18.4
50-60%	57.5	11.5
0-50%	51.2	9.3
	1,766.9	**302.2**

Values as at 30 June 2019 have been restated from the gross to the net loan value in line with Pillar 3 disclosure.

Group impairment coverage ratio

Impairment coverage is analysed as follows:

30 June 2020	Gross carrying amount £m	Provisions £m	Coverage Ratio %
Stage 1	10,992.4	62.9	0.57%
Stage 2	1,356.2	49.9	3.69%
Stage 3	237.9	48.0	20.13%
Undrawn loan facilities	342.5	0.6	0.18%
Total	**12,929.0**	**161.4**	**1.25%**

30 June 2019	Gross carrying amount £m	Provisions £m	Coverage Ratio %
Stage 1	9,436.4	20.7	0.22%
Stage 2	1,083.4	8.9	0.81%
Stage 3	129.1	24.2	18.75%
Undrawn loan facilities	715.6	0.8	0.11%
Total	**11,364.5**	**54.6**	**0.48%**

The significant increase in provisions as at 30 June 2020 is predominantly driven by the deterioration in the forward-looking macro-economic environment and the application of additional Post Model Adjustments ("PMA") to the portfolio as a result of the Covid-19 pandemic. See note 3(a) for further detail on management overlays which the Bank applies to the modelled IFRS 9 ECL provisions.

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.

The following tables detail amounts of financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements including the Term Funding Scheme as detailed in note 19.

			Related amounts not offset in the statement of financial position		
30 June 2020 Type of financial instrument	Gross amount of recognised financial instruments £m	Net amount of financial instruments presented in the statement of financial position £m	Financial instruments £m	Cash collateral paid/ (received) £m	Net amount £m
Assets					
Loans and advances to customers (amounts pre-positioned as collateral under the TFS)	2,987.0	2,987.0	(2,173.5)	-	813.5
Derivatives held for risk	9.3	9.3	(9.2)	(0.1)	0.0
	2,996.3	2,996.3	(2,182.7)	(0.1)	813.5
Liabilities					
Amounts due to banks (central bank under the TFS)	(2,173.5)	(2,173.5)	2,173.5	-	-
Derivatives held for risk	(99.8)	(99.8)	9.2	88.0	(2.6)
	(2,273.3)	(2,273.3)	2,182.7	88.0	(2.6)

30 June 2019	Gross amount of recognised financial instruments	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
			Financial instruments	Cash collateral paid/ (received)	Net amount
Type of financial instrument	£m	£m	£m	£m	£m
Assets					
Loans and advances to customers (amounts pre-positioned as collateral under the TFS)	3,303.0	3,303.0	(1,814.6)	-	1,488.4
Derivatives held for risk	9.1	9.1	(7.0)	-	2.1
	3,312.1	3,312.1	(1,821.6)	-	1,490.5
Liabilities					
Amounts due to banks (central bank under the TFS)	(1,814.6)	(1,814.6)	1,814.6	-	-
Derivatives held for risk	(37.4)	(37.4)	7.0	29.6	(0.8)
	(1,852.0)	(1,852.0)	1,821.6	29.6	(0.8)

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 2020 and at 30 June 2019, all treasury assets were classified as stage 1 assets per IFRS 9 and no treasury assets were past due or impaired. No significant impairment provision was booked as at 30 June 2020 or 30 June 2019.

The analysis presented below is derived using ratings provided by Standard and 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 the credit risk of treasury financial assets.

	30 June 2020 £m	30 June 2019 £m
Cash and balances at central banks and loans and advances to banks		
- Rated AA+ to AA-	552.6	517.7
- Rated A+ to A-	15.3	68.7
- Rated BBB+	203.1	41.7
	771.0	628.1
High quality liquid assets included in the liquidity buffer		
- Rated AAA	1,230.5	959.9
- Rated AA+ to AA-	165.4	227.9
- Rated A+ to A-	5.3	-
- Rated BBB+	425.5	-
Debt securities: Asset backed securities		

- Rated AAA	114.4	20.0
	1,941.1	1,207.8
Derivatives held for risk management purposes		
- Rated A+ to A-	9.1	9.1
- Rated BBB+	0.2	-
	9.3	9.1
	2,721.4	1,845.0

Standard and Poor's disclaimer notice in relation to the ratings information set out below:

"This may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. THIRD PARTY CONTENT PROVIDERS SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF THEIR CONTENT, INCLUDING RATINGS. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice."

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 2020 £m	30 June 2019 £m
Level 1		
Bank of England reserve account and unencumbered cash and bank balances	512.6	462.4
UK gilts and Treasury bills, other Sovereign, Supranational and Covered bonds	1,753.3	1,124.4
Level 2		
Covered bonds	73.4	63.4
Asset backed securities	114.4	20.0
Total liquidity buffer	**2,453.7**	**1,670.2**
As a % of funding liabilities	*13.85%*	*14.51%*

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

As at 30 June 2020, deposits have grown by 21.3% to £10.9 billion (30 June 2019: £9.0 billion) and we continued to maintain a diversified source of funding, including utilising cost effective sources offered by the Bank of England.

In October 2018, the Group issued a new securitisation (Oak No.2) providing £325 million of funding, with £139.5 million in issue as at 30 June 2020. The underlying mortgages within the outstanding Oak No.2 securitisation will continue to be repaid with a call option in February 2023. In May 2019, the Group exercised its call option on the Oak No.1 securitisation. The Group issued two further tranches of Tier 2 subordinated debt, to its fellow subsidiary FirstRand Bank during the prior year, the first tranche of £100 million was issued in November 2018 and the second tranche of £52 million in May 2019.

In September 2019, the Group issued two new securitisations (Oak No.3 and MotoMore) providing £343.5 million and £250.2 million of funding respectively with £324.2 million and £249.8 million in issue as at 30 June 2020 for Oak No.3 and MotoMore respectively. The underlying mortgages within the outstanding Oak No.3 securitisation will continue to be repaid with a call option in July 2024 and the MotoMore securitisation will continue to be repaid with a call option in August 2024.

	30 June 2020 £m	30 June 2019 £m
Retail deposits	6,658.3	5,967.2
SME deposits	3,253.5	2,142.5
Corporate deposits	974.7	862.1
Customer deposits	**10,886.5**	**8,971.8**
Term Funding Scheme (“TFS”)	1,671.4	1,674.1
Other eligible schemes	500.3	140.5
Residential Mortgages Backed Security (“RMBS”)	712.3	263.2
Deposits by banks	1.8	-
Subordinated liabilities	213.5	213.4
Wholesale funding	**3,099.3**	**2,291.2**
Total funding	**13,985.8**	**11,263.0**

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 fair value through other comprehensive income (FVOCI) securities into variable three month SONIA assets and 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 2 percentage point shift in the interest yield curve.

The impact of a 2 percentage point shift in the interest yield curve is as follows:

	30 June 2020 £m	30 June 2019 £m
2% shift up of the yield curve:		
As at year end	(3.1)	(4.6)
Average of month end positions	(7.2)	(5.6)
2% shift down of the yield curve:		
As at year end	0.9	1.7
Average of month end positions	1.7	3.1

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 2020	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	0.7	570.8	878.5	729.5	-	2,179.5
Customers' accounts	3,136.6	3,660.6	2,593.7	1,652.2	0.1	11,043.2
Other liabilities	79.5	0.5	4.3	22.1	8.2	114.6
Debt securities in issue	21.8	19.0	169.9	425.1	93.9	729.7
Subordinated notes	-	-	6.3	49.9	245.4	301.6
Unrecognised loan commitments	342.5	-	-	-	-	342.5
	3,581.1	4,250.9	3,652.7	2,878.8	347.6	14,711.1
Derivative liabilities						
Derivatives held for risk management settled net	2.3	4.8	24.8	65.7	2.1	99.7
Amounts received	-	4.3	-	-	-	4.3
Amount paid	-	(4.4)	-	-	-	(4.4)
	2.3	4.7	24.8	65.7	2.1	99.6

30 June 2019	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	3.1	147.3	9.3	1,689.8	-	1,849.5
Customers' accounts	2,021.2	3,184.1	2,473.1	1,383.7	0.1	9,062.2
Other liabilities	6.9	51.6	-	-	-	58.5
Debt securities in issue	-	15.3	41.7	217.5	-	274.5
Subordinated notes	-	-	12.6	247.1	-	259.7
Unrecognised loan commitments	715.6	-	-	-	-	715.6
	2,746.8	3,398.3	2,536.7	3,538.1	0.1	12,220.0
Derivative liabilities						
Derivatives held for risk management settled net	(0.4)	(0.9)	(7.9)	(27.7)	(1.1)	(38.0)
Derivatives held for risk management settled gross:						
Amounts received	-	8.8	-	-	-	8.8
Amount paid	-	(8.8)	-	-	-	(8.8)
	(0.4)	(0.9)	(7.9)	(27.7)	(1.1)	(38.0)

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 year ended 30 June 2020 and 30 June 2019.

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

	30 June 2020 £m	30 June 2019 £m
Common Equity Tier 1		
Share capital	243.9	243.9
Share premium account	74.4	74.4
Capital redemption reserve	0.1	0.1
FVOCI reserve	1.5	0.4
Retained earnings	680.6	655.4
IFRS 9 Transitional adjustment[1]	62.9	9.6
Less: intangible assets	(13.7)	(14.8)
Total Common Equity Tier 1 capital ("CET1")	**1,049.7**	**969.0**
Additional Tier 1	108.0	121.0
Total Tier 1 capital	**1,157.7**	**1,090.0**
Tier 2 capital		
Subordinated notes	212.0	212.0
Total Tier 2 capital	**212.0**	**212.0**
Total capital resources	**1,369.7**	**1,302.0**
Risk weighted assets – Pillar 1[2]	**7,864.0**	**6,484.4**
Capital ratios – regulatory basis[2]		
Common Equity Tier 1 ratio	13.3%	14.9%
Tier 1 capital ratio	14.7%	16.8%
Total capital ratio	17.4%	20.1%
Leverage ratio (%)	**7.7**	**8.6**

[1] Under the regulatory rules, an addback to CET1 for the transitional adjustment arising on the implementation of IFRS 9 on 1 July is permitted in the following five years. The permitted addback is 95% in the year following transition reducing to 85%/70%/50%/25% in the second/third/fourth/fifth years respectively following transition.
[2] Risk weighted assets and the capital ratios are not covered by the external auditor's opinion.

On a fully loaded basis, with no addback for the IFRS 9 transitional

	30 June 2020 £m	30 June 2019 £m
Capital ratios– fully loaded basis[1]		
Common Equity Tier 1 ratio	12.7%	14.8%
Tier 1 capital ratio	14.0%	16.7%
Total capital ratio	16.8%	19.9%

[1] Capital ratios are not covered by the external auditor's opinion.

Reconciliation of equity per statement of financial position to capital resources

	30 June 2020 £m	30 June 2019 £m
Equity per statement of financial position	1,108.5	1,095.2
Add: subordinated notes	212.0	212.0
Add: IFRS 9 transitional adjustment	62.9	9.6
Less: intangible assets	(13.7)	(14.8)
Total capital resources	1,369.7	1,302.0

Financial statements

Statement of Directors' responsibilities	82
Independent auditor's report	83
Consolidated financial statements	95
Notes to the consolidated financial statements	100
The Company financial statements	167
Notes to the Company financial statements	170

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 financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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 company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- 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 company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement of the Directors in respect of the Report and Accounts and the financial statements

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 on pages 4 to 15 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.

Claire Cordell
Chief Financial Officer

Independent Auditor's Report to The Members of Aldermore Group PLC

Report on the audit of the financial statements

1. 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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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 notes 1 to 42 for the Group financial statements and related notes 1 to 15 for the parent company financial statements; and
- the risk management and capital disclosures marked as audited on pages 50 to 80.

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.

2. 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Expected Credit Losses for loans and advances to customers; and • Effective Interest Rate income recognition. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £5.5m, which was determined on the basis of 0.5% of Net Assets.
Scoping	Our group audit focused on Aldermore Group PLC and its significant subsidiaries, Aldermore Bank Plc and MotoNovo Finance Limited.
Significant changes in our approach	Given the impact and ongoing uncertainty on the financial performance of the Group caused by the Covid-19 pandemic, we enhanced our audit approach for the critical estimates and judgements in the financial statements, most notably for the determination of Expected Credit Losses ("ECL") for loans and advances to customers. In addition, as discussed further in Section 11 we enhanced our procedures related to the Group's solvency and regulatory requirements as underpins the Director's going concern assessment by utilising our regulatory specialists in this area. ECL In respect of ECL, we revisited our risk assessment procedures and increased the risk attached to two elements of the ECL estimate to one that may give rise to a significant risk of material misstatement in the financial statements, namely, in the reasonableness of application of weightings to Macroeconomic Scenarios, and in the assessment of 'payment holiday' requests for the purposes of determining significant increases in credit risk for staging classification. We enhanced our audit procedures for the audit of ECL by utilising our in-house economist and our credit and modelling specialists. Materiality We also reconsidered our benchmark for the determination of materiality given the current and expected volatility in ECL and its impact on reported profit before tax, to identify a more stable and appropriate benchmark on which to base our materiality. We revised our benchmark from £2.7m based on 5% of profit before tax which we had determined at the planning stage of our audit to £5.5m based on 0.5% of net assets (2019: £6.5m – 5% of profit before tax which equated to 0.6% of net assets).

4. Conclusions relating to 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	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

5. 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.

5.1. Expected Credit Losses for loans and advances to customers

Key audit matter description

As disclosed in note 2(g) the Group recognises Expected Credit Losses ("ECL") on loans and advances to customers in line with the requirements of IFRS 9.

ECL provisions as at 30 June 2020 were £160.8m (2019: £53.8m), which represented 1.3% (2019: 0.5%) of loans and advances to customers. The Income Statement charge for the year was £120.5m (2019: £23.8m).

As detailed in note 3 on pages 115 to 120 'Use of estimates and judgements', determining ECL estimates is complex and highly judgmental because it involves a high degree of estimation uncertainty particularly in light of the current uncertain economic outlook caused by the impact of the global Covid-19 pandemic. Due to the considerable judgement required to estimate the ECL and given estimates, which by their nature, give rise to a higher risk of material misstatement due to error or fraud, we have identified the determination of the ECL provision as a key audit matter.

IFRS 9 requires management to estimate the credit losses that the Group is expected to incur as a result of defaults under different scenarios covering prescribed future periods. These ECLs impact the carrying amount of the Group's portfolio of financial assets recognised at amortised cost.

The impact of macroeconomic events, including negative economic sentiment and volatility in global markets, result in a challenging operating environment and have had an impact on the credit risk of underlying counterparties.

For stage 1 and 2 loans, ECLs are calculated on a portfolio basis and require the use of statistical models incorporating loss data and assumptions on the recoverability of customers' outstanding balances, which are not always necessarily observable. For stage 3 loans, ECLs are individually assessed to determine a probability weighted recoverable amount.

The specific areas of significant management judgement within the ECL calculations include:

- the assumptions and methodologies applied to estimate the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD");
- the assessment of whether there has been a significant increase in credit risk ("SICR") since origination date of the exposure to the reporting date (i.e. a trigger event that will cause a deterioration in credit risk and result in migration of the loan from stage 1 to stage 2);
- the incorporation of forward looking information and macro-economic inputs into PDs; and
- the assumptions used for estimating the recoverable amounts (including collateral) and

timing of future cash flows, particularly for individually assessed stage 3 loans.

In addition, management make Post Model Adjustments (“PMAs”) when, in their judgement, there is a limitation in respect of the models’ ability to address specific credit risk trends or macroeconomic conditions. This can occur given the inherent limitation of modelling based on past performance, the maturity of the models, the timing of model updates and macroeconomic events that could affect customers’ ability to repay their outstanding borrowings.

As a result of the impact of Covid-19 on the economic and credit environment, management have introduced a number of additional PMAs, as set out in note 3(a) on page 115, to address the limitations in the model so that the financial statements fully reflect the economic conditions caused by the impact of Covid-19.

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

We obtained and understanding of and, where applicable, tested relevant controls over the ECL calculation. We reviewed management’s accounting policies and assessed whether they are reasonable and in accordance with accounting standards.

We challenged how management had included the impact of Covid-19 within the ECL models to assess whether it was appropriately considered in the measurement of ECLs.

For all lending portfolios we focused our procedures in the following areas:

Model Validity and Model Changes

To test the model methodology and model changes during the year, we engaged our credit modelling specialists: to review the appropriateness of the model methodology, to validate that it was in line with management’s accounting policies; to review the application of the methodology in the ECL models; and to independently test the model source-code to verify that the model correctly reflected management’s assumptions about future borrower behaviours.

Data Inputs

We tested management’s internal controls over the reconciliations of data inputs into the ECL model and substantively tested that the data inputs into the ECL model were complete and accurate.

Model Inputs (PD, LGD and EAD)

We assessed whether PDs, LGDs and EADs were calculated in line with the model methodologies by performing a review and independent re-calculation of the ECL as at the reporting date.

We tested management’s model performance monitoring controls and performed back testing for a sample of PDs, LGDs and EADs across all lending portfolios to compare modelled amounts to actual experience of instances of loss.

For the LGD inputs, we additionally looked at the granular judgements of haircuts, costs and time to sell, and cure rates and assessed these against observed data.

SICR

We assessed the staging methodology for compliance with IFRS 9 and challenged the primary quantitative PD thresholds used by management to determine whether an account had experienced a SICR.

We tested management's controls for identifying qualitative SICR triggers as part of the watch list process. For a sample of accounts, we performed an independent assessment to determine whether they had been appropriately allocated to the correct stage under IFRS 9, based on the details in the credit file and publicly available information.

We challenged management's judgement that any forbearance relating to the borrowers' ability to repay as a result of the impact of Covid-19 had been appropriately considered when determining the allocation of the loan to each of the 3 stages.

We challenged the key judgement in staging whereby management had used the 12 month PD as a proxy for the lifetime PD of an account to assess relative changes in PD from origination. This included testing whether significant concentrations of credit risk had been observed at any point during the life of originated loans.

Macroeconomic Scenarios

During the current period, management updated the ECL model for the most recent macroeconomic data inputs and reassessed their probability weights for each of their economic scenarios. We evaluated the methodology used to develop the forecasts and the weightings assigned to each scenario.

With support from our in-house economists we challenged the macroeconomic data inputs by benchmarking them to a range of external data sources to assess their reasonableness. We also challenged management to justify the weightings applied to each of the macroeconomic scenarios and we ran sensitivities across the range of scenarios to determine the potential materiality of such changes on the ECL provision.

Post Model Adjustments ("PMAs")

We assessed the validity, completeness and accuracy of PMAs.

From the detailed understanding we obtained of the ECL model, with the support of our credit modelling specialists, we identified the limitations in the ECL model and assessed the appropriateness of the PMAs made by management to address such limitations. We then re-performed the calculation of each PMA to determine whether it had been accurately quantified.

We tested the completeness of PMAs by evaluating whether there were any additional material data or model methodology deficiencies, which might need to be accounted for through a PMA.

We assessed each of the PMAs that had been made by management directly to respond to the limitations in the ECL model from the impact of Covid-19 and assessed whether they appropriately captured the additional risks arising on the recoverability of loans and advances.

