Aldermore Group PLC
Report and Accounts for the year ended 30 June 2021

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Company Information

Non-Executive Directors

Pat Butler
Richard Banks – Appointed 1 September 2020
Desmond Crowley
Danuta Gray – Resigned on 31 March 2021
John Hitchins
Harry Kellan
Romy Murray – Appointed 1 August 2021
Alan Pullinger
Peter Shaw – Resigned on 30 September 2020
Cathy Turner

Executive Directors

Steven Cooper – Appointed 10 May 2021
Claire Cordell
Phillip Monks – Resigned on 7 May 2021
Christine Palmer – Resigned on 31 July 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 backs people to fulfil life's hopes and dreams. We champion equality by supporting the exceptions to the rule and getting finance to where needed by lending the money people save with us, to people who want to get on in life; building businesses, buying property and purchasing vehicles. The Aldermore Group ("the Group") consists of two operating companies, Aldermore Bank PLC and MotoNovo Finance Limited. Aldermore Bank provides finance to business owners, homeowners and landlords, and supports savers. MotoNovo Finance helps people buy their next car, van or motorcycle. The Group operates exclusively online, by phone and through networks.

Aldermore Group is part of FirstRand Group, the largest financial services group in Africa by market capitalisation.

Continued progress and milestones

Aldermore Group's results reflect a resilient performance despite the continued uncertain economic environment with a profit before tax of £157.8m (30 June 2020: £48.8m) and a CET1 ratio of 13.9% (30 June 2020: 13.3%). Net lending to customers grew by 8% to £13.4bn (30 June 2020: £12.4bn) with total customer deposits increasing by 14% to £12.4bn (30 June 2020: £10.9bn). See page 11 for further details. We are now backing even more customers than ever before with an increase in customer numbers to over 650,000 (30 June 2020: 490,000); delivering strong average customer performance ratings of 4.6 on Trustpilot for Aldermore Bank and a Net Promoter Score ("NPS") score of +70 for MotoNovo Finance.

Strong leadership

On 10 May 2021, Steven Cooper replaced Aldermore's founding CEO, Phillip Monks, following his decision to retire. Steven was previously CEO at C. Hoare & Co for two years having spent 30 years at Barclays. Steven is Chairman of Experian UK and a Non-Executive Director of the global recruitment company Robert Walters PLC. He is also the outgoing Joint Chair of the Social Mobility Commission (a non-departmental public body sponsored by the Cabinet Office), promoting and monitoring progress towards improving social mobility in the UK.

The Group Board currently comprises of ten Directors, of which two are Executive Directors and eight are Non-Executive Directors. During the year, Peter Shaw and Danuta Grey retired from the Board and Richard Banks joined the Board as an independent Non-Executive Director and became the Chair of the Board Risk Committee. Richard has 40 years of experience in banking and financial services including as former Chief Executive of UK Asset Resolution Ltd. On Danuta's retirement, Desmond Crowley was appointed the Senior Independent Non-Executive Director.

More recently in August 2021, Romy Murray joined the Board as an independent Non-Executive Director. Romy is currently a Non-Executive Director at Nomura Bank International. In addition, the Group has also created a new Board Apprentice role as a means of strengthening the pipeline of diverse non-executive talent for UK PLC. Nicolina Andall joined as a Board Apprentice on the 1 August 2021 and will attend as an observer. She is currently Senior Corporate Counsel for Atlas Copco, a global engineering company.

A number of changes were also made to the leadership team during the period. Andrew Lewis joined as the Chief Risk Officer in November 2020. Karl Werner, previously the Deputy CEO of MotoNovo Finance stepped up to become Managing Director of the business following Mark Standish's decision to leave the Group. In addition, Louise Rogerson, previously Director of HR has become Interim Chief People Officer, following Rob Divall's announcement that he will leave the business after five years. Finally, Zish Khan, our Chief Operating Officer is going to focus on the Group's future strategic development, and lead specifically on technology, change and data. We have therefore welcomed Will Swain to the Executive Committee as our Interim Operations Director.

Business Model

Aldermore Group operates across three customer facing divisions: Business Finance, Retail Finance, and Motor Finance, lending in areas of the UK financial market which are chosen specifically to align to the business strategy and 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 that support borrowers with non-traditional income flows and those with complicated credit histories, and Buy to Let mortgages that support all landlords from a first time investor to large portfolio landlords, alongside providing options for the growing Ltd Company segment. Our savings proposition often features in best buy tables and has received a Which? Recommended Savings Accounts Provider accolade for the last two years. Motor Finance trades as MotoNovo Finance and works with nearly 2,500 dealerships across the UK as well as operating a vehicle buying and financing website, findandfundmycar.com, that has 2,200 dealerships and over 116,000 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 continually high levels of customer service to our intermediary partners and direct customers. This is demonstrated by Aldermore's and MotoNovo Finance's consistently high NPS. Supporting this excellent customer service are back-office systems that allow our specialist mortgage and business finance underwriters to make 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.

Market Overview

Macroeconomy

There has been continued significant macroeconomic uncertainty over the last year, driven primarily by the impact of the Covid-19 pandemic. Periods of lockdown restrictions imposed at the end of 2020 and beginning of 2021 caused significant disruption to the economy. During the period, the Government has continued to extend a range of measures to support businesses and individuals, including the Bounce Back Loan Scheme ("BBLS"), Coronavirus Business Interruption Loan Scheme ("CBILS") and Job Retention Scheme. It has also introduced new initiatives including the Recovery Loan Scheme and has supported the housing market through the extension of the Stamp Duty Relief Scheme. The Bank of England has kept the UK base rate at 10bps since the last adjustment in March 2020. Recent inflation figures have shown uncertainty in the economy with June 2021 recording 2.5%, exceeding the Bank of England's 2% inflation target, that raised the prospect of what the Monetary Policy Committee describe as 'modest tightening' of monetary policy being needed in due course to cool inflation, such as halting quantitative easing earlier than forecast. Whilst inflation is expected to rise further, there was a fall in July 2021 to 2% meaning pressure on the Bank of England to calm the economy with higher borrowing costs, has eased somewhat for the time being.