	ECL Assessment for Stage 3 Accounts We tested the ECL for a sample of stage 3 accounts. This included challenging management's collateral valuations, assessing whether the collateral was recoverable, evaluating valuation haircuts and costs to sell, and obtained an understanding of the possible workout scenarios. We engaged our real estate valuation experts to assist us in independently challenging the valuation of properties where a recent reliable third party valuation was not available. **Disclosures** We assessed whether the disclosure of significant judgements and areas of estimation uncertainty gave sufficient transparency over the uncertainty surrounding measurement of ECLs, particularly in light of the changes in the macroeconomic environment as a result of the Covid-19 pandemic. We tested the completeness and accuracy of the related credit risk disclosures and sensitivities with reference to the applicable accounting standards.
Key observations	Based on our audit procedures above, we concluded that the estimate of ECL is not materially misstated.

5.2. Effective Interest Rate income recognition

Key audit matter description	The Group's revenue recognition policy is detailed in note 2(a), 'Significant accounting policies' on pages 104 to 115. As detailed in note 3, 'Use of estimates and judgements' on pages 115 to 120, a key judgement in recognition of revenue on an Effective Interest Rate ("EIR") basis, is the determination of the expected life of the underlying loans and advances. The Group's net interest income was £370.5m (June 2019: £318.1m). 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 about what fees and costs should be included in the calculation. 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 to self-originated loans. Due to the considerable judgement required to estimate the expected lives for the repayment of loans and advances to borrowers for whom revenue is recognised at the EIR, and given the potential for fraud through inappropriate bias within the estimate, we have identified the determination of income recognition using the EIR as a key audit matter.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls over the EIR calculation. In addition, for all portfolios we: • Reviewed management's accounting policies and confirmed they are reasonable and in accordance with accounting standards. A particular focus was the fees included / excluded from the EIR models.

	• We substantively tested the relevant loan data inputs, to check they had been completely and accurately included in the EIR models. • We tested the mathematical integrity of management's EIR models by building our own models ("challenger models") and comparing the output from our models to the output from management's models. To challenge the modelled curves for mortgage prepayments we worked with our data analytic specialists to: • Review the methodology and technical source code applied in the EIR model in determining the expected life curves; • Check the completeness and accuracy of the underlying inputs into the EIR model; and • Independently recreate the forecast expected life curves and apply them in our challenger models to assess against management's curves.
Key observations	Based on our audit procedures above, we concluded that net interest income for the period is not materially misstated

6. OUR APPLICATION OF MATERIALITY

6.1. 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
Materiality	£5,500,000 (2019: £6,500,000)	£2,750,000 (2019: £2,600,000)
Basis for determining materiality	0.5% of Net Assets (2019: 5% of Profit Before Tax which equated to 0.6% of Net assets)	For the 2020 Parent Company Financial Statements, we have determined our materiality to be £2.75m (2019 £2.6m) on the basis of net assets capped at 50% of Group materiality, in accordance with our methodology for determining materiality for components. In our professional judgement, we believe that the use of net assets is appropriate as the purpose of the Company is as a holding company. The materiality selected represents 0.43% of the Company's net assets.
Rationale for the benchmark applied	The impact of Covid-19 has led to a significant increase in ECL for this reporting period and the ongoing uncertainty is likely to result in increased volatility in ECL, and thus in reported profit before tax, in future reporting periods. We therefore identified net assets as a more stable and appropriate benchmark on which to base our materiality and we used 0.5% of net assets to determine the amount for our materiality.	

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we considered the following factors:

a. the quality of the control environment and that we are able to rely on controls for a number of business cycles,
b. the nature, volume and size of misstatements uncorrected in the previous audit; and
c. the performance materiality communicated to us by the auditor of the consolidated financial statements for FirstRand Limited.

We performed our work using a performance materiality of 40% of materiality for the Group financial statements; this was necessary in order to comply with the instructions provided to us by the auditor of FirstRand Limited. Performance materiality was set at 70% of Group materiality for the for 2019 audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £140k (2019: £325k), 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.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. Identification and scoping of components

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 significant subsidiaries, Aldermore Bank Plc and MotoNovo Finance Limited which were subject to a full scope audit while the remaining subsidiaries were subject to specified audit procedures. The full scope audit of the three entities named above provided us with coverage of all material balances. Our audits of each of the subsidiaries were performed using levels of materiality appropriate to each entity. At the Group level, we also tested the consolidation process. All work was performed by the Group audit team.

7.2. Our consideration of the control environment

A controls reliance strategy over the gross lending cycles was planned and taken. We evaluated the design and implementation and tested the operating effectiveness of controls within the following lending cycles: mortgages, asset finance, invoice finance, and MotoNovo.

In order to test the operating effectiveness of each control, a combination of re-performance, inquiry, observation or inspection was performed on a sample basis, tailored to the nature and timing of each control. The IT systems underpinning the above business cycles were in scope for our control reliance approach.

8. 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.

9. 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.

10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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. This description forms part of our auditor's report.

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Effective Interest Rate income recognition; and Expected Credit Losses for loans and advances to customers. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the requirements of the United Kingdom's Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") and in particular their licence and regulatory solvency requirements which further underpin the Group's going concern assessment.

11.2. Audit response to risks identified

As a result of performing the above, we identified Effective Interest Rate income recognition and Expected Credit Losses for loans and advances to customers as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

As a result of Covid-19 we considered the Group's risk management and controls that maintain their compliance with their licence and regulatory solvency requirements. This work also informed the Group's going concern assessment and our work over going concern by scrutinising further, amongst other areas, the 'reverse stress' test conducted by the Group for regulatory purposes and by utilising our regulatory specialists in this area.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence from the Group's primary regulators the PRA and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 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.

13. OPINION ON OTHER MATTER PRESCRIBED BY THE CAPITAL REQUIREMENTS (COUNTRY-BY-COUNTRY REPORTING) REGULATIONS 2013

In our opinion the information given in note 40 to the financial statements for the financial year ended 30 June 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

14.1. 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.

14.2. 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.

15. OTHER MATTERS

15.1. 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 ended 30 June 2018 and subsequent financial periods. The period of total uninterrupted engagement of the firm is three years.

15.2. 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).

16. 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.

Manbhinder Rana FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 August 2020

Consolidated income statement
For the year ended 30 June 2020

	Note	Year ended 30 June 2020 £m	Year ended 30 June 2019 (restated) £m
Interest income	5	563.8	467.3
Interest expense	6	(193.3)	(149.2)
Net interest income		**370.5**	**318.1**
Fee and commission income	7	5.6	7.6
Fee and commission expense	8	(10.1)	(6.2)
Net (losses)/gains from derivatives and other financial instruments at fair value through profit or loss	9	(8.1)	3.8
Net (losses)/gains on disposal of financial assets at fair value through other comprehensive income		(0.1)	0.2
Other operating income		54.3	16.8
Total operating income		**412.1**	**340.3**
Provisions	29	(3.2)	(1.2)
Integration costs	10	-	(5.4)
Impairment of goodwill & intangibles	24	-	(0.7)
Other administrative expenses	10	(216.8)	(175.0)
Administrative expenses	10	**(220.0)**	**(182.3)**
Depreciation and amortisation	14	(12.1)	(5.1)
Operating profit before impairment losses		**180.0**	**152.9**
Share of profit of associate	22	0.5	0.5
Impairment losses on loans and advances to customers	19	(120.5)	(23.8)
Impairment losses on lease modifications	19	(11.2)	-
Profit before taxation		**48.8**	**129.6**
Taxation[1]	15	(10.2)	(30.8)
Profit after taxation - attributable to equity holders of the Group		**38.6**	**98.8**

[1] Comparatives restated following adoption of revised IAS 12. Refer to notes 15 and 42.

The notes and information on pages 100 to 167 form part of these financial statements.

Consolidated statement of comprehensive income
For the year ended 30 June 2020

	Year ended 30 June 2020 £m	Year ended 30 June 2019 (restated) £m
Profit after taxation[1]	38.6	98.8
Other comprehensive income/(expense):		
Items that may subsequently be transferred to the income statement:		
FVOCI debt securities:		
Fair value movements	1.8	(0.2)
Amounts transferred to the income statement	(0.5)	(0.8)
Taxation	(0.3)	0.3
Total other comprehensive income/(expense)	1.0	(0.7)
Total comprehensive income attributable to equity holders of the Group	39.6	98.1

[1] Comparatives restated following adoption of revised IAS 12. Refer to notes 15 and 42.

The notes and information on pages 100 to 167 form part of these financial statements.

Consolidated statement of financial position
As at 30 June 2020

	Note	30 June 2020 £m	30 June 2019 £m
Assets			
Cash and balances at central banks		542.4	482.9
Loans and advances to banks	16	228.6	145.2
Debt securities	17	1,941.1	1,207.8
Derivatives held for risk management	18	9.3	9.1
Loans and advances to customers	19	12,425.7	10,595.1
Fair value adjustment for portfolio hedged risk		58.1	17.9
Other assets		20.7	25.9
Prepayments and accrued income		15.4	9.8
Taxation asset		11.8	-
Deferred taxation	21	4.5	4.8
Investment in associates	22	5.5	5.4
Plant and equipment[1]	23	46.8	11.6
Intangible assets	24	13.7	14.8
Total assets		**15,323.6**	**12,530.3**
Liabilities			
Amounts due to banks	25	2,173.5	1,814.6
Customers' accounts	26	10,886.4	8,971.8
Derivatives held for risk management	18	99.8	37.4
Fair value adjustment for portfolio hedged risk	18	2.1	1.0
Other liabilities[1]	27	90.5	61.4
Accruals and deferred income	28	32.5	51.6
Current taxation		-	18.3
Provisions	29	4.5	2.4
Debt securities in issue	30	712.3	263.2
Subordinated notes	31	213.5	213.4
Total liabilities		**14,215.1**	**11,435.1**
Equity			
Share capital	33	243.9	243.9
Share premium account		74.4	74.4
Additional Tier 1 capital	35	108.0	121.0
Capital redemption reserve		0.1	0.1
Available for sale reserve		1.5	0.4
Retained earnings		680.6	655.4
Total equity		**1,108.5**	**1,095.2**
Total liabilities and equity		**15,323.6**	**12,530.3**

[1] The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to note 42 for details.

The notes and information on pages 100 to 167 form part of these financial statements.
These financial statements were approved by the Board and were signed on its behalf by:

Phillip Monks
Director
27 August 2020

Claire Cordell
Director
27 August 2020

Registered number: 06764335

Consolidated statement of cash flows
For the year ended 30 June 2020

	Note	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Cash flows from operating activities			
Profit before taxation		48.8	129.6
Adjustments for non-cash items and other adjustments included within the income statement	36	136.2	25.4
Increase in operating assets	36	(2,106.9)	(1,632.4)
Increase in operating liabilities	36	2,315.1	1,396.8
Income tax paid		(40.3)	(18.7)
Net cash flows generated from/(used in) operating activities		**353.1**	**(99.3)**
Cash flows from investing activities			
Purchase of debt securities	17	(1,085.3)	(810.6)
Proceeds from sale and maturity of debt securities	17	281.3	348.9
Capital repayments of debt securities	17	89.7	53.8
Interest received on debt securities	5	8.5	13.3
Acquisition of MotoNovo Finance from FirstRand Bank	36	-	(86.4)
Purchase of property, plant and equipment and intangible assets		(7.2)	(2.2)
Purchase of shares in associate	22	-	(0.5)
Net cash used in investing activities		**(713.0)**	**(483.7)**
Cash flows from financing activities			
Proceeds from the issue of share capital	33	-	209.0
Proceeds from the issue of subordinated notes	31	-	152.0
Proceeds from issue of debt securities	30	592.6	323.3
Capital repayments on debt securities issued	30	(144.5)	(138.9)
Coupons paid on Additional Tier 1 capital	35	(12.4)	(8.9)
Proceeds from the issue of Additional Tier 1 capital		61.0	47.0
Redemption of Additional Tier 1 capital		(75.0)	-
Interest paid on debt securities issued	30	(8.1)	(4.0)
Interest paid on subordinated notes	31	-	(7.5)
Repayment of lease liabilities - principal		(3.4)	-
Interest paid on lease liabilities		(0.4)	-
Net cash generated from financing activities		**409.8**	**572.0**
Net increase/ (decrease) in cash and cash equivalents		**49.9**	**(11.0)**
Cash and cash equivalents at start of the period	36	533.7	544.7
Movement during the period		49.9	(11.0)
Cash and cash equivalents at end of the period	36	**583.6**	**533.7**

Consolidated statement of changes in equity
For the year ended 30 June 2020

	Note	Share capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	FVOCI reserve £m	Retained earnings (restated) £m	Total (restated) £m
Year ended 30 June 2020								
As at 1 July 2019		243.9	74.4	121.0	0.1	0.4	655.4	1,095.2
Profit after taxation							38.6	38.6
Other comprehensive income						1.1		1.1
- Issuance of Additional Tier 1 capital	35			61.0				61.0
- Redemption of Additional Tier 1 capital				(74.0)			(1.0)	(75.0)
- Coupon paid on Additional Tier 1 capital securities							(12.4)	(12.4)
As at 30 June 2020		243.9	74.4	108.0	0.1	1.5	680.6	1,108.5
Year ended 30 June 2019								
As at 1 July 2018		34.9	74.4	74.0	0.1	1.1	565.5	750.0
Profit after taxation[1]							98.8	98.8
Other comprehensive income						(0.7)		(0.7)
Transactions with equity holders:								
- Share issue proceeds (net of issue cost of £m)	33	209.0						209.0
- Issuance of Additional Tier 1 capital	35			47.0				47.0
- Coupon paid on Additional Tier 1[1] capital securities							(8.9)	(8.9)
As at 30 June 2019		243.9	74.4	121.0	0.1	0.4	655.4	1,095.2

[1]Comparatives restated following adoption of revised IAS 12. Refer to note 42 for details.

Notes to the consolidated financial statements

1. Basis of preparation

a) Accounting basis

The consolidated financial statements of Aldermore Group PLC (the "Company") include the assets, liabilities and results of the operations of the Company, its subsidiary undertakings (together, the "Group") including Aldermore Bank PLC (the "Bank"), MotoNovo Finance Limited and its share of earnings of its associate AFS Group Holdings Limited.

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 year ended 30 June 2020, the Group has adopted the following new standards and amendments to existing standards which were effective for accounting periods starting on or after 1 July 2019:

New Accounting Standards	Description of change	Impact on the Group
IFRS 16	The Group adopted IFRS 16 effective 1 July 2019, which replaces IAS 17 and various related interpretations. IFRS 16 introduced a single lease accounting model for leases, which had an impact on the Group's financial results as at 1 July 2019. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that leases and lessors provide relevant information that faithfully represents leasing transactions. Under IFRS 16, the accounting treatment of leases by the lessee has changed fundamentally as it eliminates the dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating lease. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases.	The Group has adopted the modified retrospective approach with no restatement of prior period information on the date of initial application. Where the group is the lessee under an operating lease, the following amounts were recognised on the date of initial application ("DIA") being 1 July 2019: • A lease liability included in other liabilities measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate for the remaining period of the lease; • A corresponding right-of-use asset included in a new category within property, plant and equipment, and • The Group's remaining operating leases fell within the short-term and low value exemption, which resulted in no lease liability or right-of-use asset having to be recognised at DIA. For more details on the group policy for these assets, please refer to accounting policy note 2(p). For more detail on the amounts recognised on the DIA, refer to note 42.

New Accounting Standards	Description of change	Impact on the Group
IFRIC 23	Uncertainty over Income Tax Treatments This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statements may be months apart, IFRIC 23 may require more rigour when finalising the judgements around the amounts to be included in the tax return before the financial statements are finalised.	The Group has complied with the guidance issued by the IFRIC and as such a restatement of the 2019 financial statements was performed. The IFRIC requires the tax credit on the coupons paid on AT1 capital by the Group to be included in the income statement rather than in the statement of changes in equity. For more detail on the amounts restated in the comparatives, refer to note 42. There have been no significant changes in the Group's methodology around uncertain tax treatment as a result of IFRIC 23 apart from the change in presentation noted above.

Other than for IFRS 16 and IFRIC 23, there is no impact on these financial statements from new standards and amendments to existing standards effective for accounting periods starting on or after 1 July 2019.

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, RG1 1AX.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company, (jointly referred to as the Group), for the year ended 30 June 2020.

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. On initial recognition in the consolidated financial statements, subsidiaries acquired are accounted for by applying the acquisition method of accounting to business combinations.

The excess or shortage of the sum of the consideration transferred, the value of non-controlling interest, the fair value of any existing interest, and the fair value of identifiable net assets, is recognised as goodwill, or a gain on bargain purchase, as set out further below. Transaction costs are included in operating expenses within profit or loss when incurred.

Unrealised losses on transactions between Group entities are also eliminated unless the transaction provides evidence of impairment of the transferred asset, in which case the transferred asset will be tested for impairment in accordance with the Group's impairment policies.

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.

c) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements) and that there are no material uncertainties to disclose. In making this assessment, the Directors have considered a wide range of information and the impact of the Covid-19 pandemic on the current state of the balance sheet, future projections of profitability, cash flows and capital resources, operational resilience and the longer-term strategy of the business. In particular, the Directors have considered the following:

- The impact on the group's profitability from increases in Expected Credit Losses in the future. As part of this, the Directors considered revised macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 19, and sensitivities are disclosed in note 3;
- Sufficiency of headroom over minimum regulatory requirements for liquidity and capital, including the ability of the Group to access sources of additional liquidity and / or capital if required;
- Stress testing performed using the latest ICAAP scenarios presented to the PRA and applied to current forecasts still resulted in sufficient capital headroom;
- Current and forecasted conditions are significantly less severe than the reverse stress scenario considered in the latest ICAAP presented to the Prudential Regulation Authority, also noting that the likelihood of the reverse stress scenario crystallising being remote;
- Although successful during the Covid-19 pandemic to date, plans for further improving the operational resilience of the Group including call centres, operations and support functions;
- Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position;
- The validity of the Group's current strategy and its achievement of its longer-term strategic ambitions.

The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors as noted above. 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 the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

d) Basis of measurement

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

- Derivative financial instruments are measured at fair value through profit or loss;
- fair value through other comprehensive income (FVOCI) 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.

e) Use of estimates and judgements

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

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

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

f) Presentation of risk and capital disclosures

The disclosures required under IFRS 7: “Financial instruments: disclosures” and IAS 1: "Presentation of financial statements" have been included within the audited sections of the Risk Report on pages 50 to 62. 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 83.

g) Standards and interpretation issued not yet effective

The following new and revised standards and interpretations, all of which have been endorsed for use within the EU (except where stated) are applicable to the business of the Group. The Group will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
Conceptual framework	The improvements to the conceptual framework include revising the definitions of an asset and liability and updating the recognition criteria for including assets and liabilities in financial statements. The following concepts have been clarified: prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various standards which reference the Conceptual Framework, or to indicate that the definitions in the standards have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments are not expected to have a significant impact on the Group’s accounting policies.	Annual periods commencing on or after 1 January 2020
IAS 1 and IAS 8	Amendments regarding the definition of material The amendments clarify the definition of material and aligns the definition used in the Conceptual Framework. The explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards and will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2020

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB issued amendments to the following standards as part of the interest rate ("IBOR") benchmark reform that has a direct impact on the group's hedging relationships. These impacts are: • The highly probable requirement under IFRS 9 and IAS 39 - when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. • Prospective assessments – when performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform. • Separately identifiable risk components – IFRS 9 and IAS 39 require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. The amendment allows for hedges of a non-contractually specified benchmark component of interest rate risk, a company shall apply the separately identifiable requirement only at the inception of such hedging relationships. Management is currently investigating the impact of these amendments on the Group. An IBOR reform working group has been constituted and all impacted business units are represented.	Annual periods commencing on or after 1 January 2020
IFRS16 amendment	Covid-19-Related Rent Concessions (Amendment to IFRS 16) Amends the standard to provide lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. The amendments are not expected to have a significant impact on the Group's accounting policies.	Annual periods commencing on or after 1 June 2020

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.

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 impairment allowance.

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 FVOCI debt securities calculated on an EIR basis;
- Interest income recognised on finance leases where the Group acts as the lessor (see note 2(o));
- Modification gains and losses in Asset Finance calculated on the modified cash flows, discounted at the original interest rate are unwound through interest income over the remaining term of the asset; 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.

Other fee and commission income includes fees charged for mortgage services, arrears and insurance commission receivable.

Fee income is recognised as the Group satisfies its performance obligations, which can either be satisfied at a specific point in time or over a period of time.

For fees earned on the execution of a significant act, the performance obligation is satisfied when the significant act or transaction takes place. Where the performance obligation is satisfied over a period of time, the fees are recognised as follows:

- Fees for services rendered are recognised on an accruals basis as the service is rendered and the Group's performance obligation is satisfied; and
- Commission income is credited to profit or loss over the life of the relevant instrument on a time apportionment basis.

Arrangement fees, factoring fees for managing the customer sales ledgers within Invoice Finance 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 MotoNovo Finance dealer funding fees and Invoice Finance services which include disbursements and collect out income. This income is recognised within other operating income when the Group satisfies its performance obligations. Other operating income also includes income derived from the service level agreement ("SLA") recharge to the FirstRand London Branch in relation to MotoNovo Finance servicing the back book.

(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. It includes all realised and unrealised fair value movements, interest and foreign exchange differences.

(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 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 and only when:

- The contractual rights to receive the cash flows from the financial asset expire; 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 gains on disposal of fair value through other comprehensive income ("FVOCI") 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 in the income statement.

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. Classification

Management determines the classification of its financial assets at initial recognition, based on:

- The Group's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

The Group distinguishes three main business models for managing financial assets:

- Holding financial assets to collect contractual cash flows;
- Managing financial assets and liabilities on a fair value basis or selling financial assets; and
- A mixed business model of collecting contractual cash flows and selling financial assets.

The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed.

In considering whether the business objective of holding a group of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the Group only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repo transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

If sales of financial assets are infrequent, the significance of these sales are considered by comparing the carrying amount of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these sales will not impact the conclusion that the business model for holding financial assets is to collect contractual cash flows. In addition, where the issuer initiates a repurchase of the financial assets which was not anticipated in the terms of the financial asset, the repurchase is not seen as a sale for the purposes of assessing the business model of that group of financial assets.

A change in business model of the Group only occurs on the rare occasion when the Group changes the way in which it manages financial assets. Any changes in business models would result in a reclassification of the relevant financial assets from the start of the next reporting period.

In order for a debt security to be measured at amortised cost or fair value through other comprehensive income, the cash flows on the asset have to be solely payments of principal and interest ("SPPI"), i.e. consistent with those of a basic lending agreement. The SPPI test is applied to individual securities at initial recognition, based on the cash flow characteristics of the asset. All debt securities held as at 30 June 2020 passed the SPPI test. The Group held three portfolios of debt securities, the first as part of a mixed business model whose objectives include both the collection of contractual cash flows and the sale of financial assets, the second as part of a held to collect model whose objective is to collect contractual cash flows until maturity, and the third as part of Aldermore Group Capital Investment Strategy which seeks to stabilise earnings volatility by extending the investment term of equity capital. Debt securities held in the mixed business model have been classified as measured at fair value through other comprehensive income, and those held in the held to collect model and Capital Investment Strategy have been classified as measured at amortised cost.

The SPPI test is applied on a portfolio basis for loans and advances to customers, cash and balances at central banks and loans and advances to banks, as the cash flow characteristics of these assets are standardised. This included consideration of any prepayment charges, which in all cases were reasonable compensation and therefore did not cause these assets to fail the SPPI test. As all of these financial assets were held as part of business models with the objective of collecting contractual cash flows and they all passed the SPPI test, they have all been classified as financial assets to be measured at amortised cost.

ii. Measurement

Financial assets measured at amortised cost

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. Financial assets measured at amortised cost mainly comprise loans and advances to customers and loans and advances to banks.

Financial assets measured at fair value through other comprehensive income ("FVOCI")

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 provisions for incurred losses are recognised in the income statement which does not reduce the carrying amount of the investment security but is transferred from the FVOCI reserve in equity. Other fair value movements are recognised in other comprehensive income and presented in the FVOCI reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

Financial assets at fair value through profit or loss

These are measured both initially and subsequently at fair value with movements in fair value recorded in the income statement. Any costs that are directly attributable to their acquisition are recognised in profit or loss when incurred. The Group only measures derivative financial assets under this classification.

Modification of financial instruments

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI ("purchased or originated credit-impaired").

If the modification does not result in cash flows that are substantially different the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded

Modification gains and losses are calculated on an individual contract basis. This is calculated by discounting the modified cashflows at the original interest rate and results in a modification gain/loss in impairments in the financial year. The resultant gain/loss is recognised in the consolidated 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

This policy applies to:

- Financial assets measured at amortised cost;
- Debt securities measured at fair value through other comprehensive income;
- Loan commitments; and
- Finance lease receivables where Group is the lessor.

IFRS 9 establishes a three-stage approach for impairment of financial assets.

- Stage 1 - at initial recognition of a financial asset, or when an irrevocable loan commitment is made if this occurs before a financial asset is recognised, the asset or loan commitment is classified as stage 1 and 12 month expected credit losses (“ECL”) are recognised, which are credit losses related to default events expected to occur within the next 12 months;
- Stage 2 - if the asset has experienced a significant increase in credit risk since initial recognition, the asset is classified as stage 2 and lifetime expected credit losses are recognised; and
- Stage 3 - credit impaired assets are classified as stage 3, the asset is classified as stage 3 and lifetime expected credit losses are recognised.

Collective and individual assessment

The Group uses a bespoke credit engine to estimate ECL on a collective basis for all loans to customers and loan commitments. The collective assessment groups loans with shared credit risk characteristics through lines of business. The engine captures model outputs from the 12 month Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”), Lifetime PD, Macroeconomic models and Staging analysis to derive an ECL estimate for each account.

Statistical modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the group of accounts to which the model will be applied. These result in the production of models that are used to predict impairment parameters (PD, LGD, and EAD) based on the predictive characteristics identified through the regression process.

When impairments are calculated, each exposure is assigned unique impairment parameters (a PD, LGD and EAD) based on that exposure's individual characteristics. These account-level impairment parameters are then used to calculate account-level expected credit losses.

Where a loan is in stage 3, then a lifetime ECL is estimated based upon an individual assessment of the borrower and any collateral provided. Typically, the assessment will evaluate the emergence period, likelihood of recovery, recovery period and size of haircut to be applied to the value of the collateral under the different scenarios to estimate their corresponding specific provision amounts on a best estimate basis. A scalar is then applied to the best estimate so as to provide a probability weighted estimated of the lifetime ECL. For recent non-performing assets, where individual assessment is still outstanding, and those stage 3 assets where the individually assessed lifetime ECLs are not significant, then the provisions will be based on the lifetime ECLs determined on a collective basis as the same models used for stage 1 and stage 2 exposures.

In respect of debt securities and loans to banks, estimates of expected losses are calculated on the current individual credit grading of the exposure and externally sourced expected loss rates.

Significant increase in credit risk (movement to stage 2) ("SICR")

In assessing whether loans to customers and loan commitments have been subject to a significant increase in credit risk the Group applies the following criteria in order:

- A presumption that an account which is more than 30 days past due has suffered a significant increase in credit risk. IFRS 9 allows this presumption to be rebutted, but the Group believes that more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted the presumption;
- Quantitative criteria based upon a change in the modelled probability of default of individual credit exposures. Staging models using statistical techniques have been developed on a portfolio basis to determine the levels of changes in PDs since origination which correlate to a significant increase in the likelihood of delinquency among historic loans with similar characteristics; and
- Qualitative criteria, where an exposure is subject to temporary forbearance or has been placed on a watch list as a result of possessing certain qualitative features based on Basel Committee On Banking Supervision "Guidance on credit risk and accounting for expected credit losses", including such matters as significant change in the operating results of the borrower or in the value of the collateral provided.

The staging models for applying the quantitative criteria use the change in 12 month PD as a proxy for lifetime PD, as permitted by IFRS 9. Accounts that have requested payment holidays in relation to Covid-19 that were not in arrears at the start of the payment holiday are not considered to be past due for the purpose of IFRS 9 Staging.

In respect of debt securities and loans to banks, use is made of the low credit risk expedient permitted by IFRS 9 whereby the credit risk is not considered to have increased significantly where the exposures are assumed to be "low" credit risk at the reporting date or/and where they continue to be investment grade, or equivalent.

Definition of credit impaired (movement to stage 3)

The Group has identified certain quantitative and qualitative criteria to be considered in determining when an exposure is credit impaired 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 Group has used the same definition of default as that for the purpose of calculating PDs used in its credit models. In addition, the definition has been aligned with those used for regulatory reporting purposes.

Movements back to stages 1 and 2

Exposures will move out of stage 3 to stage 2 when they no longer meet the criteria for inclusion and have completed agreed probation periods set according to the type of lending. Movement into stage 1 will only occur when the SICR criteria are no longer met.

Write-Off and Recoveries

Write-off shall occur when either part, or all, of the outstanding debt is considered irrecoverable and all viable options to recover the debt have been exhausted. Any amount received after a provision has been raised or debt has been written-off, will be recorded as a recovery and reflected as a reduction in the impairment loss reflected in the income statement.

Forward-looking macroeconomic scenarios

ECLs and SICR 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-looking macroeconomic scenarios. The Group sources its forward-looking 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.

It is recognised that, due to Covid-19, macroeconomic projections for the UK economy are changing rapidly. For this reason, it was decided to purchase additional monthly macroeconomic updates from Oxford Economics.

(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 gains from derivatives and other financial instruments at fair value through profit or loss 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 exercised the accounting policy choice to continue using IAS 39 hedge accounting for portfolio assets and liabilities being hedged by applying fair value 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 movements in the fair value of the respective hedged items during the period for which the hedge is designated.

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 amount to hedge is determined based on a movement in the present value of a portfolio of assets or liabilities for a 1 basis point shift in the yield curve used to value the instruments (“PV01”), to ensure the mismatches in expected repricing buckets are within the limits set by the Board on the sensitivity analysis approach using a hypothetical shift in interest rates.

The Group measures monthly the movements 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. In terms of repricing, 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 net gains from derivatives and other financial instruments at fair value through profit or loss in the income statement. Any hedge ineffectiveness is recognised in net gains from derivatives and other financial instruments at fair value through profit or loss 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 a financial liability at amortised cost, 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 net gains from derivatives and other financial instruments at fair value through profit or loss 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 derivatives on the Additional Tier 1 instruments are not separated as the Group has an accounting policy not to separate features that have already been considered in determining that the entire issues are non-derivative equity instruments.

(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
- Leasehold improvements one to ten years
- Right of use assets – property length of the lease
- Right of use assets – motor vehicles three years

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

Right-of-use assets ("ROUA") are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). ROUA's are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

(m) Intangible assets

i. Goodwill

Goodwill is stated at deemed cost upon transition to IFRSs less any accumulated impairment losses.

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.

Acquired and internally developed software is amortised on a straight line basis in the income statement over its expected useful life from the date that it is available for use, being 3 years.

(n) Impairment of non-financial assets

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

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 IFRS 16 (2019: 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

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(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.

Under IFRS 9, the Group is required to reflect provisions in respect of any impairment losses expected in respect of any outstanding irrevocable loan commitments. As the underlying loan commitments are not reflected in the statement of financial position, the impairment provisions required for expected losses from the date the commitment becomes irrevocable are recognised as provisions. The provisions are utilised when the loan commitment is drawn down, either in whole or part, and when an impairment provision is calculated for expected losses.

See note 29 for provisions in respect of and customer redress, cancellations and other provisions in accordance with IAS 37 as well expected losses on loan commitments in accordance with IFRS 9.

(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

The Group follows IAS 12 Income Taxes in accounting for taxes on income. Taxation comprises current and deferred tax.

Current tax is the expected tax payable or receivable on taxable profits or tax allowable losses for the period, together with any adjustment in respect of previous years. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets arise on tax deductible temporary differences and are recognised to the extent that these may be utilised against available taxable profits. Deferred tax is measured using tax rates and tax laws that have been enacted or substantively enacted which are expected to apply when the deferred tax asset is realised. Deferred tax is not discounted. Deferred tax assets and liabilities are only offset where there is both a legal obligation to set-off and a commitment to settle on a net basis.

The Group considers an uncertain tax position to exist where, upon a review of that uncertainty by a tax authority, the tax recognised in the financial statements differs from the cash tax expected to be payable or receivable based on the tax returns of the Group. In accordance with IFRIC 23, a current tax provision for an uncertain tax position will be based upon interpretation of current tax legislation and guidance and the tax provision re-measured at each balance sheet date to reflect the up to date position.

Deferred tax provision adjustments will be recognised where, in management's view, the outcome of a review by a tax authority of an uncertain tax position will result in a reduction in the carrying value of the deferred tax asset. The measurement of an underlying deferred tax asset will be adjusted according to the expected impact on the loss or temporary difference giving rise to the deferred tax asset of resolving the uncertain tax position.

In assessing provision levels, it will be assumed that a tax authority will review all uncertain tax positions and all facts will be fully and transparently disclosed.

The Group does not consider there to be a significant risk of material adjustment to the current and deferred tax balances, including provisions for uncertain tax positions for the next financial year. Tax provisions cover all known issues and reflect external advice where applicable.

(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 Group 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 Additional Tier 1 capital securities are presented as components of equity. Any dividends, interest or other distributions on capital instruments are also recognised in equity. Previously under IAS 12 accounting standards, the related tax was presented through equity. IFRIC23 has resulted in a change to the treatment of tax on distributions of these capital instruments and they are now presented through the income statement. The 2019 financial statements have been restated for this change, refer to note 42 for more detail.

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

(x) Investment in group undertakings

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

(y) Share-based payment transactions

In order to incentivise and reward future strong, long-term business performance and growth, Senior Executives and employees of the Group have been granted part of their remuneration, since the takeover, in the form of payments which are linked to the quoted share price of FirstRand Limited. The cost of such awards is to be settled by payments made by the Company to an associate of the FirstRand Group which assumes liability for the settlement of the awards, and the cost will be recharged to the Aldermore Group companies to which the awardees provide their services. Accordingly, the awards are recognised in these Group accounts as cash-settled share-based payments. Awards granted under cash-settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

In respect of the equity-settled schemes entered into before the takeover in March 2019, 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 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 equity-settled share-based payment transactions are recognised as an investment in Group undertakings with an associated credit to the share-based payment reserve. For cash-settled share-based payments no cost has been recognised as the costs incurred by the Company are fully rechargeable to the Aldermore Group companies for which the awardees provide their services.

(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. This year the impact of Covid-19 has been considered in relation to all of the Group's estimates and assumptions. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition and impact the results for the current year and future reporting periods are those relating to loan impairment provisions and EIR.

(a) Loan impairment provisions

The key judgements made in applying the accounting policies were as follows:

Definition of default

IFRS 9 does not define default for the purpose of defining the PD as used when calculating ECLs and impairment provisions for stage 1 and stage 2 assets. As detailed in note 1(g), the Group has defined default on a basis that is consistent with the definition it uses for determining whether an asset is credit impaired, and is therefore classified as stage 3, and with the definition of default that is used for regulatory reporting purposes.

Significant increase in Credit Risk for classification in stage 2

As explained in note 1(g), loan impairment provisions are measured as an allowance equal to 12 month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 1(g) for more details.

The probation period for reclassification from stage 3 into stage 2 and 1

As explained in note 1(g), loans are only considered for reclassification from stage 3 into stage 2 when they no longer meet the criteria for inclusion and have completed agreed probation periods. The probation periods are set according to the type of lending and are based upon professional judgement as to when the risk of a return to stage 3 is considered minimal. Stage 3 ECL has increased due to a number of new individually assessed provisions entering stage 3 during the year. It should be noted that £2.3 million of the stage 3 ECL at 30 June 2020 no longer meet the criteria for inclusion but remain in stage 3 pending completion of the agreed probation periods. Reclassifications from stage 2 to stage 1 are only possible when the SICR criteria are no longer met.

The key estimates made in applying the accounting policies were as follows:

PD models

The Group has employed a number of PD models, tailored to different types of lending with shared characteristics, to assess the likelihood of default within the next 12 months and over the lifetime of each loan. The models calculate estimates of PDs based upon current characteristics of the borrower and observed historical default rates. A 10.0% deterioration in the modelled PDs would result in an increase in impairment provisions by £10.2 million as at 30 June 2020 (30 June 2019: £2.2 million).

Defaulting 20.0% of customers who received a payment holiday as a result of Covid-19 would result in an increase in impairment provisions by £78.4m

LGD models

The group has developed LGD models for the different types of lending. The models use a number of estimated inputs including cure rates (i.e. the proportion of loans that do not go into possession) and the valuation of collateral to be collected reflecting the impact of changes in House Price Indices ("HPI") and other valuation measures, forced sale discounts ("FSD") and the time to sale. The models are most sensitive to changes in cure rates and collateral valuations:

- A 10.0% absolute improvement in the cure rate would reduce total impairment provisions by £19.7 million as at 30 June 2020 (30 June 2019: £4.0 million).
- A 10.0% relative reduction in the HPI would increase the total impairment provisions for mortgage lending by £4.4 million as at 30 June 2020 (30 June 2019: £2.4 million).
- A 5.0% absolute increase in the FSD would increase the total impairment provisions for mortgage lending by £2.1 million as at 30 June 2020 (30 June 2019: £1.6 million).
- A 10.0% relative reduction in the overall value of collateral realised in the Asset Finance and Invoice Finance businesses would increase the total impairment provisions for such lending by £2.9 million as at 30 June 2020 (30 June 2019: £1.5 million).
- A 10.0% relative reduction in the overall value of collateral realised in the MotoNovo Finance business would increase the total impairment provisions of such lending by £4.5 million as at 30 June 2020 (No comparison available for 30 June 2019).

Covid-19 specific:

- A 20.0% relative reduction in the HPI would increase the total impairment provisions for mortgage lending by £10.6 million as at 30 June 2020.
- A 20.0% relative reduction in the overall value of collateral realised in the Asset Finance and Invoice Finance businesses would increase the total impairment provisions for such lending by £6.0 million as at 30 June 2020.
- For MotoNovo, defaulting 20% of customers who received a payment holiday as a result of Covid-19 would result in an increase in impairment provisions by £11.5m.