As restrictions have been lifted over July and August, business confidence has begun to return, and consumer spending has increased. However, there are ongoing issues impacting businesses from Covid-19 with many employees having to self-isolate, as well as impacts of Brexit with seasonal and other European workers retreating from the UK job market. This has impacted supply chains and in particular in the retail and agriculture sectors who traditionally rely on this employee pool.

The short-term outlook for the economy though is favourable, due to the success of the vaccination programme and the near ending of restrictions on 19 July in England, with the rest of the UK easing restrictions in August. A combination of excess savings, pent-up demand and a range of Government incentives should assist the UK's economic recovery. However, there is still a fair amount of uncertainty in the economy as Government support schemes come to an end whilst there are likely to be continuing Covid-19 impacts such as potential further variants that will impact individuals, families and businesses. Whilst the full impact of Brexit on the UK is yet to become clear, the direct impact on the Group is likely to be minimal with the effects being felt more in the wider economy.

A range of data published by the Federation of Small Businesses and BDO[1] suggests that business confidence has risen, as firms make the most of the easing of lockdown restrictions and high levels of consumer spending. Aldermore Group, with its legacy of successfully supporting a range of businesses, is well placed to back SMEs as they recover from the wide-ranging impacts of the pandemic.

Covid-19

Covid-19 has had a significant financial impact on the Group, predominantly on impairments with historically high levels of provisions held on the balance sheet reflecting the rapidly changing macroeconomic outlook, with increased defaults compared to historic levels and the impact of payment breaks. However, despite these challenges Aldermore has delivered a robust performance in the financial year with a profit before tax ("PBT") of £157.8 million (30 June 2020: £48.8 million). The increase in PBT is primarily driven by an £80 million reduction in the annual impairments charge as the macroeconomic outlook in the UK has improved significantly over the course of the year. This improved outlook has been partly offset by increased non-performing loans ("NPLs") reflecting the Group's conservative policy of classifying all customers who sought more than six months of payment breaks as stage 3 within the expected credit losses ("ECL"). The majority of customers who have been supported with a payment break have resumed full repayments, but will continue to remain in stage 3 until the end of a probationary period.

[1] BDO - https://www.bdo.co.uk/en-gb/insights/business-trends/business-trends & FSB - https://www.fsb.org.uk/resources-page/fsb-voice-of-small-business-index--quarter-1--2021.html

The Group's capital and liquidity position has remained robust, with a CET1 ratio at the end of June 2021 of 13.9% (30 June 2020: 13.3%) reflecting increased profit and the continued utilisation of the capital previously injected to pre-fund MotoNovo Finance lending growth, and a liquidity coverage ratio of 453% (30 June 2020 397%). No colleagues were furloughed or made redundant as a result of the pandemic. The Group continues to be 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 includes 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. Given Covid-19 is unprecedented, and still evolving, it remains one of the Group's key emerging risks as we continue to monitor future impacts, including impacts on customers, credit risk, operational risk and people considerations. More information can be found in the Emerging Risks section on page 65.

The Group's response to the Covid-19 pandemic

Our priorities have been to support our customers and safeguard our colleagues' wellbeing throughout the Covid-19 pandemic. There was very little precedence to the situation experienced over the past 18 months and the Group has been guided by its purpose of backing customers. Almost 57,000 customers have been supported with payment breaks through the pandemic and within Business Finance we also provided guidance to SME customers to help them understand the various Government support schemes available.

- *Supporting our colleagues*

No colleagues were furloughed and a number of colleagues were retrained to temporarily support customer facing teams as they helped our customers with the issues they were facing. As we come out of the pandemic, similar to many other firms, we have also made some changes to our ways of working and our office footprint.

- *Blended working*

We have used the experiences gained during Covid-19 to review the future of how we work across the organisation. Blended working will therefore become our core way of working across the Group. This will allow us to balance flexibility with security, productivity and quality. It will also ensure that we can serve our customers in the way they need, protect our business effectively and engage with colleagues on how they want to work in the future. It will empower managers and colleagues to discuss where the best location is to perform their role and consider what is best suited to individual work styles, whilst balancing the needs of the business. We expect that a good blend on average, will look like 2-3 days in the office each week.

- *Office footprint changes*

As a result of our new ways of working, we took the opportunity to look at our office footprint. We have moved to a smaller serviced office with better facilities in Peterborough and we closed our Birmingham office in October 2020.

We have also moved our London office to be co-located with our parent's FirstRand London Branch ("FRLB"), to support and align with the wider group's objectives and to provide additional collaboration and flexible space for our colleagues.

- *Backing our SME customers*

In the last year, Aldermore was accredited with the Government-funded CBILS for both asset finance and invoice finance, so we could continue to help SMEs during the Covid-19 pandemic. As the CBILS closed, we became accredited for the RLS for both asset finance and invoice finance, allowing us to continue to support SMEs with their recovery. As of 30 June 2021, we had provided £136m of Government-backed funding to over 800 SME customers.

In addition to the financial support available, we produced several guides for SME customers and brokers: our Covid-19 Government Support guide, summarising the various funds available to SMEs, was updated on a weekly basis; whilst our People and HR guide navigated the breadth of advice on how SMEs and brokers could safeguard and protect their employees through the immediate crisis and its recovery phase.

Throughout the pandemic, we stayed in touch with our customers and brokers, offering live webinars on financial products and also taking the opportunity to support them on key topics such as financial and cyber-crime, HR guidance and support, and vulnerable customer training. Overall, we engaged with over 1,100 customers and brokers through over 40 roundtables and webinar sessions across our various product lines.

We celebrated the resilience of SMEs by producing a dedicated campaign, highlighting their challenges but also their passion and adaptability. In September 2020, we launched our 'Small But Mighty' campaign, putting a spotlight on people going above and beyond to support the businesses they love during the Covid-19 pandemic. The campaign was a huge success which made national headlines and featured on ITV news. The campaign, reaching an audience of 2.6m, generated over 8,000 clicks to our website.