Forward looking macroeconomic scenarios

The Group has employed an external firm specialising in economic forecasting to provide it with probability weighted forward-looking macroeconomic scenarios. The probability weighted scenarios are then used to model impacts on ECLs based on a combination of regression analysis where the relationship between economic variables, derived from the probability weighted forward-looking macroeconomic scenarios, and key risk inputs is established through a regression analysis on long term historical data and expert judgement in respect of the relationship between economic variables and key risk inputs.

Due to the unprecedented shock to the UK economy caused by Covid-19, forecast macroeconomic variables, in particular GDP, have reached levels that have previously not been seen. This has resulted in extreme volatility in the MotoNovo Finance forward looking macro-economic model outputs. Management has taken the view to introduce upper and lower thresholds to restrict this volatility. The thresholds implemented resulted in a reduction in ECL of £33.7 million.

From 1 July 2019 to 30 June 2020, the forward-looking macroeconomic scenarios were obtained from the IFRS9 Scenario Service from Oxford Economics. It is recognised that, due to Covid-19, macroeconomic projections for the UK economy are changing rapidly. For this reason, it was decided to purchase additional monthly macroeconomic updates from the Group's external provider. The IFRS9 scenarios used at 30 June 2020 use a forecast-error distributions as outlined below:

- Upside scenario;
- Mild upside scenario;
- Base scenario;
- Stagnation scenario;
- Downside scenario; and
- Severe Downside scenario.

The Group, by exception and with sufficient rationale, has the ability to reject scenarios or adjust scenario weightings as has been done in the scenarios below. Scenarios and weightings are approved at the Credit Committee prior to deployment for use in the ECL.

As at 30 June 2020, the following forward-looking macroeconomic scenarios, together with their probability weighting and key economic variables, were used in calculating the ECLs used for determining impairment provisions:

		Economic variables per scenario – average next 5 years				
Scenario	Probability weighting	GDP Growth	House Price Index	Bank of England Base Rate	Unemployment rate	Consumer Price Index
Severe Downside	15%	4.75%	(5.71%)	(0.34)	7.61	0.684%
Downside	10%	5.47%	(2.90%)	(0.02)	6.97	0.960%
Stagnation	10%	5.91%	(1.36%)	0.24	6.60	1.126%
Base	45%	7.02%	1.88%	0.23	4.28	1.639%
Mild Upside	10%	7.69%	4.34%	1.13	4.11	1.898%
Upside	10%	8.25%	5.99%	1.61	3.07	2.170%

The external provider's forecasts only cover a 5-year period, so the Group has made estimates in order to extend the forecast horizon:

- The House Price Index ("HPI") has been kept flat at 2.5% per annum; and
- The other macro-economic indicators revert to the mean calculated over a 10-year period (5 year actual and 5 year forecast).

As at 30 June 2020, applying a 100% weighting to the severe downside scenario would result in an incremental £14.4 million of provisions being required. Applying a 100% weighting to the upside scenario would result in a £14.6 million reduction of provisions being required. The macro impact and post model adjustments are excluded from this weighting.

As at 30 June 2019, the following forward-looking macroeconomic scenarios, together with their probability weighting and key economic variables, were used in calculating the ECLs used for determining impairment provisions:

	Economic variables per scenario – average next 5 years				
Scenario		GDP Growth	HPI	Bank of England Base Rate	Unemployment rate
Severe Downside	10%	0.24%	-4.53%	0.38	5.81
Downside	10%	0.85%	-1.87%	0.76	5.55
Stagnation	10%	1.22%	-0.29%	0.92	5.39
Base	50%	1.98%	3.32%	1.44	3.72
Mild Upside	10%	2.80%	6.30%	1.76	3.45
Upside	10%	3.37%	8.45%	2.18	2.48

The external provider's forecasts only cover a 5-year period, so the Group has made the estimates in order to extend the forecast horizon:

- The House Price Inflation level has been kept flat at 2.5% per annum in line with the inflation target rate; and
- The other macro-economic indicators revert to the mean calculated over the first 5-year period.

As at 30 June 2019, applying a 100% weighting to the severe downside scenario would result in an incremental £8.1 million of provisions being required. Applying a 100% weighting to the upside scenario would result in a £4.5 million reduction of provisions being required. The macro impact and post model adjustments are excluded from this weighting.

Post Model Adjustments

The Group applies Post Model Adjustments ("PMA") to the modelled IFRS 9 ECL provisions. PMAs are reviewed and approved on a quarterly basis at the Credit Committee and Audit Committee, the PMAs applied at 30 June 2020 are listed below.

- Covid-19 Scalar PMA applied to customers that have taken a payment holiday in relation to Covid-19 to account for the additional risk of default once the payment holidays have expired. The PMA utilises "scalars" that are determined via the use of a Covid-19 PD Uplift Model that was approved at the Group's Model Management Committee in June 2020. The model is a non-statistical scorecard model which was built solely using expert judgement. A series of expert panels were convened to agree which characteristics might be predictive of an increase in the likelihood to default for accounts where a payment holiday was in place. The model assigned a Covid-19 adjusted PD at a contract level for the customers who requested a payment holiday. The Covid-19 PDs were grouped into 6 groups, categorising the customer into Low to High Risk based on the Covid-19 adjusted PD. The Covid-19 adjusted PDs were compared to the macro adjusted PDs to determine a factor between the two PDs used to assign ECL scalars;
- High Risk Sector PMA to account for customers in sectors assessed by the Group as being most impacted by Covid-19 to account for the additional risk of default. Where customers in these sectors have requested payment holidays, they are covered by the Covid-19 Scalar PMA (as above). Where customers in these sectors have not requested payment holidays, management believe that these sectors may be subject to additional risks due to Covid-19 which are not reflected in the ECL PD models and hence an additional PMA has been put in place to reflect the perceived increased risk;
- Mortgages Macro Model PMA to account for underestimation of the Macro Economic models due to changes in GDP and Collateral Values;
- Asset Price PMA applied to the MotoNovo Finance portfolio to account for future car prices deterioration;
- End of Term ("EoT") Risk PMA applied to the Commercial and Residential Mortgages portfolios to account for additional risk at EoT on Interest-only products and
- PMA to compensate for a lack of historic impairments causing volatility in the observed defaults and loss given defaults.

The total value of ECL PMAs as at 30 June 2020 is £38.8 million (£8.9 million as at 30 June 2019). The Covid-19 Scalar and the High Risk Sectors PMAs are the most material, contributing £28.2 million to the ECL as at 30 June 2020 (£nil: 30 June 2019).

In addition, due to the unprecedented shock to the UK economy, forecast macroeconomic variables, in particular GDP, have reached levels that have previously not been seen. This has resulted in extreme volatility in MotoNovo Finance FLI model outputs and management therefore took the view to introduce upper and lower thresholds to restrict this volatility. The thresholds implemented resulted in a reduction in ECL of £33.7 million.

Individually assessed impairment provisions on stage 3 loans

In order to determine the lifetime ECL to be reflected as an impairment provision, estimates were made based upon individual assessments of the borrower and the valuation of collateral provided, net of any costs to sell. The most significant estimate is in respect of the valuation of collateral provided and it is estimated that a 10.0% relative reduction in its valuation would increase the total impairment provisions for such lending by £3.2 million as at 30 June 2020 (£0.6 million at 30 June 2019).

(b) Effective interest rate ("EIR")

IFRSs require interest earned from loans 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, Assets Finance, 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.

As at 30 June 2020, included within the overall Residential Mortgages book, are a small number of portfolios which were acquired by the Group and represent approximately 1.0% and 1.3% of Buy to Let and Residential Mortgages net loans respectively (30 June 2019: 1.2% and 1.7% 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.

A reassessment was made of the estimates used in respect of the expected lives of the SME Commercial, Asset Finance, Buy to Let and Residential Mortgage portfolios. As a consequence, an overall adjustment of £3.1 million (30 June 2019: £4.4 million) 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 year end is analysed as follows:

	Year ended 30 June 2020 interest income £m	Year ended 30 June 2019 interest income £m
Asset Finance - organic lending	(0.3)	(0.3)
SME Commercial - organic lending	(2.3)	(2.9)
Buy to Let - organic lending	(1.1)	4.4
Residential - acquired portfolios	0.8	(0.8)
Residential - organic lending	(0.2)	(4.8)
	(3.1)	(4.4)

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 increasing the cumulative profit before tax recognised as at 30 June 2020 by £0.5 million (30 June 2019: cumulative reduction in profit of £5.4 million). Included within this sensitivity of £0.5 million, is a £1.4 million cumulative reduction in profit relating to acquired portfolios (30 June 2019: £1.5 million) due to a change in the unwind of the discount together with a £1.9 million cumulative increase in profit relating to the organic portfolios (30 June 2019: cumulative reduction in profit of £3.9 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 2020 by £0.1 million (30 June 2019: cumulative increase in profit of £2.4 million).

The impact of Covid-19 has been considered in respect of EIR. Whilst long term changes in behaviour would require reassessment of EIR positions, it is too early to establish whether there will be any long term changes to borrower behaviour or if the Group's experience to date will continue.

4. Segmental information

The Group has seven reportable operating segments as described below which are based on the Group's six lending segments plus Central Functions.

The organisation's operating segments are allocated to three distinct customer facing businesses: Business Finance (made up of Asset Finance, Invoice Finance and Commercial Mortgages); Retail Finance (made up of Residential Owner-Occupied Mortgages and Buy to Let Mortgages) and MotoNovo Finance. All 2020 financial reports detail performance on an 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 2020 IFRS 8 disclosure.

For each of the reportable segments, the Board, which is the Group's Chief Operating Decision Maker, reviews internal management reports every two months. 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 Mortgages - 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;
- Residential Mortgages - prime residential mortgages targeting under-served segments of creditworthy borrowers that provide attractive and sustainable margins; and
- MotoNovo Finance - provides individuals and dealers with funding to purchase cars, vans and motorcycles.

Central Functions include the reconciling items between the total of the Bank's five reportable operating segments (MotoNovo Finance is excluded as it has its own central function costs) 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 from derivatives held at fair value shown in note 19.

Common costs are incurred on behalf of the Business and Retail Finance operating segments and typically represent savings administration, back office and support function costs such as Finance, IT, Risk and Human Resources. The costs are not directly attributable to the operating segments. This does not include MotoNovo Finance central functions.

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.

The Group does not have reliance on any major customers, and all lending is in the UK.

Segmental information for the year ended 30 June 2020

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Central Functions £m	Total £m
Interest income – external customers	107.0	25.7	64.5	208.2	78.7	73.9	5.8	563.8
Interest expense – external customers	-	-	-	-	-	-	(193.3)	(193.3)
Interest (expense)/income – internal	(28.8)	(3.1)	(15.3)	(81.0)	(29.8)	(19.9)	177.9	-
Net fees and other income – external customers	1.8	3.4	0.5	(0.4)	(0.4)	46.2	(9.5)	41.6
Total operating income	**80.0**	**26.0**	**49.7**	**126.8**	**48.5**	**100.2**	**(19.1)**	**412.1**
Administrative expenses including depreciation and amortisation	(13.8)	(9.0)	(6.6)	(8.9)	(6.2)	(77.5)	(110.1)	(232.1)
Impairment losses	(48.9)	(1.4)	(12.5)	(7.8)	(5.3)	(55.8)	-	(131.7)
Share of profit of associate	-	-	-	-	-	-	0.5	0.5
Segmental result	**17.3**	**15.6**	**30.6**	**110.1**	**37.0**	**(33.1)**	**(128.7)**	**48.8**
Tax								(10.2)
Profit after tax								**38.6**
Assets	1,857.9	278.7	1,139.1	5,246.9	2,079.6	1,823.5	2,897.9	15,323.6
Liabilities							(14,215.1)	(14,215.1)
Net assets/(liabilities)	**1,857.9**	**278.7**	**1,139.1**	**5,246.9**	**2,079.6**	**1,823.5**	**(11,317.2)**	**1,108.5**

Segmental information for the year ended 30 June 2019

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Central Functions(1) £m	Total £m
Interest income – external customers	104.7	23.7	57.8	205.4	62.1	1.7	11.9	467.3
Interest expense – external customers	-	-	-	-	-	-	(149.2)	(149.2)
Interest (expense)/income – internal	(25.9)	(2.8)	(12.8)	(65.3)	(21.2)	(0.5)	128.5	-
Net fees and other income – external customers	2.2	4.6	0.9	-	0.1	10.4	4.0	22.2
Total operating income	**81.0**	**25.5**	**45.9**	**140.1**	**41.0**	**11.6**	**(4.8)**	**340.3**
Administrative expenses including depreciation and amortisation[1]	(17.0)	(9.6)	(6.8)	(12.4)	(6.7)	(13.3)	(121.6)	(187.4)
Impairment losses on loans and advances to customers	(13.4)	(1.5)	(1.1)	(3.5)	(0.5)	(3.8)	-	(23.8)
Share of profit of associate	-	-	-	-	-	-	0.5	0.5
Segmental result	**50.6**	**14.4**	**38.0**	**124.2**	**33.8**	**(5.5)**	**(125.9)**	**129.6**
Tax								(30.8)
Profit after tax								**98.8**
Assets	2,017.7	400.4	1,020.6	5,043.7	1,747.9	364.8	1,935.2	12,530.3
Liabilities	-	-	-	-	-	-	(11,435.1)	(11,435.1)
Net assets/(liabilities)	**2,017.7**	**400.4**	**1,020.6**	**5,043.7**	**1,747.9**	**364.8**	**(9,499.9)**	**1,095.2**

[1] Administrative expenses include £5.4m in relation to the integration of MotoNovo Finance into the Aldermore Group.

Prior period amounts have been restated based on the adoption of IFRIC 23. Non-underlying administrative expenses have been included within Central Functions administrative expenses.

5. Interest income

On financial assets not at fair value through profit or loss:	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
On loans and advances to customers	557.7	455.3
On loans and advances to banks	3.1	4.8
On debt securities - measured at FVOCI	8.7	14.7
	569.5	**474.8**
On financial assets at fair value through profit or loss:		
Net interest expense on financial instruments hedging assets	(5.7)	(7.5)
	563.8	**467.3**

6. Interest expense

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
On financial liabilities not at fair value through profit or loss:		
On customers' accounts	146.4	124.0
On amounts due to banks	9.9	12.7
On debt securities in issue	9.4	4.9
On subordinated notes	12.7	8.4
On lease liabilities	0.4	-
Other	0.3	0.2
	179.1	**150.2**
On financial liabilities at fair value through profit or loss:		
Net interest expense/(income) on financial instruments hedging liabilities	14.2	(1.0)
	193.3	**149.2**

Interest expense on lease liabilities of £0.4 million was recognised as a result of the adoption of IFRS 16. The Group elected not to restate comparative information as permitted by IFRS 16. Comparative information has been prepared under an IAS 17 basis. Refer to note 42 for details.

7. Fee and commission income

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Invoice Finance fees	0.8	0.8
Valuation fees	0.5	1.5
HP income, option fees and secondary rental fees	1.7	1.9
Annual administration fees	0.3	0.5
Arrears fees	0.4	0.4
Other fees	1.9	2.5
	5.6	**7.6**

8. Fee and commission expense

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Introducer commissions	0.8	0.1
Legal and valuation fees	1.9	2.3
Company searches and other fees	5.9	2.5
Credit protection and insurance charges	1.5	1.3
	10.1	**6.2**

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

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Net losses on derivatives	(25.1)	(2.6)
Net gains on available for sale assets held in fair value hedges	17.0	6.4
	(8.1)	**3.8**

Included within net (losses)/gains on derivatives on financial instruments at fair value through profit or loss are losses of £45.2 million (30 June 2019: £28.5 million loss) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with loans and advances to customers, together with gains of £40.0 million (30 June 2019: £33.7 million gain) representing changes in the fair value of the hedged interest rate risk. Also included are gains of £2.3 million (30 June 2019: £0.9 million gain) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with customer deposits, together with losses of £1.1 million (30 June 2019: £0.8 million loss) representing changes in the fair value of the hedged interest rate risk.

10. Administrative expenses

	Note	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Staff costs	11	108.5	86.8
Legal and professional and other services		42.6	35.8
Information technology costs		37.3	23.8
Office costs		7.1	7.3
Provisions	29	3.2	1.2
Other		21.3	26.7
Impairment of intangibles and goodwill	24	-	0.7
		220.0	**182.3**

Included in legal and professional and other services is remuneration to the Group's external auditors (Deloitte LLP) for the annual audit of £1.0 million (30 June 2019: £0.8 million) and £0.1 million for other assurance services (30 June 2019: £0.3 million).

Included in office costs are operating lease rentals (including service charges) of £1.8 million (30 June 2019: £3.6 million). Due to the transition to IFRS 16 in the year and the change in the accounting of operating leases, the charge this year is predominantly service charges (see note 42 for further details).

Included in other administrative expenses are costs relating to temporary staff of £11.4 million (30 June 2019: £17.7 million), travel and subsistence of £2.7 million (30 June 2019: £3.5 million) and staff recruitment of £2.2 million (30 June 2019: £1.5 million).

11. Staff costs

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Wages and salaries	89.1	71.7
Social security costs	11.2	9.2
Other pension costs	5.5	3.0
Share based payments	2.7	2.9
	108.5	**86.8**

The average number of persons employed by the Group during the period, including Non-Executive Directors, is disclosed as below.

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Central functions	677	536
Business Finance and Retail Finance	540	514
MotoNovo Finance[1]	749	124
	1,966	**1,174**

[1] MotoNovo Finance's average headcount for the year ended June 2019 represented 2 months as they joined the Group in May 2019 (2020 represents the full 12 months).

12. Remuneration of directors

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Directors' emoluments	2,750.8	3,969.2
Payments in respect of personal pension plans	98.3	104.7
Contributions to money purchase pension scheme	10.3	-
Long term incentive schemes	678.6	613.2
	3,538.0	**4,687.1**

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

In the year ending 30 June 2020, the Group's securitisation vehicles paid third party fees of £29,000 for corporate director services (30 June 2019: £21,000). While the share capital of these vehicles is not owned by the Group, the vehicles are included in the consolidated financial statements as they are controlled by the Group.

Long-term incentive schemes
A number of long-term cash-settled incentive schemes were introduced following the acquisition by FirstRand in March 2018 to replace the existing share schemes already in place. The deferred portion of the annual bonus is also settled in cash. Amounts are reflected in the above remuneration disclosures when the awards are payable as a result of the Director satisfying the scheme conditions.

There were a number of long-term incentive schemes introduced following the acquisition by FirstRand in March 2018. These new schemes are a mixture of equity and cash linked schemes with a requirement to purchase FirstRand shares at vesting. During the year, a portion of the Transition Award scheme vested as a result of the Directors satisfying the scheme conditions.

Included in the values disclosed in the table above, is the deferred portion of the Annual Incentive Plan paid in cash to align the interests of the Executive team with Shareholders.

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

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Emoluments	855.0	1,341.8
Payments in respect of personal pension plans	47.8	43.3
Long term incentive schemes	678.6	296.3
	1,581.4	1,681.4

13. Pension and other post-retirement benefit commitments

The Group operates three defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £5.5 million (30 June 2019: £3.0 million) were charged to the income statement during the year in respect of these schemes. The Group made payments amounting to £86,040 (30 June 2019: £104,680) in aggregate in respect of Directors' individual personal pension plans during the year. There were outstanding contributions of £0.5 million at the year end (30 June 2019: £0.7 million).

14. Depreciation and amortisation

	Note	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Depreciation[1]	23	8.7	1.8
Amortisation of intangible assets	24	3.4	3.3
		12.1	5.1

[1] The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to note 42 for more detail.

15. Taxation

a) Tax charge

	Year ended 30 June 2020 £m	Year ended 30 June 2019 (restated) £m
Current tax on profits for the year	11.4	31.7
(Over)/under provision in previous periods	(1.2)	(0.8)
Total current tax	**10.2**	**30.9**
Deferred tax	-	(0.2)
Under/(over) provision in previous periods	-	0.1
Total deferred tax charge/(credit)	-	**(0.1)**
Total tax charge	**10.2**	**30.8**

Current tax on profits reflects UK corporation tax levied at a rate of 19% for the year ended 30 June 2020 (30 June 2019: 19%) and the banking surcharge levied at a rate of 8% on the profits of banking companies chargeable to corporation tax after an allowance of £25.0 million per annum.

A tax credit of £0.3 million in respect of the fair value movements in FVOCI sale debt securities has been shown in other comprehensive income during the year ended 30 June 2020 (30 June 2019: £0.3 million charge in respect of FVOCI securities).

From 1 January 2019, following an update to IAS 12, the tax relief on convertible security coupon costs has been recognised in the tax charge of the income statement whereas it was previously recorded in equity with the coupon.

The tax relief on the contingent convertible security coupon costs for the consolidated group for the year is £2.6 million (30 June 2019: £1.9 million previously reflected in equity). This comprises £2.3 million at the mainstream rate (30 June 2019: £1.7 million) and £0.3 million at the surcharge rate (30 June 2019: £0.2 million). The reduction in the effective tax rate resulting from the change in reporting due to IAS12 is 5.4%.

b) Factors affecting tax charge / (credit) 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% (30 June 2019: 19%). The differences are explained below:

	Year ended 30 June 2020 £m	Year ended 30 June 2019 (restated) £m
Profit before tax	**48.8**	**129.6**
Tax at 19% (2019: 19%) thereon	9.3	24.6
Effects of:		
Expenses not deductible for tax purposes	0.2	0.7
Over provision in previous period	(1.2)	(0.7)
Deferred tax rate adjustment	-	0.4
Effect of banking tax surcharge	3.9	8.7
Other differences	0.3	(0.1)
Deferred tax recognition in MotoNovo Finance Ltd	-	(1.1)
Tax credit relief for contingent convertible securities coupon	(2.3)	(1.7)
	10.2	**30.8**

The effective tax rate of 21.0% (30 June 2019: 23.8%) is higher than the UK corporation tax rate due to the impact of the banking surcharge. The effective tax rate is lower than the prior period due to a reduced banking surcharge payable on lower profits.

16. Loans and advances to banks

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	71.1	71.3
Cash collateral on derivatives placed with banks	147.6	69.0
Other loans and advances to banks	9.9	4.9
	228.6	**145.2**

£10.0 million is recoverable more than 12 months after the reporting date in respect of cash held by the Group's securitisation vehicles (30 June 2019: £4.9 million).

All loans and advances to banks were stage 1 assets under IFRS 9 as at 30 June 2020 and as at 30 June 2019. There were no significant impairment provisions in respect of expected losses as at 30 June 2020 or during the year then ended.

17. Debt securities

	30 June 2020 £m	30 June 2019 £m
FVOCI debt securities:		
UK Government gilts	189.0	47.5
Supranational bonds	990.6	721.5
Treasury bonds	46.1	-
Asset-backed securities	114.4	20.0
Covered bonds	529.7	418.8
Debt securities at amortised cost		
UK Government gilts	48.4	-
Supranational bonds	22.9	-
	1,941.1	**1,207.8**

At 30 June 2020, £1,857.5 million (30 June 2019: £1,110.2 million) of debt securities are expected to be recovered more than 12 months after the reporting date.

All debt securities were stage 1 assets under IFRS 9 as at 30 June 2020 and as at 30 June 2019. There were no significant impairment provisions in respect of expected losses as at 30 June 2020 or during the year then ended.

As part of the Group's Capital Investment Strategy, which seeks to stabilise earnings volatility by extending the investment term of equity capital, debt securities held in the held to collect model have been classified as measured at amortised cost.

18. Derivatives held for risk management

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

	2020		2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Instrument type				
Interest rate (not in hedging relationships)	3.9	4.1	0.7	0.7
Interest rate (fair value hedges)	5.3	95.6	7.9	36.1
Equity	0.1	0.1	0.5	0.5
Foreign exchange	-	-	-	0.1
	9.3	99.8	9.1	37.4

All derivatives 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

In accordance with its risk management strategy as described on page 33, the Group enters into interest rate swap contracts to manage the interest rate risk arising in respect of the fixed rate interest exposures on loans and advances to customers, debt securities and customer deposits, which are each treated as separate portfolios.

The Group hedges the fixed interest rate risk on each portfolio firstly by looking for direct offsets between the asset and liability exposures and then by using the interest rate swaps between fixed interest rates and market reference rates such as LIBOR and SONIA in order to manage the Group's overall interest rate risk exposure. The Group applies hedge accounting in respect of the interest rate risk arising on these portfolios as described in note 2(j). The Group manages all other risks derived by these exposures, such as credit risk, but does not apply hedge accounting for these risks.

The Group assesses prospective hedge effectiveness by comparing the changes in fair value of each portfolio resulting from changes in market interest rates with the changes in fair value of allocated interest rate swaps used to hedge the exposure.
The Group has identified the following possible sources of ineffectiveness:

- The use of derivatives as a protection against interest rate risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into derivatives which are subject to daily margining through a recognised exchange;
- Different amortisation profiles on hedged item principal amounts and interest rate swap notionals;
- Use of different discounting curves when measuring the fair value of the hedged items and hedging instruments;
- For derivatives the discounting curve used depends on collateralisation and the type of collateral used; and
- Differences in the timing of settlement of hedging instruments and hedged items.

No other sources of ineffectiveness were identified in these hedge relationships.

The tables below summarise the derivatives designated as hedging instruments in qualifying portfolio hedges of interest rate risk:

Fair value hedges *Interest rate risk*	Nominal amount of the hedging instruments Year ended 30 June 2020 £m	Carrying amount of the hedging instruments Year ended 30 June 2020 Assets £m	 Liabilities £m	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness Year ended 30 June 2020 £m
Interest rate swaps	8,328.7	5.0	92.8	Derivatives held for risk management	(59.6)

Fair value hedges *Interest rate risk*	Nominal amount of the hedging instruments Year ended 30 June 2019 £m	Carrying amount of the hedging instruments Year ended 30 June 2019 Assets £m	 Liabilities £m	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness Year ended 30 June 2019 £m
Interest rate swaps	5,727.3	7.9	36.1	Derivatives held for risk management	(34.2)

The amounts relating to portfolios designated as hedged items in fair value hedge relationships to manage the Group's exposure to interest rate risk were as follows:

Fair value hedges *Interest rate risk*	Carrying amount of the hedged items Year ended 30 June 2020 Assets £m	 Liabilities £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged items Year ended 30 June 2020 Assets £m	 Liabilities £m	Line item in the statement of financial position where the hedging instrument is located
Loans and advances to customers	6,260.6	N/A	58.1	N/A	Loans and advances to customers
Debt securities	936.25	N/A	18.3	N/A	Debt securities
Customer deposits	N/A	1,723.0	N/A	(2.1)	Customer accounts

Fair value hedges *Interest rate risk*	Carrying amount of the hedged items Year ended 30 June 2019 Assets £m	 Liabilities £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged items Year ended 30 June 2019 Assets £m	 Liabilities £m	Line item in the statement of financial position where the hedging instrument is located
Loans and advances to customers	3,355.7	N/A	17.9	N/A	Loans and advances to customers
Debt securities	623.7	N/A	(1.0)	N/A	Debt securities
Customer deposits	N/A	1,762.6	N/A	1.7	Customer accounts

The table below summarises the hedge ineffectiveness recognised in profit or loss during the financial year ended 30 June 2020 and the comparative period, for the Group's designated fair value hedge relationships.

	Ineffectiveness recognised in the income statement Year ended 30 June 2020 £m	Line item in the statement of financial position where the hedging instrument is located
Fair value hedges *Interest rate risk*	(3.3)	Net gains / losses from derivatives and other financial instruments at fair value through profit or loss

	Ineffectiveness recognised in the income statement Year ended 30 June 2019 £m	Line item in the statement of financial position where the hedging instrument is located
Fair value hedges *Interest rate risk*	1.57	Net gains / losses from derivatives and other financial instruments at fair value through profit or loss

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 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.

19. Loans and advances to customers

	30 June 2020 £m	30 June 2019 £m
Gross loans and advances	12,586.5	10,648.9
less: allowance for impairment losses	(160.8)	(53.8)
	12,425.7	**10,595.1**
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	10,897.5	9,033.7

At 30 June 2020, loans and advances to customers of £2,987.0 million (30 June 2019: £3,303.0 million) were pre-positioned into a Single Funding Pool 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 2020, loans and advances to customers included £509.1 million (30 June 2019: £276.9 million) which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to securitisation vehicles consolidated into these financial statements. 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.

Analysis of gross loans and advances

	30 June 2020			
	Gross loans and advances (amortised cost)			
£m	Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2019	**9,436.4**	**1,083.4**	**129.1**	**10,648.9**
Improvement in credit exposure				
Stage 2 to stage 1	368.7	(368.7)	-	-
Stage 3 to stage 1	5.8	-	(5.8)	-
Stage 3 to stage 2	-	3.4	(3.4)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(677.6)	677.6	-	-
Stage 1 to stage 3	(75.8)	-	75.8	-
Stage 2 to stage 3	-	(66.1)	66.1	-
Opening balance after transfers	**9,057.5**	**1,329.6**	**261.8**	**10,648.9**
Repayments of loans and advances	(2,729.5)	(371.5)	(60.4)	(3,161.4)
Change in exposure due to new business in the current year	4,673.6	400.0	60.0	5,133.6
Modifications that did not give rise to derecognition	(9.2)	(1.8)	(0.2)	(11.2)
Bad debts written off	-	-	(23.4)	(23.4)
Amount as at 30 June 2020	**10,992.4**	**1,356.3**	**237.8**	**12,586.5**

£m	Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2018	**8,370.8**	**550.1**	**94.8**	**9,015.7**
Transfers to stage 1	1,050.3	(1,016.9)	(33.4)	-
Transfers to stage 2	(1,915.5)	1,928.0	(12.5)	-
Transfers to stage 3	(30.9)	(90.8)	121.7	-
Transfers from FirstRand Bank on acquisition of MotoNovo business	64.9	-	0.3	65.2
Repayments of loans and advances	(1,460.9)	(275.0)	(35.6)	(1,771.5)
Bad debts written off	-	-	(11.9)	(11.9)
New business and other changes in exposures	3,357.7	(12.0)	5.7	3,351.4
Amount as at 30 June 2019	**9,436.4**	**1,083.4**	**129.1**	**10,648.9**

Analysis of loss allowances

£m	30 June 2020			
	Allowance for impairment losses (amortised cost)			
	Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2019	21.5	8.9	24.2	54.6
Improvement in credit exposure				
Stage 2 to stage 1	2.9	(2.9)	-	-
Stage 3 to stage 1	0.6	-	(0.6)	-
Stage 3 to stage 2	-	0.2	(0.2)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(1.3)	1.3	-	-
Stage 1 to stage 3	(0.2)	-	0.2	-
Stage 2 to stage 3	-	(0.9)	0.9	-
Opening balance after transfers	23.5	6.6	24.5	54.6
Change in exposure of back book in the current year	12.0	25.0	30.1	67.1
Attributable to change in measurement basis	-	5.5	-	5.5
Attributable to change in risk parameters	12.0	19.5	30.1	61.6
Change in exposure due to new business in the current year	28.0	18.3	16.8	63.1
Bad debts written off	-	-	(23.4)	(23.4)
Amount as at 30 June 2020	63.5	49.9	48.0	161.4
Included in the total loss allowance				
Netted against loans and advances to customers	62.9	49.9	48.0	160.8
Included in provisions in respect of loan commitments*	0.6	-	-	0.6
Significant components of total loss allowance				
-Forward looking information	15.6	12.3	1.7	29.6
-Changes in models	1.0	1.7	0.7	3.4
-Interest on stage 3 advances**	-	-	6.0	6.0

£m	Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2018	15.2	7.3	12.8	35.3
Transfers to stage 1	8.7	(8.6)	(0.1)	-
Transfers to stage 2	(14.9)	15.1	(0.2)	-
Transfers to stage 3	(2.7)	(16.7)	19.4	-
Repayments of loans and advances	(2.3)	(1.9)	(14.0)	(18.2)
Bad debts written off	-	-	(11.9)	(11.9)
Increase/decrease in impairment	17.5	13.7	14.9	46.1
Changes in models and risk parameters	(0.4)	-	(0.4)	(0.8)
New business and changes in exposure	20.8	(1.4)	13.9	33.3
Changes in economic forecasts	1.8	0.5	1.2	3.5
Provision created/(released) due to transfers	(5.2)	14.6	-	9.4
Transfers from FirstRand Bank on acquisition of MotoNovo business	0.5	-	0.2	0.7
Interest suspense	-	-	3.3	3.3
Amount as at 30 June 2019	21.5	8.9	24.2	54.6
Where recognised:				
Netted against loans and advances to customers	20.7	8.9	24.2	53.8
Included in provisions in respect of loan commitments	0.8	-	-	0.8
	21.5	8.9	24.2	54.6

Breakdown of impairment charge recognised during the year

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Included in provisions in respect of loan commitments***	0.8	-
Change in exposure of back book in the current year***	67.1	-
Change in exposure due to new business in the current year***	63.1	-
Interest income suspended***	(4.7)	-
Increase in loss allowance	**126.3**	**26.7**
Recoveries of bad debts	(5.8)	(2.9)
Impairment losses on loans and advances to customers	120.5	23.8
Impairment losses on lease modifications	11.2	-
Impairment of advances recognised during the period	**131.7**	**23.8**

*Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single EAD. The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.
**Cumulative balance as at 30 June 2020.
***Comparatives not available due to the change in the disclosure format.

The reconciliation for the year ended 30 June 2020 has been prepared using a year-to-date view. This means that the Group reports exposures based on the impairment stage at the end of the reporting period. The Group transfers opening balances (back book), at the value as at 1 July 2019, based on the impairment stage at the end of the reporting period. Any additional ECL raised or released is included in the impairment stage as at the end of the reporting period. Exposures in the back book, can move directly from stage 3 to stage 1, if the curing requirements have been met in a reporting period. All new business (as defined below) is included in the change in exposure due to new business in the current year based on the exposures' impairment stage at the end of the reporting period. Similarly, exposures in the new business lines can be reported in stage 3 at the end of the reporting date.

In the prior year, no distinction was made between the back book and new business in the gross carrying amount and ECL reconciliation. In the current year, it was concluded that providing disclosure which distinguished between the back book and new business provided more meaningful information to the user in gaining an understanding of the performance of advances overall. However, comparative information could not be restated without undue cost due to the nature of the underlying systems which collate the ECL information at a point in time, and as such the information presented in the loss allowance and gross carrying amount reconciliations will not be comparable to the information presented for 30 June 2019 except on a total level.

Decreases in the advance as a result of write-off are equal to the decrease in ECL as exposures are 100% provided for before being written off. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is £18.2 million.

Changes in exposure reflect the net amount of:

- Additional amounts advanced on the back book and any settlements. Transfers on the back book are reflected separately; and
- New business originated during the financial year, the transfers between stages of the new origination and any settlements.

Reconciliation of the allowance for impairment losses by class - Asset Finance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2019	7.5	5.4	11.3	24.2
Improvement in credit exposure				
Stage 2 to stage 1	2.2	(2.2)	-	-
Stage 3 to stage 1	0.4	-	(0.4)	-
Stage 3 to stage 2	-	0.2	(0.2)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(0.7)	0.7	-	-
Stage 1 to stage 3	(0.2)	-	0.2	-
Stage 2 to stage 3	-	(0.4)	0.4	-
Opening balance after transfers	9.2	3.7	11.3	24.2
Change in exposure of back book in the current year	2.2	11.3	17.9	31.4
Attributable to change in measurement basis	-	3.7	-	3.7
Attributable to change in risk parameters	2.2	7.6	17.9	27.7
Change in exposure due to new business in the current year	5.9	2.2	1.3	9.4
Bad debt written off	-	-	(15.5)	(15.5)
Amount as at 30 June 2020	17.3	17.2	15.0	49.5
Included in the total loss allowance				
Netted against loans and advances to customers	17.3	17.2	15.0	49.5
Significant components of total loss allowance				
- Forward looking information	5.5	4.4	0.1	10.0
- Changes in models	1.9	1.3	1.0	4.2

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2018	7.4	5.0	6.0	18.4
Transfers to stage 1	7.1	(7.0)	(0.1)	-
Transfers to stage 2	(10.2)	10.3	(0.1)	-
Transfers to stage 3	(1.8)	(13.8)	15.6	-
Repayments of loans and advances	(1.1)	(1.3)	(11.8)	(14.2)
Bad debts written off	-	-	(10.4)	(10.4)
Increase/decrease in impairment	6.1	12.2	12.1	30.4
Changes in models and risk parameters	(0.3)	(0.5)	(0.2)	(1.0)
New business and changes in exposure	11.0	-	12.3	23.3
Changes in economic forecasts	-	-	-	-
Provision created/(released) due to transfers	(4.6)	12.7	-	8.1
Interest in suspense	-	-	-	-
Amount as at 30 June 2019	7.5	5.4	11.3	24.2

Reconciliation of the allowance for impairment losses by class – Invoice Finance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2019	2.4	0.4	1.9	4.7
Improvement in credit exposure				
Stage 2 to stage 1	0.1	(0.1)	-	-
Deterioration of credit exposure				
Stage 1 to stage 2	(0.2)	0.2	-	-
Stage 2 to stage 3	-	(0.1)	0.1	-
Opening balance after transfers	2.3	0.4	2.0	4.7
Change in exposure of back book in the current year	-	(0.2)	1.2	1.0
Attributable to change in measurement basis	-	(0.2)	-	(0.2)
Attributable to change in risk parameters	-	-	1.2	1.2
Change in exposure due to new business in the current year	0.3	0.2	(0.1)	0.4
Bad debt written off	-	-	(0.4)	(0.4)
Amount as at 30 June 2020	2.6	0.4	2.7	5.7
Included in the total loss allowance				
Netted against loans and advances to customers	2.6	0.4	2.7	-
Significant components of total loss allowance				
- Forward looking information	0.6	0.2	-	0.8

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2018	1.8	0.3	1.8	3.9
Transfers to stage 1	0.6	(0.6)	-	-
Transfers to stage 2	(2.5)	2.6	(0.1)	-
Transfers to stage 3	(0.4)	(1.4)	1.8	-
Repayments of loans and advances	(0.2)	(0.1)	(1.1)	(1.4)
Bad debts written off	-	-	(0.6)	(0.6)
Increase/decrease in impairment	3.1	(0.4)	0.1	2.8
Changes in models and risk parameters	(0.2)	-	(0.1)	(0.3)
New business and changes in exposure	3.3	(0.5)	0.2	3.0
Changes in economic forecasts	-	-	-	-
Provision created/(released) due to transfers	-	0.1	-	0.1
Interest in suspense	-	-	-	-
Amount as at 30 June 2019	2.4	0.4	1.9	4.7