In addition, to support SMEs with the Brexit transition, we created a dedicated hub highlighting the key steps SMEs had to take to prepare themselves for new ways of dealing with the EU, from new trade and customs regulations to employment rules.

To support businesses and customers during the Covid-19 crisis, the Group offered payment breaks, 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 16:

- Total forbearance cases in Business Finance were over 21,000
- Asset Finance: 20,529 agreed forbearance cases with 99.5% resuming full repayment
- Invoice Finance: 83 agreed forbearance cases, of which 98.9% have now resumed full repayment
- SME Commercial Mortgages: 776 agreed forbearance cases, and only 1.9% remaining on some form of payment break

- *Helping our mortgage customers*

The pandemic affected a number of our retail mortgage customers and payment breaks were offered to existing homeowners and landlords. Our customer propositions were streamlined, as a number of higher risk products were temporarily withdrawn, as our focus was on supporting existing customers. However, we are in the process of widening our customer propositions with a greatly increased residential mortgage product range being introduced in the second half of 2021 for greater customer choice.

In aligning with the UK Government's Covid-19 response measures for the finance sector to support mortgage customers, the Group offered forbearance measures, titled "payment breaks", for mortgages. Below is a summary of Aldermore's Retail Mortgages payment break data. As of June 2021:

- In total 13,064 Mortgage customers have been supported with a payment break. The majority of customers have resumed full repayment with 96.2% and 97.7% in Owner Occupied and Buy to Let respectively

- *Keeping our motor finance customers and dealers moving*

The Covid-19 pandemic created challenges for consumers and businesses over the last year. MotoNovo Finance reacted quickly to support its motor retailers and consumer customers by embracing home-working and new technologies.

- Over 22,300 agreed forbearance cases, and 96.6% of those customers having now resumed full repayment
- Over 2,000 MotoNovo customers have been supported with financial assistance with their stock funding plans and a waiving of fees for online marketing tools
- An automated payment deferral application process was used by 17,877 customers, equating 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 digitalising our account opening process when possible. As the pandemic progressed, pressure on the savings market increased including NS&I's actions in Autumn 2020 when it introduced market leading rates and then reduced them in quick succession, which led to a lot of activity in the market as savers looked at alternative savings platforms. In line with the changing economic conditions and to align with business needs 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. As of June 2021, we re-introduced our full fixed rate bond and ISA product offerings, giving customers more choice in how they save.

Outlook

While there has been optimistic progress in the UK's vaccination programme rollout and the softening of social distancing restrictions over the past few months, there remain many unknowns, such as the speed of the global vaccination programme, the possibility of future virus variants and the full impact of Brexit on the UK economy, all leading to a fair amount of current uncertainty.

The Bank of England's August Monetary Policy Report said that vaccines are helping spending, jobs and incomes recover from the Covid-19 impact, and the size of the UK economy is getting close to where it was before the pandemic. However, while unemployment is falling, there are a lower number of people in work than before the pandemic and there remains a fair amount of ambiguity on the impact of Government support schemes coming to an end. This continues to suggest we need to be cautious in our outlook going forward, as the situation remains volatile and open to change.

Aldermore's current assumption is that the UK will have a long U-shaped recovery following the Covid-19 pandemic, this recovery has already begun but will gather pace in the next two quarters. It is expected that a full recovery will be slow, with lending activity remaining lower than previously observed for the remainder of 2021 and into 2022 as consumers and businesses await a more settled economic environment and the return to a degree of employment security. While excess savings, pent-up demand and a range of Government incentives will provide a boost in assisting the UK's economic recovery, we expect confidence to take time to return as people remain worried about employment and income 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 a lack of lending support 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 continue to be there for its customers as we progress towards a post-Covid-19 world, as we were before and during the pandemic.

Financial Highlights

Financial performance benefits from the improved macroeconomic outlook

The KPIs presented on this page represent those by which the Group monitors and assesses its performance.

- Net loans to customers up by 8% to £13.4 billion (2020: £12.4 billion)
- Statutory profit before tax of £157.8 million (2020: £48.8 million) as the annual impairment charge reduced reflecting the improved outlook
- Underlying Cost/income ratio[1] of 56% (2020: 57%) has improved as income growth has offset continued investment and the reintroduction of staff bonuses which were not paid in 2020 due to the pandemic. Statutory Cost/income ratio has remained stable at 56% (2020: 56%)
- Cost of risk reduced to 40bps (2020: 114bps) despite loan book growth, as a result of a more favourable macroeconomic outlook
- CET1 ratio has increased to 13.9% (2020: 13.3%) due to higher profits and the continued utilisation of the capital injected to support MotoNovo Finance growth
- Return on equity improved to 10.9% (2020: 3.1%) as profits recovered

[1] Underlying in 2021, 2020 (restated) and 2019 excludes the mark-up on the MotoNovo Finance back book recharge. Underlying in 2019 also excludes integration costs of £5.4 million. See page 15 for a reconciliation from the alternative profit measure to statutory profit.

Business Overview

Aldermore Group operates across three customer facing divisions: Business Finance, Retail Finance, and Motor Finance. Business Finance consists of Asset Finance, Invoice Finance and SME Commercial Mortgages. Retail Finance offers Residential Owner Occupied mortgages and Buy to Let mortgages, and includes our savings proposition, although from a financial perspective this is reported with the rest of the funding base in Central Functions. Motor Finance trades as MotoNovo Finance.