Reconciliation of the allowance for impairment losses by class – SME Commercial Mortgages

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2019	2.4	0.3	1.2	3.9
Improvement in credit exposure				
Stage 2 to stage 1	0.1	(0.1)	-	-
Deterioration of credit exposure				
Stage 1 to stage 2	(0.1)	0.1	-	-
Stage 2 to stage 3	-	(0.1)	0.1	-
Opening balance after transfers	2.4	0.2	1.3	3.9
Change in exposure of back book in the current year	4.6	3.4	4.2	12.2
Attributable to change in measurement basis	-	0.4	-	0.4
Attributable to change in risk parameters	4.6	3.0	4.2	11.8
Change in exposure due to new business in the current year	(0.5)	0.6	1.0	1.1
Bad debt written off	-	-	(0.3)	(0.3)
Amount as at 30 June 2020	6.5	4.2	6.2	16.9
Included in the total loss allowance				
Netted against loans and advances to customers	6.1	4.2	6.2	16.5
Included in provisions in respect of loan commitments*	0.4	-	-	0.4
Significant components of total loss allowance				
- Forward looking information	-	-	0.4	0.4
- Changes in models	0.1	(0.3)		-0.2
- Interest on stage 3 advances**	-	-	0.8	0.8

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2018	1.5	0.5	0.8	2.8
Transfers to stage 1	0.2	(0.2)	-	-
Transfers to stage 2	(0.4)	0.4	-	-
Transfers to stage 3	(0.2)	(0.1)	0.3	-
Repayments of loans and advances	(0.5)	(0.2)	(0.4)	(1.1)
Bad debts written off	-	-	(0.5)	(0.5)
Increase/decrease in impairment	1.8	(0.1)	0.6	2.3
Changes in models and risk parameters	(0.1)	-	(0.4)	(0.5)
New business and changes in exposure	1.8	(0.5)	0.8	2.1
Changes in economic forecasts	0.2	0.1	0.2	0.5
Provision created/(released) due to transfers	(0.1)	0.3	-	0.2
Interest in suspense	-	-	0.4	0.4
Amount as at 30 June 2019	2.4	0.3	1.2	3.9

Reconciliation of the allowance for impairment losses by class – Buy to Let

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2019	**4.2**	**2.2**	**6.3**	**12.7**
Improvement in credit exposure				
Stage 2 to stage 1	0.5	(0.5)	-	-
Stage 3 to stage 1	0.1	-	(0.1)	-
Deterioration of credit exposure				
Stage 2 to stage 3	-	(0.2)	0.2	-
Opening balance after transfers	**4.8**	**1.5**	**6.4**	**12.7**
Change in exposure of back book in the current year	**0.1**	**4.1**	**4.1**	**8.3**
Attributable to change in measurement basis	-	0.5	-	0.5
Attributable to change in risk parameters	0.1	3.6	4.1	7.8
Change in exposure due to new business in the current year	0.1	0.5	0.9	1.5
Bad debt written off	-	-	(0.2)	(0.2)
Amount as at 30 June 2020	**5.0**	**6.1**	**11.2**	**22.3**
Included in the total loss allowance				
Netted against loans and advances to customers	4.9	6.1	11.2	22.2
Included in provisions in respect of loan commitments*	0.1	-	-	0.1
Significant components of total loss allowance				
- Forward looking information	(0.1)	-	0.9	0.8
- Changes in models	(0.9)	0.5	(0.3)	(0.7)
- Interest on stage 3 advances**	-	-	3.0	3.0

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2018	**3.5**	**1.0**	**3.2**	**7.7**
Transfers to stage 1	0.5	(0.5)	-	-
Transfers to stage 2	(1.3)	1.3	-	-
Transfers to stage 3	(0.2)	(0.9)	1.1	-
Repayments of loans and advances	(0.3)	(0.2)	(0.5)	(1.0)
Bad debts written off	-	-	(0.4)	(0.4)
Increase/decrease in impairment	**2.0**	**1.5**	**1.3**	**4.8**
Changes in models and risk parameters	0.2	0.3	0.3	0.8
New business and changes in exposure	0.9	(0.3)	0.3	0.9
Changes in economic forecasts	1.2	0.3	0.7	2.2
Provision created/(released) due to transfers	(0.3)	1.2	-	0.9
Interest in suspense	-	-	1.6	1.6
Amount as at 30 June 2019	**4.2**	**2.2**	**6.3**	**12.7**

Reconciliation of the allowance for impairment losses by class – Residential Mortgages

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2019	**1.1**	**0.5**	**3.1**	**4.7**
Improvement in credit exposure				
Deterioration of credit exposure				
Stage 2 to stage 3	-	(0.1)	0.1	-
Opening balance after transfers	**1.1**	**0.4**	**3.2**	**4.7**
Change in exposure of back book in the current year	**1.7**	**0.9**	**1.5**	**4.1**
Attributable to change in risk parameters	1.7	0.9	1.5	4.1
Change in exposure due to new business in the current year	0.1	0.3	2.0	2.4
Amount as at 30 June 2020	**2.9**	**1.6**	**6.7**	**11.2**
Included in the total loss allowance				
Netted against loans and advances to customers	2.8	1.6	6.7	11.1
Included in provisions in respect of loan commitments*	0.1	-	-	0.1
Significant components of total loss allowance				
- Forward looking information	-	-	0.3	0.3
- Changes in models	(0.1)	0.2	-	0.1
- Interest on stage 3 advances**	-	-	2.2	2.2

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2018 (IFRS 9)	**1.0**	**0.5**	**1.0**	**2.5**
Transfers to stage 1	0.3	(0.3)	-	-
Transfers to stage 2	(0.5)	0.5	-	-
Transfers to stage 3	(0.1)	(0.5)	0.6	-
Repayments of loans and advances	(0.2)	(0.1)	(0.2)	(0.5)
Bad debts written off	-	-	-	-
Increase/decrease in impairment	**0.6**	**0.4**	**0.4**	**1.4**
Changes in models and risk parameters	-	0.2	-	0.2
New business and changes in exposure	0.4	(0.2)	0.1	0.3
Changes in economic forecasts	0.4	0.1	0.3	0.8
Provision created/(released) due to transfers	(0.2)	0.3	-	0.1
Interest in suspense	-	-	1.3	1.3
Amount as at 30 June 2019	**1.1**	**0.5**	**3.1**	**4.7**

Reconciliation of the allowance for impairment losses by class – MotoNovo Finance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2019	**3.9**	**0.1**	**0.4**	**4.4**
Improvement in credit exposure				
Stage 3 to stage 1	0.1	-	(0.1)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(0.3)	0.3	-	-
Opening balance after transfers	**3.7**	**0.4**	**0.3**	**4.4**
Change in exposure of back book in the current year	**3.4**	**5.5**	**1.2**	**10.1**
Attributable to change in measurement basis	-	1.1	-	1.1
Attributable to change in risk parameters	3.4	4.4	1.2	9.0
Change in exposure due to new business in the current year	22.1	14.5	11.7	48.3
Bad debt written off	-	-	(7.0)	(7.0)
Amount as at 30 June 2020	**29.2**	**20.4**	**6.2**	**55.8**
Included in the total loss allowance				
Netted against loans and advances to customers	29.2	20.4	6.2	55.8
Significant components of total loss allowance				
- Forward looking information	9.6	7.7	-	17.3

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2018	**-**	**-**	**-**	**-**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Repayments of loans and advances	-	-	-	-
Bad debts written off	-	-	-	-
Increase/decrease in impairment	**3.9**	**0.1**	**0.4**	**4.4**
Changes in models and risk parameters	-	-	-	-
New business and changes in exposure	3.4	0.1	0.2	3.7
Changes in economic forecasts	-	-	-	-
Transfers from FirstRand Bank on acquisition of MotoNovo business	0.5	-	0.2	0.7
Interest in suspense	-	-	-	-
Amount as at 30 June 2019	**3.9**	**0.1**	**0.4**	**4.4**

Lease Modifications

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss charged to the income statement. The table also shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12 month ECL measurement during the period

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Modifications (losses)/gains of assets in Stage 2 and 3	(2.0)	-
Gross carrying amount of assets before modification	162.9	-
Loss allowance on asset before modification	(12.3)	-
Amortised cost of assets before modification	**150.6**	-
Gross carrying amount of assets modified while in stage 2 or 3 and now in stage 1	38.3	-

Finance lease receivables

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

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Gross investment in finance leases, receivable:		
Less than one year	1,345.6	849.4
Between one and five years	2,933.6	1,541.7
More than five years	99.3	24.5
	4,378.4	**2,415.6**
Unearned finance income	(592.1)	(290.4)
Net investment in finance leases	**3,786.4**	**2,125.2**
Net investment in finance leases, receivable:		
Less than one year	1,151.5	726.2
Between one and five years	2,537.0	1,375.7
More than five years	97.9	23.3
	3,786.4	**2,125.2**

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 £100.7 million (30 June 2019: £20.5 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 2020 (30 June 2019: no material residual values).

IFRS 16 has had no impact on Gross investment in finance lease receivables.

20. 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 %	Class of shareholding	Country of incorporation
Aldermore Bank PLC	Banking and related services	100	Ordinary	UK[1]
MotoNovo Finance Limited	Motor finance	100	Ordinary	UK[2]
Dormant subsidiary undertakings (indirect interest)				
Aldermore Invoice Finance (Holdings) Limited (Company number 06913207)	Dormant	100	Ordinary	UK[1]
Aldermore Invoice Finance Limited (Company number 02483505)	Dormant	100	Ordinary	UK[1]
Aldermore Invoice Finance (Oxford) Limited (Company number 02129734)	Dormant	100	Ordinary	UK[1]
AR Audit Services Limited (Company number 09495046)	Dormant	#	#	UK[3]
Securitisation vehicles (indirect interest)				
Oak No.1 Mortgage Holdings Limited	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.2 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[5]
Oak No.2 PLC*	Securitisation vehicle	*	*	UK[5]
Oak No.3 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[5]
Oak No.3 PLC*	Securitisation vehicle	*	*	UK[5]
MotoMore Limited*	Securitisation vehicle	*	*	UK[5]

The share capital of this company is not owned by the Group, but is included in the consolidated financial statements as it is controlled by the Group.
* 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.
[1] Registered address 1st Floor, Block B, Western House Lynch Wood, Peterborough, England, United Kingdom PE2 6FZ
[2] Registered address One, Central Square, Cardiff, Wales, United Kingdom, CF10 1FS
[3] Registered address 6 Coldbath Square, London, England, United Kingdom, EC1R 5HL
[4] Registered address 1 Bartholomew Lane, London, England, United Kingdom EC2N 2AX
[5] Registered address 11th Floor, 200 Aldersgate Street, London, England, United Kingdom, EC1A 4HD

21. Deferred taxation

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 30 June 2019 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance as at 30 June 2020 £m
Year ended 30 June 2020				
Capital allowances less than depreciation	2.5	(0.3)	-	2.2
FVOCI debt securities transition adjustment	(0.5)	-	-	(0.5)
(Gains)/losses on debt securities recognised through other comprehensive income	-	-	(0.3)	(0.3)
IFRS 9 transition adjustment	2.0	(0.3)	-	1.7
Other temporary differences	0.6	0.3	-	0.9
Share-based payment timing differences	0.2	0.3	-	0.5
	4.8	-	(0.3)	4.5

	Balance as at 30 June 2018 (IAS39) £m	IFRS 9 adjustment £m	Balance as at 1 July 2018 (IFRS 9) £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance as at 30 June 2019 £m
Year ended 30 June 2019						
Capital allowances less than depreciation	3.0	-	3.0	(0.5)	-	2.5
FVOCI (period ended 30 June 2018: AFS) debt securities transition adjustment	(0.5)	-	(0.5)	-	-	(0.5)
(Gains)/losses on debt securities recognised through other comprehensive income	(0.3)	-	(0.3)	-	0.3	-
Other temporary differences	(0.5)	-	(0.5)	1.1	-	0.6
IFRS 9 transition adjustment	-	2.4	2.4	(0.4)	-	2.0
Share-based payment timing differences	-	-	-	0.2	-	0.2
	1.7	2.4	4.1	0.4	0.3	4.8

The deferred tax asset at 30 June 2020 of £4.5 million has been calculated at an overall rate of 20.9%. 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 on transition to IFRS9 and differences between capital allowances and depreciation.

The planned reductions in the UK corporation tax rate from 19% to 17% from 1 April 2020 were reversed, with the 19% UK corporation tax rate being maintained. This was substantively enacted on 17 March 2020.

There were no unrecognised deferred tax balances at 30 June 2020 (30 June 2019: £nil).

22. Investment in associate

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. Both tranches were paid in full in August 2018 and August 2019 respectively. Details of the Group's material associate at the end of the reporting period are as follows:

Name of associate	Principal activity	Registered office 30 June 2020 and 2019	Proportion of ownership interest/voting rights held by the Group 30 June 2020 and 2019
AFS Group Holdings Limited (Company number 09438039)	Financial Services Intermediary	UK[1]	48%[2]

1. Registered address Greenbank Court Challenge Way, Greenbank Business Park, Blackburn, United Kingdom, BB1 5QB1.
2. Class B ordinary shares.

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 2020 is £5.5 million (30 June 2019: £5.4 million). This includes a £0.5 million Share of Profit of associate which has been recognised in the Consolidated Income Statement for the period ended 30 June 2020 (30 June 2019: £0.5 million).

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 2020 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 2020 (adjusted by the Group for equity accounting purposes).

	30 April 2020 £m	30 April 2019 £m
Current assets	4.1	3.7
Non-current assets	0.6	0.4
Current liabilities	2.2	2.0
Non-current liabilities	0.2	0.2

	Year ended 30 April 2020 £m	Year ended 30 April 2019 £m
Revenue	18.7	14.7
Profit from continuing operations	1.5	1.5
Profit for the period	1.5	1.5
Total comprehensive income for the period	1.5	1.5
Dividends received from the associate during the period	0.4	0.2

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	
	30 June 2020	30 June 2019
	£m	£m
Net assets of the associate	2.3	1.9
Proportion of the Group's ownership Interest in the Associate	48%	48%
Goodwill	4.5	4.5
Carrying amount of the Group's interest in the associate	5.5	5.4

23. Property, plant and equipment

	Computer Systems £m	Furniture, fixtures & fittings £m	Right of Use Assets - Property £m	Right of Use Assets - Motor vehicles £m	Total £m
Cost					
1 July 2019	6.6	12.0	-	-	18.6
IFRS 16 transition – see note 42	-	-	38.2	0.7	38.9
Additions	1.7	1.6	0.9	0.9	5.1
Disposals	(0.1)	-	-	(0.1)	(0.2)
Retirements	(0.3)	(0.6)	-	-	(0.9)
30 June 2020	7.9	13.0	39.1	1.5	61.5
1 July 2018	4.5	4.4	-	-	8.9
Additions	0.4	1.2	-	-	1.6
Transfers from FirstRand Bank on acquisition of MotoNovo business	1.7	6.4	-	-	8.1
30 June 2019	6.6	12.0	-	-	18.6
Depreciation					
1 July 2019	3.8	3.2	-	-	7.0
Charge for the year	1.5	1.8	4.9	0.5	8.7
Disposals	-	-	-	(0.1)	(0.1)
Retirements	(0.3)	(0.6)	-	-	(0.9)
30 June 2020	5.0	4.4	4.9	0.4	14.7
1 July 2018	2.9	2.3	-	-	5.2
Charge for the year	0.9	0.9	-	-	1.8
30 June 2019	3.8	3.2	-	-	7.0
Net book value					
30 June 2020	2.9	8.6	34.2	1.1	46.8
30 June 2019	2.8	8.8	-	-	11.6

24. Intangible assets

	Computer Systems £m	Goodwill £m	Total £m
Cost			
1 July 2019	**18.8**	**8.5**	**27.3**
Additions	2.3	-	2.3
Retirements	(0.9)	-	(0.9)
30 June 2020	**20.2**	**8.5**	**28.7**
1 July 2018	24.4	8.5	32.9
Additions	0.6	-	0.6
Retirements	(9.1)	-	(9.1)
Write-off	(0.9)	-	(0.9)
Transfers from FirstRand Bank on acquisition of MotoNovo business	3.8	-	3.8
30 June 2019	**18.8**	**8.5**	**27.3**
Amortisation			
1 July 2019	**12.5**	-	**12.5**
Charge for the year	3.4	-	3.4
Retirements	(0.9)	-	(0.9)
30 June 2020	**15.0**	**-**	**15.0**
1 July 2018	18.5	-	18.5
Charge for the year	3.3	-	3.3
Retirements	(9.1)	-	(9.1)
Write-off	(0.2)	-	(0.2)
30 June 2019	**12.5**	**-**	**12.5**
Net book value			
30 June 2020	**5.2**	**8.5**	**13.7**
30 June 2019	6.3	8.5	14.8

In the prior period, as a result of the Group's withdrawal from the Asset Finance dealer market at the end of June 2019, intangible assets relating to this business were identified as no longer generating ongoing economic benefit to the Group. As such it was deemed appropriate to fully write-off these intangible assets, resulting in a charge to the income statement for the year ended 30 June 2019 of £0.7 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 2020 has been determined in a similar manner as at 30 June 2019.

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

- Cash flows were projected based on past experience, actual operating results and the six year business plan (30 June 2019: the five year business plan). Cash flows after the planning period were extrapolated using a constant growth rate of 2.0% (30 June 2019: 2.0%) into perpetuity; and
- A pre-tax discount rate of 13.9% (30 June 2019: 11.1%) 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 2020 £m	30 June 2019 £m
Cash collateral received on derivatives	1.8	-
Due to banks - central banks - Term Funding Scheme interest accrual	0.4	3.1
Due to banks - central banks - other eligible schemes	0.3	0.5
	2.50	3.6
Amounts repayable within 12 months:		
Due to banks – central banks – Term Funding Scheme interest accrual	946.0	-
Due to banks – central banks – other eligible schemes interest accrual	500.0	-
	1,446.0	-
Amounts repayable after 12 months:		
Due to banks – central banks – Term Funding Scheme	725.0	1,671.0
Due to banks – central banks – other eligible schemes	-	140.0
	725.0	1,811.0
	2,173.5	1,814.6

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 can be found in note 19.

26. Customers' accounts

	30 June 2020 £m	30 June 2019 £m
Retail deposits	7,701.1	5,967.2
SME deposits	2,210.7	2,142.5
Corporate deposits	974.6	862.1
	10,886.4	**8,971.8**
Amounts repayable within one year	9,285.0	7,626.4
Amounts repayable after one year	1,601.4	1,345.4
	10,886.4	**8,971.8**

27. Other liabilities

	30 June 2020 £m	30 June 2019 £m
Amounts payable within 12 months:		
Amounts payable to Invoice Finance customers	17.9	11.2
Other taxation and social security costs	5.7	2.0
Trade creditors	6.1	7.3
Lease liabilities	35.0	-
Other payables	25.8	40.9
	90.5	**61.4**

Lease liabilities of £35.0 million has been included in other liabilities for the year ended 30 June 2020 as a result of the adoption of IFRS 16. See note 42 for details.

The maturity of the Group's lease liabilities was as follows.

	30 June 2020 £m	30 June 2019 £m
Maturity analysis of finance leases:		
Less than one year	5.0	-
Between one and five years	18.1	-
More than five years	11.9	-

The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to note 42 for details.

28. Accruals and deferred income

	30 June 2020	30 June 2019
Amounts payable within 12 months:		
Accruals	32.0	51.0
Deferred income	0.5	0.6
	32.5	**51.6**

The decrease in accruals for the year ended 30 June 2020 is largely due to the absence of an employee bonus accrual (30 June 2019: £7.8 million).

29. Provisions

	Customer redress £m	Cancellations £m	Other £m	Total £m
1 July 2019	1.3	-	1.1	2.4
Utilised during the year	-	(0.6)	(0.6)	(1.2)
Provided during the year	0.2	2.2	0.9	3.2
30 June 2020	**1.5**	**1.6**	**1.4**	**4.5**
1 July 2018	-	-	1.1	1.0
Transition to IFRS 9	-	-	0.4	0.4
Utilised during the year	-	-	(0.6)	(0.6)
Provided during the year	1.3	-	0.2	1.6
30 June 2019	**1.3**	**-**	**1.1**	**2.4**

Customer Redress

Following an internal compliance review, it became evident that a proportion of 500 customers that were sold mortgages to consolidate debt over a number of years were not given sufficient and appropriate advice. The sale of debt consolidation mortgages by the Group ceased from February 2019. Work is ongoing by the Group to evaluate which customers, past and present, did not receive sufficient and appropriate advice and calculate the redress due. A provision has been made at 30 June 2020 for £1.0 million (30 June 2019: £1.3 million) for potential compensation based on an analysis of a sample of cases reviewed to that date. In the year, the Group also recognised a further £0.5 million of provisions relating to exit fees, later life lending and customer complaints.

Cancellations

Payment Protection Insurance ("PPI") income is recognised in full when sold to the customer, however MotoNovo Finance provides for policies expected to be cancelled against this based on the long run average cancellation rate over the life of the agreement. This amounted to £1.6 million as at 30 June 2020 (30 June 2019: £nil).

Other

The 'other' column of the above consists of provisions for the Financial Services Compensation Scheme ("FSCS"), expected losses on loan commitments, and onerous contracts.

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 provision at 30 June 2020 of £0.7 million (30 June 2019: £0.3 million) represents the interest element of the compensation levy for the 2019/2020 scheme year (30 June 2019: interest levy for the 2018/2019 scheme year).

Expected losses on loan commitments

IFRS 9 requires provisions for any impairment losses expected in respect of any outstanding irrevocable loan commitments. The expected losses on loan commitments decreased to £0.5 million (30 June 2019: £0.8 million) reflecting a decrease in committed irrevocable lending to customers.

Onerous contracts

The decision was made in June 2020 to stop using a third-party reward system for motor dealers, called MotorV8, by the end of 2020, giving rise to an onerous contract and therefore a provision of £0.2 million has been raised as at 30 June 2020.

30. Debt securities in issue

	30 June 2020 £m	30 June 2019 £m
Debt securities in issue - Oak No 2 PLC	138.7	263.2
Debt securities in issue - Oak No 3 PLC	323.7	-
Debt securities in issue - MotoMore Limited	249.9	-
	712.3	263.2

Debt securities in issue with a book value of £712.3 million (2019: £263.2 million) are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicles. 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 in respect of the Oak No.2 PLC notes is 26 May 2055 with a call option exercisable on the notes falling due on 27 February 2023. The final maturity date in respect of the Oak No.3 PLC notes is 28 July 2061 with a call option exercisable on the notes falling due on 29 July 2024. The final maturity date in respect of the MotoMore Limited notes is 19 October 2027 with a call option exercisable on the notes falling due on 30 September 2021. In May 2020, Aldermore Bank repurchased £0.4 million of Oak 3 notes from the market. There is no obligation for the Group to make good any shortfall. Further disclosure relating to the underlying assets is contained in note 19.

31. Subordinated notes

	30 June 2020 £m	30 June 2019 £m
Subordinated notes 2026	60.5	60.5
Subordinated notes 2028	100.7	100.6
Subordinated notes 2029	52.3	52.3
	213.5	213.4

On 28 October 2016, the Group issued £60.0 million subordinated 8.5% 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%.

On 22 November 2018, the Group issued to FirstRand Bank Limited, a fellow subsidiary of FirstRand Limited, £100.0 million subordinated 4.9% loan notes, repayable in 2028, with an option for the Group to redeem after five years. The interest rate is fixed until November 2023. The loan is carried in the statement of financial position at amortised cost using an EIR of 4.9% which is identical to the coupon rate.

On 22 May 2019, the Group issued to FirstRand Bank Limited, a fellow subsidiary of FirstRand Limited, £52.0 million subordinated 5.1% loan notes, repayable in 2029, with an option for the Group to redeem after five years. The interest rate is fixed until May 2024. The loan is carried in the statement of financial position at amortised cost using an EIR of 5.1 %.

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.

Year ended 30 June 2020

	As at 1 July 2019 £m	Financing cash flows-debt issued £m	Financing cash flows - repayment of debt £m[1]	Financing cash flows - interest paid on debt £m	Non-cash-changes-Interest expense per Income Statement £m	As at 30 June 2020 £m
Debt Securities in Issue - note 30	263.2	592.6	(144.5)	(8.1)	9.1	**712.3**
Subordinated notes - note 31	213.4	-	-	(12.6)	12.7	**213.5**

[1] In May 2020 £0.4 million worth of Oak 3 notes were purchased by Aldermore Bank PLC from the market.

Year ended 30 June 2019

	As at 1 July 2018 £m	Financing cash flows-debt issued £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 2019 £m
Debt Securities in Issue - note 30	77.9	323.3	(138.9)	(4.0)	4.9	**263.2**
Subordinated notes - note 31	60.5	152.0	-	(7.5)	8.4	**213.4**

33. Share capital

	30 June 2020 £m	30 June 2019 £m
Type		
Ordinary shares of £0.10 each	243.9	243.9

As at 30 June 2020, there were 2,439,016,370 ordinary £0.10 shares in issue resulting in share capital of £243,901,637 (30 June 2019: 2,439,016,370 and £243,901,637 respectively).

34. Share-based payments

The table below shows the charge to the income statement:

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Share plans issued in period ended 30 June 2018	(0.4)	2.0
Share plans issued in year ended 30 June 2019	0.7	0.9
Share plans issued in year ended 30 June 2020	0.7	-
Total shared-based payment charge	1.0	2.9

The table below shows the number of awards outstanding as at 30 June 2020:

Plan	Awards outstanding value 30 June 2020 £m [1]	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached [2]	Settlement	Liability transferred to RMBMS by assumption of liability agreement [3]	Aldermore Group Residual Liability	Charge for current year £m
Transition Award	-	Oct-19 Mar-20	No	No	Cash	No	No	0.2
Deferred Bonus Scheme FY19	0.2	Sep-20 Sep-21	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.3
Deferred Bonus Scheme FY20	0.8	Sep-20 Sep-21 Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.2
LTIP awards (risk & compliance) FY19	0.1	Sep-21	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.0
LTIP awards (risk & compliance) FY20	0.4	Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards FY19	0.6	Sep-21	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	(0.1)
LTIP awards FY20	0.8	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (Exco) FY19	0.8	Sep-21	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.3
LTIP awards (Exco) FY20	0.9	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
Conditional Share Plan (MotoNovo Finance) - CP16 & CP17	0.2	Sep-19 (CP16) Sep-20 (CP17)	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	(0.9)
Conditional Share Plan (MotoNovo Finance) - CP18	0.4	Sep-21	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.4
Conditional Share Plan (MotoNovo Finance) - CP19	0.8	Sep-22	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.2
Total	6.0							1.0

[1.] Transition award vested on 28 March 2020.
[2.] Non Market Performance Conditions - 40.0% of the conditional award will vest if: Increase in FirstRand normalised earnings per share equals or exceeds the South Africa CPI plus real GDP growth, on a cumulative basis, over the performance period; FirstRand Limited delivers ROE of at least 18.0% over the performance period; and 60.0% of the conditional award will be based on the performance conditions linked to Aldermore.
[3.] Aldermore entered into an assumption of liability and novation agreement with RMB Morgan Stanley Proprietary Ltd ("RMBMS"), a 50.0% owned JV of the FirstRand Group to hedge the cost of the awards linked to the FirstRand share price. In return for Aldermore making a payment to RMBMS, RMBMS is substituted in the agreement and is obligated to pay the GBP amount due to the Aldermore employees at the vesting date.

The table below shows the number of awards outstanding as at 30 June 2019:

Plan	Awards outstanding value 30 June 2018 £m	Awards outstanding value 30 June 2019 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Employee Service Conditions	Non Market Performance Conditions Attached	Settlement	Liability transferred to RMBMS by assumption of liability agreement	Aldermore Group Residual Liability	Charge for current year £m
Sharesave Plan	0.2	-	-	No	No	No	Cash	No	No	-
Transition Award	4.0	2.5	Oct-19 Mar-20	No	Yes	No	Cash	No	No	2.0
Deferred Bonus Scheme	-	0.5	Equal tranches: Sep-19 Sep-20 Sep-21	Yes	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.3
LTIP awards (risk & compliance)	-	0.1	44440	Yes	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.0
LTIP awards	-	0.6	44440	Yes	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
LTIP awards (Exco)	-	1.4	44440	Yes	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
Conditional Share Plan (MotoNovo Finance) - CP16 & CP17	-	2.2	Sep-19 (CP16) Sep-20 (CP17)	No	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.3
Total	4.2	7.3								2.9

1. Sharesave value based on 97,110 shares at 200 pence per share. Transition award outstanding value based on 1,267,206 awards at 313 pence per award.
2. Transition award outstanding value based on 801,732 awards at 313 pence per award.
3. Non Market Performance Conditions - 40.0% of the conditional award will vest if: Increase in FirstRand normalised earnings per share equals or exceeds the South Africa CPI plus real GDP growth, on a cumulative basis, over the performance period; FirstRand Limited delivers ROE of at least 18.0% over the performance period; and 60.0% of the conditional award will be based on the performance conditions linked to Aldermore.
4. Aldermore entered into an assumption of liability and novation agreement with RMB Morgan Stanley Proprietary Ltd ("RMBMS"), a 50.0% owned JV of the FirstRand Group to hedge the cost of the awards linked to the FirstRand share price. In return for Aldermore making a payment to RMBMS, RMBMS is substituted in the agreement and is obligated to pay the GBP amount due to the Aldermore employees at the vesting date.

The terms of the schemes which are all cash-settled are as follows:

a) Transition Award

The shares under Performance Share Plan ("PSP") and Restricted Share Plan ("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 were 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 was remeasured at the end of each reporting period, with changes to fair value recognised in profit or loss. The transition awards vested on the 28 March 2020 and were therefore settled during the year ended 30 June 2020.

b) Deferred Bonus Scheme

A deferred portion of the annual bonus (or Bonus deferral scheme ("BDS")), which is based on the Aldermore Group's and an individual's performance against specified factors during the period to which the annual bonus relates. The deferred bonus is equity linked. The awards vest in 3 equal annual instalments, on the first, second and third anniversary of the date the annual bonus is confirmed. There are no performance conditions in respect of the awards however there are service conditions attached to the awards in respect of the employee continuing to be employed by the Aldermore Group at each vesting date.

c) LTIP (Long Term Incentive Plan)

A long term incentive plan ("LTIP") for which vesting occurs 3 years after the award date. The same service conditions apply as for the BDS, i.e. continuing to be employed at each vesting date for all awards. The awards are equity linked without performance conditions for a small number of employees engaged in risk and control functions. The awards are equity linked with performance conditions for other senior employees linked to FirstRand and Aldermore performance.

d) Conditional Share Plan (MotoNovo Finance)

The conditional award comprises a number of full shares with no strike price. These awards vest after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance targets set annually by the remuneration committee. The conditional share plan ("CSP") is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash-settled and is therefore repriced at each reporting date. The share based payment liability includes two schemes for share awards granted in 2018 and 2019. The liability for the 2017 scheme, which was provisionally due to vest in September 2020, was released to the income statement in the year given the reasonable degree of certainty that the performance conditions of the 2017 award will not be met.

All the schemes identified above have employee service conditions.

35. Additional Tier 1 capital

	30 June 2020 £m	30 June 2019 £m
Contingent convertible securities - issued December 2014	-	74.0
Perpetual subordinated capital notes - issued May 2019	47.0	47.0
Perpetual subordinated capital notes - issued April 2020	61.0	-
	108.0	**121.0**

Perpetual subordinated capital notes

On 25 June 2019, the Company issued £47.0 million of Perpetual Subordinated Capital Notes to FirstRand Bank Limited, a fellow subsidiary of FirstRand Limited.

The Securities are perpetual and have no fixed redemption date. Redemption of the Securities is at the option of the Company on 27 June 2024 and semi-annually thereafter. The Securities bear interest at an initial rate of 7.3% per annum until 27 June 2024 and thereafter at the relevant Reset Interest Rate as provided in the Information Memorandum. Interest is payable on the Securities semi-annually in arrears on each interest payment date commencing from 27 December 2019 and is non-cumulative. The Borrower has the full discretion to cancel any interest scheduled to be paid on the Securities.

On 29 April 2020, the Company issued £61.0 million of Perpetual Subordinated Capital Notes to FirstRand Bank Limited, a fellow subsidiary of FirstRand Limited.

The Securities are perpetual and have no fixed redemption date. Redemption of the Securities is at the option of the Company on 29 April 2025 and semi-annually thereafter. The Securities bear interest at an initial rate of 8.5% per annum until 29 April 2025 and thereafter at the relevant Benchmark Gilt rates plus a margin of 8.324% per annum from up to four leading gilt dealers. Interest is payable on the Securities semi-annually in arrears on each interest payment date commencing from 29 October 2020 and is non-cumulative. The Borrower has the full discretion to cancel any interest scheduled to be paid on the Securities.

Contingent convertible securities

On 9 December 2014, the Company issued £75.0 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 were perpetual and had no fixed redemption date. Redemption of the Securities was at the option of the Company on 30 April 2020 and annually thereafter. The securities were redeemed on 30 April 2020 and the Company paid the £75.0 million on redemption.

36. Statement of cash flows

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

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Depreciation and amortisation	12.1	5.1
Impairment of intangibles / goodwill	-	0.7
Amortisation of securitisation issuance cost	1.1	0.6
Impairment losses on loans and advances	129.0	26.8
Lease modifications	11.2	-
Unwind of discounting	(0.7)	(0.5)
Interest in suspense	2.1	2.4
Gains on hedged available for sale debt securities recognised in profit or loss	(17.0)	(6.4)
Net gains on disposal of available for sale debt securities	(0.5)	(0.8)
Interest expense on subordinated notes	0.1	8.4
Interest income on debt securities	(8.7)	(14.7)
Interest expense on debt securities in issue	8.0	4.3
Share of profit of associate	(0.5)	(0.5)
	136.2	25.4

b) (Increase)/decrease in operating assets

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Loans and advances to customers	(1,972.2)	(1,578.2)
Loans and advances to banks	(83.6)	(29.5)
Derivative financial instruments	(0.2)	13.6
Fair value adjustments for portfolio hedged risk	(40.2)	(33.6)
Other operating assets	(11.1)	(4.9)
Dividend received from associate	0.4	0.2
	(2,106.9)	**(1,632.4)**

c) Increase in operating liabilities

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Amounts due to banks	358.9	136.4
Customers' accounts	1,914.6	1,196.0
Derivative financial instruments	62.4	20.7
Fair value adjustments for portfolio hedged risk	1.1	0.8
Other operating liabilities	(21.7)	42.9
Increase in provisions	(0.2)	-
	2,315.1	**1,396.8**

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.

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Cash and balances at central banks	542.5	482.9
Less restricted balances	(29.9)	(20.4)
Loans and advances to banks	71.0	71.2
	583.6	**533.7**

In the year ended 30 June 2019, cash and cash equivalents of £86.4 million was transferred to London Branch of FirstRand Bank in respect of the transfer of the MotoNovo business to the Group.

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 2020 include £10.0 million held by the securitisation vehicles, which are not available to the other members of the Group (30 June 2019: £4.9 million).

37. Commitments and contingencies

At 30 June 2020, the Group had undrawn commitments to lend of £342.5 million (30 June 2019: £715.6 million). These relate mostly to irrevocable lines of credit granted to customers.

For the year ended 30 June 2019, the Group disclosed the future minimum lease payments under non-cancellable operating leases which amounted to £32.9 million of land and buildings, and £0.6 million of equipment. Due to the transition of IFRS 16 the commitments for year ended 30 June 2020 are £nil.

The Group transitioned to IFRS 16 during the current year which has had a significant impact on the accounting treatment of leases where the Group is the lessee. The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to note 42 for details.

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

FirstRand International Limited acquired 100.0% of the share capital of Aldermore Group PLC in March 2018. It 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 1966/010753/06) and the ultimate parent and ultimate controlling party. Consolidated accounts are prepared by FirstRand Limited and copies are available to the public from the ultimate parent's registered office c/o 4 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton, Gauteng, South Africa, 2196.

During the year ended 30 June 2020, the Group also incurred fees of £137,000 (30 June 2019: £123,000) in relation to the Directors who represent the ultimate parent company.

As at 30 June 2020, the Group owed FirstRand Bank Limited a balance of £261.0 million (30 June 2019: £208.7 million) which includes subordinated securities totalling £260.8 million and were owed a balance of £3.4 million from FirstRand Bank Limited (30 June 2019: £7.9 million) consisting of recharged administrative and operational costs.

During the year ended 30 June 2020, the Group received income from FirstRand Bank Limited totalling £42.6 million (30 June 2019: £10.5 million) relating to administrative costs recharged to FirstRand Bank Limited by MotoNovo Finance Limited and were recharged expenses totalling £12.6 million (30 June 2019: £4.2 million) which includes a subordinated loan note coupon of £7.5 million, an AT1 coupon of £3.4 million and the remainder being software license costs and non-executive director fees.

b) Associates

The Group holds a 48% holding in AFS Group Holdings Limited which was acquired on 28 September 2017. During the year ended 30 June 2020, the Group paid commission of £2.0 million to the associate (year ended 30 June 2019: £2.6 million). The Group also received dividends totalling £0.4 million during the year (30 June 2019: £0.2 million).

c) Key management personnel compensation

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:

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Emoluments	4,081.6	5,578.3
Payments in respect of personal pension plans	182.6	154.6
Contributions to money purchase scheme	44.8	27.1
Termination benefits	130.3	-
Share-based payments	1,031.7	1,906.3
	5,471.0	7,666.3

Key persons' emoluments include £nil of deferred bonus (period ended 30 June 2019: £2.7 million).

Share-based payments ("SBP")

During the year ended 30 June 2020, KMP were granted awards which are linked to the share price of the ultimate parent FirstRand Limited. Further details of the schemes are provided in note 34.