Summary balance sheet	30 June 2021 £m	30 June 2020 £m	Change %
Net loans	13,420.4	12,425.7	8
Cash and investments	2,911.0	2,712.1	7
Intangible assets	15.0	13.7	9
Fixed and other assets	142.7	172.1	(17)
Total assets	**16,489.1**	**15,323.6**	**8**
Customer deposits	12,427.4	10,886.4	14
Wholesale funding	2,625.9	3,099.3	(15)
Other liabilities	204.6	229.4	(11)
Total liabilities	**15,257.9**	**14,215.1**	**7**
Ordinary shareholders' equity	1,123.2	1,000.5	12
AT1	108.0	108.0	-
Equity	**1,231.2**	**1,108.5**	**11**
Total liabilities and equity	**16,489.1**	**15,323.6**	**8**

Net loans of £13.4 billion

Net loans have grown by £1.0 billion, or 8% in the year with the growth largely attributable to MotoNovo Finance. 2021 was the second full year of MotoNovo trading as part of the Aldermore Group and the book is still growing to maturity, with growth of £1.2 billion in the year (2020: £1.4 billion). Retail Mortgages net loans remained flat year on year at £7.3 billion, partly due to management action to temporarily withdraw a number of higher LTV products to manage risk appetite and operational resilience throughout the pandemic. Business Finance net loans reduced 5% to £3.1 billion (2020: £3.3 billion) as customer activity was subdued for the majority of the year as a result of the Covid-19 pandemic. Net loans to customers reached £13.4 billion (2020: £12.4 billion) as the number of customers grew 46% mainly due to MotoNovo Finance; excluding MotoNovo Finance, customer lending numbers fell 9%.

Total assets reached £16.5 billion, an increase of 8% on 2020 (2020: £15.3 billion), including increased cash and investments reflecting the prudent liquidity position held at the year end.

Funding strategy continues to be deposit-led

Aldermore Group continues to be primarily funded by deposits complemented with wholesale funding carefully managed to meet the Group's cashflow requirements. To support asset growth throughout the year, the customer deposit franchise was actively managed and 81% of funding is now in customer deposits (2020: 71%). As such, our loan to deposit ratio has reduced to 108% (2020: 114%).

Total deposits grew 14% to £12.4 billion (2020: £10.9 billion) with growth in all three deposit franchises. Personal savings increased 17% to £9.0 billion (2020: £7.7 billion) as the Group launched new products and made tactical price changes to meet market demand whilst supporting Group funding and liquidity requirements. Growth in Business savings continued to be more subdued than Personal, up 2% in the year to £2.3 billion (2020: £2.2 billion) reflective of market conditions, whilst Corporate Treasury increased 19% to £1.2 billion as the Group actively grew this book to support funding requirements.

The Retail Savings franchise has continued to prove resilient throughout the Covid-19 pandemic as highlighted by Personal Savings growth and many of our savings products winning industry awards in the year. The Group's Fixed Rate Business Savings won both MoneyComms and Moneynet.co.uk awards, and personal ISAs were recognised as winners in the respective MoneyComms and Moneynet.co.uk awards. The Group's Personal savings franchise became "Which Recommended" in the year and the TrustPilot score has increased to 4.6/5 from 4.5/5 last year, reflecting continued high Voice of the Customer (VOC) scores and low levels of complaints. A further increase in NPS to +55 (2020: +53) further evidences the strength of brand and customer service in the Savings franchise.

The Group's wholesale funding portfolio has been actively managed throughout the year to support a diversified funding base. Wholesale funding has reduced 15% to £2.6 billion (2020: £3.1 billion) driven primarily by Term Funding Scheme ("TFS") maturities that have partly replaced with TFSME funding in line with expectations, resulting in total Group Term Funding Scheme holdings of £1.3 billion (2020: £1.7 billion) as at 30 June 2021. During the year securitisation funding increased by 52%, in October 2020 the Group issued its first auto loan securitisation, Turbo 9, totaling £520 million, adding to the securitisation portfolio which also includes Residential Mortgage Backed Securities ("RMBS") and an auto-loan backed Warehouse facility (MotoMore). The Group holds £213.6 million of Tier 2 debt securities.

There has been no change to the Group's Additional Tier 1 (AT1) notes held in the year. Total liabilities and equity have increased 8% to £16.5 billion (2020: £15.3 billion), primarily driven by increased deposits.

Summary income statement	Year Ended 30 June 2021 £m	Year Ended 30 June 2020 £m	Change %
Interest income	592.5	563.8	5
Interest expense	(156.1)	(193.3)	19
Net interest income	**436.4**	**370.5**	**18**
Net fee and other operating income	34.3	49.8	(31)
Net derivatives expense and gains on disposal of debt securities	0.2	(8.2)	(102)
Operating income	**470.9**	**412.1**	**14**
Expenses, depreciation and amortisation	(261.7)	(232.1)	(13)
Share of Profit of Associate	0.7	0.5	(40)
Impairment losses on loans and advances to customers	(51.3)	(120.5)	57
Impairment losses on lease modifications	(0.8)	(11.2)	93
Profit before tax	**157.8**	**48.8**	**223**
Tax	(33.4)	(10.2)	227
Profit after tax	**124.4**	**38.6**	**222**

Key performance indicators	2021	2020	Change %
Net interest margin %	3.4	3.2	0.2
Cost/income ratio[1] %	56	57	1
Cost of risk (bps)	40	114	74
Return on equity[1] %	10.9	3.1	7.9

[1] Underlying in 2020 (restated) and 2021 excludes the mark-up on the MotoNovo Finance back book recharge. See page 15 for a reconciliation from the alternative profit measure to statutory profit.

Net Interest Income reflects improved funding costs and a change in business mix

Interest income increased by 5% to £592.5 million (2020: £563.8 million) reflecting loan growth in both the current year and prior year, including £1.2 billion of growth in MotoNovo Finance in FY2021. Retail Mortgages and Business Finance interest income was impacted by the run-off of existing business being replaced with new business at lower margins due to the current low interest rate environment and the temporary withdrawal of higher margin products in Retail Mortgages to manage risk appetite and operational capacity for the majority of the year. As such, the gross interest margin has dropped to 4.6% (2020: 4.9%).

Interest expense fell 19% to £156.1 million (2020: £193.3 million) despite 14% growth in customer deposits as the Group actively responded to market demand with a new product launch and carefully managed price changes, in addition to benefitting from the impact of lower interest rates. Further benefit was realised through the partial replacement of redeemed TFS with TFSME and the Group's cost of funds reduced 47bps to 1.25% (2020: 1.68%).

As a result, net interest income grew by 18% to £436.4 million (2020: £370.5 million) and the net interest margin has improved to 3.4% (2020: 3.2%).