39. Financial instruments and fair values

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

30 June 2020	Assets at amortised cost £m	Debt securities at FVOCI £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	542.4	-	-	-	-	542.4
Loans and advances to banks	228.6	-	-	-	-	228.6
Debt securities	71.3	1,869.8	-	-	-	1,941.1
Derivatives held for risk management	-	-	9.3	-	-	9.3
Fair value adjustment for portfolio hedged risk	-	-	-	58.1	-	58.1
Loans and advances to customers	12,425.7	-	-	-	-	12,425.7
Other assets	20.7	-	-	-	-	20.7
Total financial assets	**13,288.7**	**1,869.8**	**9.3**	**58.1**	**-**	**15,225.9**
Non-financial assets						97.7
Total assets						**15,323.6**
Amounts due to banks	-	-	-	-	2,173.5	2,173.5
Customers' accounts	-	-	-	-	10,886.4	10,886.4
Derivatives held for risk management	-	-	99.8	-	-	99.8
Fair value adjustment for portfolio hedged risk	-	-	-	2.1	-	2.1
Other liabilities	-	-	-	-	90.5	90.5
Debt securities in issue	-	-	-	-	712.3	712.3
Subordinated notes	-	-	-	-	213.5	213.5
Total financial liabilities	**-**	**-**	**99.8**	**2.1**	**14,076.2**	**14,178.1**
Non-financial liabilities						**37.0**
Total liabilities						**14,215.1**

30 June 2019	Assets at amortised cost £m	Debt securities at FVOCI £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	482.9	-	-	-	-	482.9
Loans and advances to banks	145.2	-	-	-	-	145.2
Debt securities	-	1,207.8	-	-	-	1,207.8
Derivatives held for risk management	-	-	9.1	-	-	9.1
Fair value adjustment for portfolio hedged risk	-	-	-	17.9	-	17.9
Loans and advances to customers	10,595.1	-	-	-	-	10,595.1
Other assets	25.9	-	-	-	-	25.9
Total financial assets	**11,249.1**	**1,207.8**	**9.1**	**17.9**	**-**	**12,483.9**
Non-financial assets						46.4
Total assets						**12,530.3**
Amounts due to banks					1,814.6	1,814.6
Customers' accounts					8,971.8	8,971.8
Derivatives held for risk management			37.4			37.4
Fair value adjustment for portfolio hedged risk				1.0		1.0
Other liabilities					61.4	61.4
Debt securities in issue					263.2	263.2
Subordinated notes					213.4	213.4
Total financial liabilities	**-**	**-**	**37.4**	**1.0**	**11,324.4**	**11,362.8**
Non-financial liabilities						72.3
Total liabilities						**11,435.1**

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 valuations.

	30 June 2020		30 June 2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and balances at central banks	542.4	542.4	482.9	482.9
Loans and advances to banks	228.6	228.6	145.2	145.2
Loans and advances to customers	12,425.7	12,433.3	10,595.1	10,606.9
Debt securities	71.3	72.2		
Other assets	20.7	20.7	25.9	25.9
Total financial assets	13,288.7	13,297.2	11,249.1	11,260.9
Amounts due to banks	2,173.5	2,173.5	1,814.6	1,814.6
Customers' accounts	10,886.4	10,968.8	8,971.8	8,978.1
Other liabilities	90.5	90.5	61.4	61.4
Debt securities in issue	712.3	714.4	263.2	265.2
Subordinated notes	213.5	214.0	213.4	220.9
Total financial liabilities	14,076.2	14,161.2	11,324.4	11,340.2

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. Expected credit losses as determined for IFRS 9 purposes are reflected in the fair value amounts.

(d) Other assets and liabilities

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

(e) Amounts due to banks

These mainly represent securities sold under agreements to repurchase which were drawn down from the Bank of England under the terms of the Funding for 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 values 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 has 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, which are all subject to recurring valuation, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

(i) Debt securities

Debt Securities held with Capital Investment Strategy are classified as amortised cost only if meet both of the business model assessment and SPPI tests. These debt securities are publicly traded in the market and the quoted prices are used as a fair value disclosure.

30 June 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	9.3	-	9.3
Debt securities:				
Asset-backed securities	-	114.4	-	114.4
UK Gilts and Supranational bonds	1,179.6	-	-	1,179.6
Covered bonds	529.7	-	-	529.7
Treasury bills	46.1	-	-	46.1
	1,755.4	123.7	-	1,879.1
Financial liabilities:				
Derivatives held for risk management	-	99.8	-	99.8
	-	99.8	-	99.8

30 June 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	9.1	-	9.1
Debt securities:				
Asset-backed securities	-	20.0	-	20.0
UK Gilts and Supranational bonds	769.0	-	-	769.0
Covered bonds	418.8	-	-	418.8
	1,187.8	29.1	-	1,216.9
Financial liabilities:				
Derivatives held for risk management	-	37.4	-	37.4
	-	37.4	-	37.4

Level 1: Fair value determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Fair value determined using directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable.
Level 3: Fair value determined using one or more significant inputs that are not based on observable market data.

The fair values of UK T-bills, 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 the average price of indicative prices from counterparties and Bloomberg, 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 conducted through a recognised exchange and as such are subject to daily margining requirements.

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

The debt securities falling into the Capital Investment business model are classified at amortised cost. The fair value of the debt securities classified at amortised cost is based on quoted bid prices in active markets.

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 vehicles

The sale of the beneficial ownership of the loans and advances to customers to the securitisation vehicles 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 vehicles have 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 values 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.

30 June 2020	Carrying amount of transferred assets not derecognised £m	Carrying amount of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net position £m
Oak No.2 PLC	165.8	138.7	162.6	139.0	23.6
Oak No.3 PLC	343.2	323.7	334.1	323.8	10.4
MotoMore Limited	286.4	249.9	283.8	251.7	32.1

30 June 2019	Carrying amount of transferred assets not derecognised £m	Carrying amount of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net position £m
Oak No.2 PLC	277.4	263.2	277.9	265.2	12.7

40. Country-by-Country

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 20 to these financial statements include 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	Year ended 30 June 2020 £m	Year ended 30 June 2020 £m
Total operating income	UK	412.1	340.3
Profit before tax	UK	48.8	129.6
Corporation tax (paid net of refunds received)	UK	(40.3)	(18.7)
Employees (average FTE equivalent)	UK	1,966.2	1,174.0

41. Post balance sheet events

On 20 August 2020, the Group successfully made an initial £300 million drawing on the Bank of England's new Term Funding Scheme which provides funding for four years.

42. Impact of adopting IFRS 16 and IAS 12

IFRS 16

The Group adopted IFRS 16 during the current year, with the most significant impact on the accounting treatment of leases where the Group is the lessee. The standard requires lessees to recognise a right-of use-asset ("ROUA") and corresponding lease liability in respect of all leases that were previously classified as operating leases under IAS 17. The standard does allow for certain exemptions from this treatment for short-term leases and leases where the underlying asset is considered to be of low value.

As permitted by IFRS 16, the Group did not restate comparative information and elected to apply the modified retrospective approach on the date of initial application ("DIA") being 1 July 2019. The table below sets out the impact on the balance sheet:

Impact on the Statement of financial position

	At 30 June 2019 per IAS 17 £m	IFRS 16 transition £m	At 1 July 2019 per IFRS 16 £m
Assets:			
Property and equipment	11.6	38.9	50.5
Prepayments and accrued income	9.8	(1.2)	8.6
Liabilities:			
Other liabilities	61.4	37.7	99.1
Equity:			
Retained earnings	655.4	-	655.4

On the DIA, a lease liability, measured at the present value of the remaining lease payments was recognized. This was discounted using the incremental borrowing rate at the DIA. The Group elected to measure the ROUA at a value equal to the lease liability as calculated at the DIA. This value was adjusted for any lease prepayments as well as any operating lease liabilities from the straight lining of lease liabilities (previously raised under IAS 17).

The table below reconciles the operating lease commitments recognised under IAS 17 to the lease liabilities recognised on the statement of financial position as at 1 July 2019:

	Amount £m
Operating lease commitments disclosed as at 30 June 2019 under IAS17	33.5
Add: Adjusted for treatment of extension and termination options	7.7
Less: Discounted using the Group's incremental borrowing rate	(3.5)
Additional lease liability recognised as at 1 July 2019 (included in other liabilities)	37.7

Operating lease commitments under IAS 17

The Group applied the practical expedient in IFRS 16 C3 and did not reassess the definition of a lease on its current lease contracts but applied the requirements of IFRS 16 to all leases recognised as operating leases previously under IAS 17.

Extension and termination options

The Group's policy is to include extension and termination operations for certain leases where there is a reasonably certain expectation that the lease will be renewed and as such the value of these extension and termination options are taken into consideration in the determination of the lease liability.

Discounting using the Group's incremental borrowing rate

IFRS 16 requires that the lease payments are discounted. The discounted amount is calculated using the incremental borrowing rate at DIA. The Group used the practical expedient in IFRS 16 that allows the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

The incremental borrowing rates used ranged between 0.5% - 1.4%. The range is indicative of the duration of the lease, credit risk of the business that is the lessee and urgency of the lease.

IAS 12

The Group also adopted a revised IAS 12 in the current financial year. This clarifies that the tax consequences of dividends should be recognised in the income statement, other comprehensive income or equity, according to where the past transactions or events were recognised that gave rise to the distributable reserves from which the dividends were declared. Therefore, if the dividends are declared from retained income arising from profits previously recognised in the income statement, the income tax consequences of the dividend distribution should be recognised in the income statement. IAS 12 is required to be applied retrospectively and comparative information has been restated as follows:

Impact on Income statement

	Year ended 30 June 2019 £m	IAS 12 restatement £m	Year ended 30 June 2019 (restated) £m
Profit before taxation	129.6		129.6
Taxation	(32.7)	1.9	(30.8)
Profit after taxation - attributable to equity holders of the Group	**96.9**	**1.9**	98.8

Impact on Statement of Changes in Equity

	Retained earnings		
	Year ended 30 June 2019 £m	IAS 12 restatement £m	Year ended 30 June 2019 (restated) £m
As at 1 July 2018	565.5		565.5
Profit after taxation	96.9	1.9	98.8
Coupon paid on Additional Tier 1 capital securities	(7.0)	(1.9)	(8.9)
As at 30 June 2019	**655.4**	-	655.4

The amendment affects the recognition of the income tax deduction on the Group's contingent convertible and AT1 instruments included within other equity instruments. The tax impact of the dividends on these instruments was previously recognised directly in equity and is now required to be recognised in the income statement. The amendment resulted in a restatement of income tax and profit attributable to other equity holders' in the income statement, as well as the distributions on other equity instruments in the statement of changes in equity.

The Company statement of financial position

As at 30 June 2020

	Note	30 June 2020 £m	30 June 2019 £m
Assets			
Loans and advances to banks	3	-	0.9
Investment in Group undertakings	4	465.6	478.9
Investment in associates	6	4.8	4.8
Amounts receivable from Group undertakings	7	411.3	411.3
Total assets		**881.7**	**895.9**
Liabilities			
Other liabilities		-	0.1
Amounts payable to Group undertakings	8	21.3	20.8
Subordinated notes	9	213.7	213.7
Total liabilities		**235.0**	**234.6**
Equity			
Share capital	10	243.9	243.9
Share premium account	10	74.4	74.4
Additional Tier 1 capital	11	108.0	121.0
Capital redemption reserve		0.1	0.1
Retained earnings		220.3	221.9
Total equity		**646.7**	**661.3**
Total liabilities and equity		**881.7**	**895.9**

The notes and information on pages 171 to 173 form part of these financial statements.

Aldermore Group PLC profit for the year ended 30 June 2020 was £11.9 million (30 June 2019: profit of £6.6 million).

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

Phillip Monks
Director
27 August 2020
Registered number: 06764335

Claire Cordell
Director
27 August 2020

The Company statement of cashflows

For the year ended 30 June 2020

	Note	30 June 2020 £m	30 June 2019 (restated) £m
Cash flows from operating activities			
Profit before taxation		11.9	8.9
(Decrease)/ Increase in operating liabilities		(0.1)	(0.1)
Adjustments for non-cash items within the income statement		0.5	-
Net cash flows generated from operating activities		**12.3**	**8.8**
Cash flows from investing activities			
Acquisition of investment in Subsidiaries	4	(61.0)	(59.0)
Disposal of investment in Subsidiaries		74.3	-
Dividend income from associate		0.4	-
Subordinated loan made to subsidiary[1]	7	-	(100.0)
Deposit placed with Aldermore Bank PLC[1]	7	-	(249.0)
Net cash used in investing activities		**13.7**	**(408.0)**
Cash flows from financing activities			
Proceeds from issue of shares	10	-	209.0
Proceeds from issue of subordinated notes	9	-	152.0
Interest received on subordinated loan	7	1.1	7.4
Interest paid on subordinated notes	9	(2.6)	(7.4)
Proceeds from issue of AT1 capital	11	61.0	47.0
Redemption of AT1 capital		(74.0)	-
Coupon paid on contingent convertible securities, net of tax		(12.4)	(8.9)
Net cash received from financing activities		**(26.9)**	**399.1**
Net (decrease)/increase in cash and cash equivalents		**(0.9)**	**(0.1)**
Cash and cash equivalents at start of the year	3	**0.9**	**1.0**
Movement during the year		(0.9)	(0.1)
Cash and cash equivalents at end of the year		**-**	**0.9**

[1] Comparatives have been restated to show Subordinated loans made to subsidiary and Deposit placed with Aldermore Bank PLC under cash flows from investing activities rather than cash flows from financing activities as previously disclosed.

The Company statement of changes in equity

For the year ended June 2020

	Share Capital	Share premium account	Additional Tier 1 Capital	Capital redemption reserve	Retained earnings (restated)	Total (restated)
	£m	£m	£m	£m	£m	£m
Year ended 30 June 2020						
As at 1 July 2019	243.9	74.4	121.0	0.1	221.8	661.2
Profit for the year	-	-	-	-	11.9	11.9
Transactions with equity holders:						
- Share issue proceeds	-	-	-	-	-	-
- Issuance of Additional Tier 1 capital	-	-	61.0	-	-	61.0
- Redemption of Additional Tier 1 capital	-	0.0	(74.0)	0.0	(1.0)	(75.0)
- Coupon paid on contingent convertible securities	-	-	-	-	(12.4)	(12.4)
As at 30 June 2020	**243.9**	**74.4**	**108.0**	**0.1**	**220.3**	**646.7**

	Share Capital	Share premium account	Additional Tier 1 Capital	Capital redemption reserve	Retained earnings (restated)	Total (restated)
Year ended 30 June 2019						
As at 1 July 2018	34.9	74.4	74.0	0.1	221.7	405.1
Profit for the year[1]	-	-	-	-	6.6	6.6
Transactions with equity holders:						
- Share issue proceeds	209.0	-	-	-	-	209.0
- Issuance of Additional Tier 1 capital	-	-	47.0	-	-	47.0
- Coupon paid on contingent convertible securities	-	-	-	-	(6.5)	(6.5)
As at 30 June 2019	**243.9**	**74.4**	**121.0**	**0.1**	**221.8**	**661.2**

[1]Comparatives restated following adoption of revised IAS 12. Refer to note 42 of the Consolidated Financial Statements for details.

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(d) 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

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Net profit attributable to equity shareholders of the Company	11.9	6.6

3. Loans and advances to banks

	30 June 2020 £m	30 June 2019 £m
Repayable on demand	-	0.9

There were no material impairment provisions against loans and advances to banks, all of which were stage 1 assets as at 30 June 2020 (30 June 2019: nil). All amounts are considered to be cash and cash equivalents.

4. Investment in Group undertakings

	30 June 2020 £m	30 June 2019 £m
As at 1 July	478.9	419.9
Capital injections - Share capital	-	59.0
Issuance of Additional Tier 1 Capital	61.0	-
Redemption of Additional Tier 1 Capital	(74.3)	-
As at Year End	465.6	478.9

As at 30 June 2020, £nil investments (30 June 2019: £nil) were classified as impaired.

Investment in subsidiaries

The Company owns 100.0% of the issued share capital of Aldermore Bank PLC, which is a registered bank, and 100.0% of MotoNovo Finance Limited, a company engaged in motor finance. Details of subsidiary undertakings are provided in note 20 to the consolidated financial statements. All the companies listed in note 38 to the consolidated financial statements are related parties to the Company.

Additional Tier 1 Perpetual Loan

On 9 December 2014, the Company issued £75.0 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities that is repayable at the option of Aldermore Bank PLC. Net proceeds arising from the issuance, after deducting issuance costs and the associated tax credit, totalled £74.0 million. Interest was payable on the Securities annually in arrears on each interest payment date, commencing on 30 April 2015 and was non-cumulative. The loan was classified as an investment in a subsidiary undertaking and was carried at cost, being £75.0 million less £0.7 million of issue costs, in accordance with IAS 27. The Redemption of the Securities took place on 30 April 2020 and was at the option of Aldermore Bank PLC, the Company thus received the £75.0 million on redemption.

Perpetual subordinated capital notes

On 29 April 2020, the Company issued £61.0 million of Perpetual Subordinated Capital Notes to FirstRand Bank Limited, a fellow subsidiary of FirstRand Limited. Simultaneously, the Company made a perpetual loan to Aldermore Bank PLC of £61.0 million. The capital loan is non-cumulative and redeemable at the option of Aldermore Bank PLC. The loan was classified as an investment in a subsidiary undertaking and is carried at cost in accordance with IAS 27.

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 2020 £m	30 June 2019 £m
Investment in AFS Group Holdings Limited	5.0	4.8
	5.0	4.8

7. Amounts receivable from Group undertakings

	30 June 2020 £m	30 June 2019 £m
Subordinated loan to Aldermore Bank PLC	161.4	161.4
Deposit with Aldermore Bank PLC	249.9	249.9
	411.3	411.3

On the 28 October 2016 and 22 November 2018, the Company made a £60.0 million and £100.0 million subordinated 8.5% and 4.9% loans respectively to Aldermore Bank PLC, repayable in 2026 and 2028, with an option for the Bank to redeem after five years. The interest rates are fixed until October 2021 and November 2023 respectively. The loans are carried in the statement of financial position at amortised cost.

A £150.0 million deposit placed with Aldermore Bank PLC from the Group pays interest of 1.6% above SONIA on the outstanding balance. The interest is paid semi-annually.

The Group placed £52.0 million and £47.0 million of deposits with Aldermore Bank PLC with interest of 2.5% and 2.3% fixed rate on the outstanding balances. The interest is paid semi-annually.

8. Amounts payable to Group undertakings

	30 June 2020 £m	30 June 2019 £m
Intercompany loans from Aldermore Bank PLC	21.3	20.8
	21.3	**20.8**

Amounts payable to Aldermore Bank PLC carry interest of between 1.0% - 1.3% per annum above LIBOR charged on the outstanding loan balances.

9. Subordinated notes

	30 June 2020 £m	30 June 2019 £m
Subordinated notes	213.7	213.7

Details of subordinated notes issued by the Company are provided in note 31 to the consolidated financial statements.

10. Share capital

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

11. Additional Tier 1 capital

Details of the Additional Tier 1 capital issued by the Company are provided in note 35 to the consolidated financial statements.

12. Risk management

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

The risk management disclosures of the Group on page 50 are pertinent to the Company where relevant and therefore no additional disclosures are included in this note.

13. Fair value of financial assets and liabilities

The Directors consider that the fair value of its financial assets and liabilities, 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 investments in Aldermore Bank PLC, MotoNovo Finance Limited and in AFS Group Holdings Limited are considered to be greater than the carrying value.

14. Controlling party information

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

15. 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.