Other operating income remains stable

Net fee and other operating income of £34.3 million (2020: £49.8 million) includes £27.1 million (2020: £42.6 million) of income received from FRLB in relation to the cost incurred to support the MotoNovo back book operations plus an arm's length fee for this service. For further details see the alternative profit measures section on page 15. Excluding this, net fee and other operating income was broadly in line with the prior year at £7.2 million (2020: £7.1 million).

Net derivatives expense and gains on disposal of debt securities was £0.2 million compared with an £8.1 million fair value loss as a result of mark to market movements on our loan portfolio hedging in the prior year.

Operating Expenses highlight increased investment and staff costs

Operating expenses of £261.7 million (2020: £232.1 million) include £25.1 million (2020: £39.5 million) of costs in MotoNovo incurred in servicing the back book that are recharged to FRLB. The value of the recharge to FRLB will continue to reduce over the coming years as the back book gradually runs off. Excluding this, Group operating expenses increased 23% reflecting continued investment in automation and operational resilience which includes the recruitment of 139 colleagues in the year to support increased levels of collections activity. Additionally, 2021 includes the reintroduction of staff bonuses which were not awarded in 2020 due to the pandemic. Excluding bonuses, operating expenses increased 9%.

As a result, the underlying cost to income ratio, which excludes £25.1 million cost and £2.0 million fee income related to MotoNovo back book operations, was 53% (2020: 51%).

Cost of risk reflects improving macroeconomic outlook whilst maintaining prudent provisions

Impairment charges were 60% lower than the prior year at £52.1 million (2020: £131.7 million). Throughout the year the macroeconomic outlook in the UK has significantly improved and provisions were adjusted to reflect this, particularly in the second half of the year as the vaccination programme progressed well and lockdown restrictions eased. Accordingly, the Group recorded a £2.8 million impairment charge for the second half of the year, compared to £49.3 million in the first half. Although 98% of customers who were granted payment breaks have resumed full repayments, arrears and NPLs remain higher than the historic average.

A significant proportion of the increase in NPLs reflects a conservative policy of classifying all customers surpassing 6 months of payment breaks as stage 3 within the ECL. As a result, the Group's NPL coverage ratio [2]remains prudent at 22.6% (2020: 20.1%) whilst total coverage[3] ratio remains broadly flat year on year at 1.4% (2020: 1.3%). Cost of risk reflects the reduced impairment charge at 40bps (2020: 114bps). Further detail on the Group's credit risk position can be found on page 69.

Statutory profit of £157.8 million

The increase in profit before tax of £109.0 million to £157.8 million is predominantly due to the reduced impairment charge, growth in MotoNovo Finance and an improved cost of funds. Consequently, return on equity has risen to 10.9% (2020: 3.1%).

2 NPL coverage ratio calculated as total stage 3 provisions divided by stage 3 advances.

3 Total coverage ratio calculated as total provisions divided by total advances

Alternative profit measure reconciliation to Statutory Profit

Alternative profit measure reconciliation to Statutory profit	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Underlying profit before tax	155.8	45.6
MotoNovo Finance net back book recharges	2.0	3.2
Statutory profit before tax	157.8	48.8

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 2021 and 30 June 2020:

- 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 FirstRand London Branch ("FRLB") in relation to MotoNovo Finance servicing the MotoNovo Finance backbook business.

  On 5 May 2019, MotoNovo Finance began trading as part of the Aldermore Group with all new MotoNovo Finance lending from this date funded via a liquidity facility with Aldermore Bank and reported as part of the Aldermore Group financial results. MotoNovo Finance is also responsible for servicing, on behalf of the FRLB, the existing back book of loans which are expected to run off over the next three to four years. These outstanding back book loans are not included within the Aldermore results but remain on the balance sheet of FRLB., reported above as the MotoNovo Finance back book recharges. Please see the MotoNovo Finance section of the Business Review for more details on the backbook.

Business Review

Business Finance

Highlights

- Organic origination of £1.3 billion (2020: £1.4 billion)
- Net lending to customers down 5% to £3.1 billion (2020: £3.3 billion)
- Segmental profit of £109.1 million (2020: £63.5 million)
- Cost of Risk reduced 154bps to 33bps (2020: 187bps) as the macroeconomic outlook improved
- Provided £136 million of CBILS and RLS lending to over 800 SME customers through Asset Finance and Invoice Finance
- SME Commercial Mortgages broker NPS improved 18 points to +16 in the year (2020: -2)
- Over 21,000 SME customers supported with payment breaks since the start of the pandemic, with only c.1% remaining on some form of support

	Year ended 30 June 2021	Year ended 30 June 2020	Change
	£m	£m	%
Net loans to customers	3,097.9	3,275.7	(5)
Organic origination	1,256.6	1,432.3	(12)
Operating income	151.8	155.7	(3)
Administrative expenses	(32.0)	(29.4)	(9)
Impairment losses	(10.6)	(62.8)	83
Segmental result	109.2	63.5	72
Net interest margin (%)	4.5	4.5	-
Cost of risk (bps)	33	187	154

Performance

Business Finance net loans fell 5% to £3.1 billion (2020: £3.3 billion). Originations of £1.3 billion (2020: £1.4 billion) largely reflect reduced levels of new lending in Asset Finance. Subdued originations in Asset Finance as a result of lower customer appetite for traditional financing products and tightening of credit criteria resulted in net loans reducing 15% in the year to £1.6 billion (2020: £1.9 billion), despite £102 million of CBILS lent in the year. Aldermore opted to only participate in CBILS from the range of Government backed lending schemes originally available, and since the closure of these schemes also began offering Recovery Loan Scheme lending (RLS). CBILS and RLS were offered through Asset Finance and Invoice Finance. SME Commercial Mortgages remained broadly flat on prior year at £1.1 billion (2020: £1.1 billion) as a reduction in Property Development due to Covid-19, was partly offset by improved origination levels in Commercial Mortgages which saw continued growth in larger size deals, with the average deal size 13% higher than the prior year. Invoice Finance net lending increased to £0.4 billion (2020: £0.3 billion) as originations grew 24% to £221 million (2020: £178 million) driven by strong performance of core products, returning utilisation levels and £34 million CBILS lending.

Net interest margin was maintained at 4.5% (2020: 4.5%) as a fall in volumes leading to reduced interest income was offset by lower funding costs resulting from the lower interest rate environment. Administrative expenses were up 9% to £32.0 million (2020: £29.4 million) primarily relating to the reintroduction of staff bonuses that were not awarded in 2020 due to the pandemic. Cost of risk reduced significantly in the year to 33bps (2020: 187bps) largely driven by the improvement in macroeconomic outlook.

Market and Strategy

The total asset finance market grew 7%[4] year on year with the broker market showing substantial growth of 39.9%[4] over the same period, largely driven by returning customer demand particularly in the new car market. Despite this, Aldermore broker originations fell by 20%, mainly due to a management decision to withdraw from sectors most affected by Covid-19, resulting in a fall in the Group's overall broker market share to 7.5%[5] (2020: 10.4%). Market share was also impacted by the Group's decision not to participate in all available Government backed lending schemes, opting to offer only CBILS and RLS to Asset Finance and Invoice Finance customers. However, the Group's market share has been steadily trending upward since March 2021 as SME appetite begins to return. Growth in the broker market remains a key strategic focus and the segmentation of existing broker relationships has enabled Asset Finance to concentrate on key relationships, allowing for deeper insights and a more tailored approach. Asset Finance broker NPS reduced from +32 to +22 due to impacts of Covid-19 on risk appetite as well as product withdrawals and a required shift in focus towards existing customers and forbearance cases. Asset Finance supported over 700 customers with CBILS loans.

The invoice finance market fell 34%[6] in the 12 months to March 2021 reflecting the impact of the pandemic on both client turnover and utilisation. Over the same period Aldermore's market share grew from 2.0%[6] to 2.5% outperforming the market driven by a commitment to increasing presence in the specialist lending business. Market share for the core Invoice Finance business also grew and outperformed the market, up to 1.5%[6] from 1.3%. £34 million of CBILS was loaned to over 70 Invoice Finance customers and following the cessation of CBILS, the Group began offering RLS loans to customers. NPS for Invoice Finance was +70 (2020: +46) for satisfaction and +68 (2020: +55) for recommendation, demonstrating our commitment to providing a strong service and product offering.

The SME Commercial Mortgages market contracted 30% year on year, with Aldermore market share declining marginally to 0.9%[5] (2020: 1.0%) driven primarily by Covid-19 disruption. Despite this, pipeline business has started to return, average deal sizes have increased to £1.8 million (2020: £1.6 million), and focus has shifted towards new asset classes within more resilient sectors, away from lower margin retail markets. The division has also shifted towards new product groups which allow greater opportunity for cross-sales between Property Development and Commercial Mortgages. Property Development saw increased sales in H2 2021 primarily driven by the stamp duty relief scheme deadline. Broker NPS improved to +16 (2020: -2) and Broker satisfaction has also improved by +4 to -14 (2020: -18) benefitting from transparent commission rates and improved relationships developed with key brokers. Similarly, customer NPS for SME Commercial Mortgages improved to +47 (2020: +21) driven by a reduction in application process time and improved customer retention following the re-organisation of the division in the prior year.

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[4] FLA Statistics, June 2021

[5] CASS year end 2020 CRE Lending Survey

[6] UK Finance data, March 2021

Retail Finance

Highlights

- Organic origination of £0.8 billion (2020: £1.3 billion)
- Net lending to customers flat at £7.3 billion (2020: £7.3 billion)
- Segmental profit of £138.4 million (2020: £147.1 million)
- Cost of Risk at 22bps (2020: 19bps)
- Strength of customer service continued to be recognised with NPS remaining high at +52 (2020: +55)
- Since the outbreak of the pandemic, the Group has supported 13,000 customers with mortgage payment breaks, with over 98% of customers now having resumed full payment

	Year ended 30 June 2021	Year ended 30 June 2020	Change
	£m	£m	%
Net loans to customers	7,295.7	7,326.5	(0.4)
Organic origination	815.7	1,293.3	(37)
Operating income	173.6	175.3	(1)
Administrative expenses	(19.1)	(15.1)	(26)
Impairment losses	(16.2)	(13.1)	(24)
Segmental result	138.3	147.1	(6)
Net interest margin (%)	2.4	2.5	(0.1)
Cost of risk (bps)	22	19	(3)

Performance

Retail Finance loan balances have remained broadly flat at £7.3 billion (2020: £7.3 billion). Residential Owner Occupied lending grew by 3% to £2.14 billion (2020: £2.08 billion) despite originations being almost a third lower than the prior year at £0.5billion (2020: £0.7 billion). The reduction in new lending is largely due to the temporary withdrawal of a number of products, particularly in the higher LTV range, to manage risk appetite and operational capacity. There was a significant uplift in activity in May and June ahead of the stamp duty relief scheme deadline on 30 June 2021 with net lending growth two thirds higher than the prior ten months combined. The Buy to Let book reduced 2% in the year to £5.2 billion (2020: £5.3 billion) with subdued activity throughout the year as the Group withdrew its higher LTV products and tightened lending criteria, driving originations 47% lower than the prior year at £0.3 billion (2020: £0.6 billion). This was partly offset by an improvement in retention as the benefit of investment in the loyalty proposition has started to be realised. The investment has enabled the creation of a larger team to focus on customer loyalty, allowing for enhanced customer engagement processes as well as improved pricing capability.

Net interest income of £173.2 million (2020: £176.2 million) reflects the withdrawal of higher yielding products for large parts of the year as the gross interest margin reduced 26bps to 3.8% (2020: 4.1%). Gross interest was also affected by maturing loans at higher rates being replaced with new lending at lower rates in line with market trends and the underlying interest rate environment. This was partly offset by an improved cost of funds which benefitted from the low rate environment resulting in a net interest margin of 2.4% (2020: 2.5%). The increase in administrative expenses to £19.1 million (2020: £15.1 million) is largely due to increased people costs following the reintroduction of bonus payments in 2021 which were not made in 2020 due to the pandemic. Cost of risk increased to 22bps (2020: 19bps) as impairments increased £3 million largely due to an increase in NPLs driven by the Group policy to classify all customers exceeding 6 months of payment breaks as stage 3.

Market and Strategy

Both the Residential Owner Occupied and Buy to Let markets have been positively impacted, particularly in the first half of calendar year 2021, by the stamp duty relief scheme. Activity in the 6 months to June 2021 is widely reported as exceeding historic records for a number of market indicators.

Within the Residential Owner Occupied market annual originations for 2020 were below 2019 at £197 billion[7] (2019: £218 billion), and in the five months to May 2021 £103 billion had been originated indicating that 2021 lending could be above 2019. Aldermore made a decision to temporarily withdraw a number of products from the market to manage risk appetite and operational capacity which has resulted in market share reducing 6bps to 0.19%[7] as at May 2021 (May 2020: 0.25%).

Aldermore's Buy to Let market share has been affected by similar management actions. Total market originations for 2020 totalled £39 billion (2019: £42 billion) and lending in the five months to May 2021 stood at £20 billion, as activity was buoyed by the stamp duty relief scheme. Aldermore's market share stood at 0.63% at May 2021, almost half the level reported for May 2020 (1.3%).

It is expected that the remainder of the withdrawn products will be relaunched in the coming months, subject to risk appetite and operational capacity. As reported last year, the growth strategy of the Retail Finance business is increasingly focused on the Residential Owner Occupied market.

Improving the loyalty proposition remains a key driver of future growth for the Group and investment has continued in this area. In the second half of the year an online portal was launched to make it easier for brokers to switch existing Aldermore customers to new products and automated valuation models were introduced to value existing customer properties and inform retention pricing. From an origination perspective, the focus is now on increasing the speed and consistency of customer and broker experience, particularly as part of the application process. This will be achieved via automation of key touchpoints whilst retaining our human touch.

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[7] UK Finance, May 2021

MotoNovo Finance

Highlights

- Organic originations of £2.0 billion (2020: £1.7 billion)
- Net lending to customers at £3.0 billion (2020: £1.8 billion)
- Segmental profit of £38.5 million (2020: £33.1 million loss)
- Impairment charge of £25.3 million (2020: £55.8 million) reflects improved economic outlook
- Covid-19 complaints handling recognised by the industry with multiple awards won
- “Excellent” TrustPilot rating maintained and NPS remains strong at +71 (2020: +69)
- Market leading launch of risk-based pricing proposition, MotoRate, supported strong originations activity
- In total over 22,000 customers have been supported with a Covid-19 related payment break, and almost all have resumed full repayments

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m	Change %
Net loans to customers	3026.8	1823.5	66
Organic origination	1991.3	1714.5	16
Operating income	120.2	60.7	98
Administrative expenses	(56.3)	(38.0)	48
Impairment losses	(25.3)	(55.8)	55
Segmental profit / (loss)	38.5	(33.1)	216
Net interest margin (%)	4.9	5.1	0.2
Cost of risk (bps)	105	511	406

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.

MotoNovo Finance net loans grew 66% to £3.0 billion (2020: £1.8 billion) in its second year of trading as part of the Aldermore Group. Originations reached £2.0 billion for the first time in MotoNovo’s history (2020: £1.7 billion) as the launch in June 2020 of the Group’s risk base pricing tool, MotoRate, meant MotoNovo was well positioned to support pent-up demand in the car market following the first UK lockdown. Operational resilience measures implemented to ensure both collections and sales activity could be efficiently deployed also enabled high volumes of new lending to be processed during this time.

Operating income almost doubled to £120.2 million (2020: £60.7 million) reflecting a more mature loan book as well as the significant origination activity, particularly in the first half. Net interest margin is slightly below the prior year at 4.9% (2020: 5.1%) due to a combination of lower market rates in the current environment and the impact of slightly lower margin but better credit quality business written in the year which was partly facilitated by the introduction of MotoRate providing improved pricing capability.

Administrative expenses of £56.3 million (2020: £38.0 million) exclude £25.1 million (2020: £39.5 million) of cost incurred in servicing the MotoNovo Finance backbook business which is recharged to FRLB. Operating Income presented above excludes the corresponding income received from FRLB but includes the 8% arm’s length mark-up of £2.0 million (2020: £3.2 million). The increase in administrative expenses includes investment in digitalisation and automation, as well as increased people costs largely driven by the reintroduction of staff bonuses that were not awarded in 2020 due to the pandemic. Cost of Risk has reduced materially to 105bps (2020: 511bps) reflecting an impairment charge of £25.3 million (2020: £55.8 million).

The more favourable macroeconomic outlook in recent months as well as an improved outlook for the used car market and associated vehicle valuations has driven the reduction.

Market and Strategy

New car registrations in the first half of 2021 have seen a significant increase on the prior year with registrations 39.2%[8] ahead of the same period in 2020. The underlying statistics point to a marked shift in consumer behaviour, with diesel registrations down 21.7% and battery powered electric vehicles almost doubling to 8.6%, albeit remaining a relatively low proportion. There was concern in the market that used car prices would be deflated as a result of Covid-19, however, actual performance has been to the contrary as prices have increased 13.9%[9] in the year to June 2021 and as of July 2021, prices have exceeded pre-Covid-19 levels. The used car market has been boosted by sustained periods of pent-up demand following lockdowns, with demand outstripping supply on occasion. MotoNovo Finance achieved record levels of origination in the financial year as a result.

In June 2020, MotoNovo Finance launched MotoRate, its risk-based pricing proposition, and was the first in the industry to do so. MotoRate was gradually rolled out over the course of the first half of the financial year and the success of the roll-out enabled MotoNovo Finance to service higher levels of demand in this period and throughout the rest of the year.

As well as offering payment breaks to customers, MotoNovo Finance also provided specialised forbearance support to dealers. Depending on the terms of the relationship with each specific dealer this included mechanisms such as deferring commission recovery and capital repayments, making temporary adjustments to interest rates and extending the tenure of funding for funded dealers during periods of closure or low business.

The Group issued its first auto securitisation in 2021, utilising the MotoNovo Finance loan book to support Group funding needs. Turbo 9 was the first UK auto securitisation since the Covid-19 pandemic began and was the largest deal of its kind in 2020.

MotoNovo Finance holds a 17% share (2020: 18%) of the used car finance market based on new business origination with the majority gained through its affiliated dealer network and supported by findandfundmycar.com which has 2,200 connected dealers and over 116,000 live vehicles as at the end of June 2021. The slight reduction in market share is due to the utilisation of MotoRate and increase in PCP volumes being written, both of which allow for improved pricing for better credit quality customers reducing the volume of lower credit quality business written. As evidenced by an NPS of +71 and "Excellent" TrustPilot rating, customer satisfaction remains high. MotoNovo Finance was also awarded Finance Provider of the Year at the Motor Trader Independent Dealer Awards and Best Independent Lender (Bank Owned) at the Car Finance Awards.

[8] SMMT Car Registration
[9] CAP HPI Black book

Central Functions

Savings, Treasury and Support Functions

Highlights

- Personal deposits up 17% to £9.0 billion (2020: £7.7 billion)
- SME deposits up 2% to £2.3 billion (2020: £2.2 billion)
- Corporate deposits up 19% to £1.2 billion (2020: £1.0 billion)
- Which Recommended provider of Savings accounts and "Excellent" TrustPilot rating
- Winner of moneynet.co.uk Best Fixed Rate ISA Provider in 2020 for the 4th year running

Segmental result	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m	Change %
Operating loss	(0.3)	(19.1)	98
Underlying administrative expenses	(127.9)	(109.6)	(17)
Segmental loss	(128.2)	(128.7)	0.4
Retail deposits	9,009.2	7,701.1	17
SME deposits	2,263.0	2,210.7	2
Corporate deposits	1,155.1	974.6	19

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.

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 a fair value loss of £0.5 million as a result of mark to market movements on the Group's loan portfolio hedging (2020: £8.1 million loss).

Central administrative expenses increased 18% to £128.9 million (2020: £109.6 million) reflecting continued investment in digitalisation and operational resilience and the reintroduction of staff bonuses which were not awarded in 2020 due to Covid-19.

The segmental loss of £128.2 million (2020: £128.7 million loss) also includes £0.7 million share of profit of associate (2020: £0.5 million).

Market and Strategy

The UK savings market continued to experience strong growth in in the 12 months to June 2021 albeit slightly lower than the previous 12 months at 9%[10] (2020: 11%). Consumers continued to build cash reserves even as lockdown restrictions were eased throughout the year and particularly through the winter lockdown. The UK Household Savings ratio reached historic highs during lockdown periods despite the decline in economic activity as consumers had less opportunity to spend and Government support measures were enacted. During this period 6 million "accidental savers" were created further boosting the UK savings market.

[10] Bank of England

A significant amount of this new money was retained in current accounts, whilst the growth in savings account balances weighed more to Non-Maturing Deposits, against a decline in Fixed Rate savings where traditionally challenger banks have competed strongly. This has created an active and buoyant market in short term fixed tenors and Non-Maturing Deposits as there is a strong customer appetite for access to funds amid the economic uncertainty.

The Business savings market has also remained resilient during the pandemic, in part supported by Government stimulus and furlough schemes. In a less competitive market dominated by the incumbent high street banks, challenger banks continue to offer reasonable rates for business savings accounts, with balances increasing year-on-year and the market remaining stable even as Government support schemes are gradually unwound.

Although the Bank of England base rate remains at a record low of 0.10%, competition in the market has been high, particularly towards the end of the financial year with challenger banks leading the way with competitive rate changes. Given the inherent uncertainty in the market, for the second year running there were relatively few new entrants to the market. Despite the challenging environment, Aldermore saw a small increase in Personal savings market share to 0.65% (2020: 0.59%), whilst Business savings slightly reduced to 0.59% (2020: 0.64%).

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 is 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.

Environmental, Social and Governance

- *Environment and Climate Change*

  Aldermore recognises climate change as a defining issue, with potentially far-reaching impacts for our customers, colleagues and communities. This is a challenge that requires action in this decade, and we consider this a strategic risk that cuts across other risk types – such as credit risk and operational risk. To address this, we are developing a comprehensive action plan. Through this, we are progressing a range of activities to better understand the impacts of our business on the climate, the impacts of climate change on our customers, our portfolios and business resilience and to build and enhance our capabilities for the identification, management, monitoring and disclosure of climate risks and opportunities. Further information on our developing approach to climate change is provided alongside our annual operational emissions in our Energy and Carbon Report on page 32.

- *Levelling Up https://www.levellingupgoals.org/*

  Aldermore is playing a key role in a parliamentary cross-party backed initiative that has been supported by a coalition of businesses, NHS Trusts, Councils and Universities committed to driving 'levelling up' on the ground in the UK. We are sponsoring Goal 7 (out of 14) that aims to 'Widen access to savings and responsible credit'. Our work involves developing benchmark metrics for Government, businesses and other organisations to strive to achieve making 'levelling up' a reality and define what improvement looks like in an empirical way. Aldermore will also be involved in shaping the broader framework and agenda that will inform a wider reporting standard.

  This work builds on Aldermore's best practice to date, representing a powerful shift away from traditional corporate social responsibility and towards real purpose-led business, focused on making genuine impact for colleagues and communities. The 'Levelling Up' Goals are setting a new bar for reporting on the 'S' in ESG with a new national standard of reporting, reflecting society's wider expectations of organisations post Covid-19.

- *Tax*

  Tax is one of the ways in which the Aldermore Group contributes to the societies in which it operates. We seek to pay the right amount of tax at the right time and to maintain the Group's reputation as a fair contributor to the UK economy. Appropriate, prudent and transparent tax behaviour is a key component of corporate responsibility. We comply with the HMRC Code of Practice on Taxation for Banks and aim to have constructive and professional relationships with the tax authorities. We actively support and work with tax authorities to combat tax evasion. We do not interpret tax laws in a way that we believe is contrary to the intention of Parliament. We apply tax rules in good faith and in the spirit they are intended. We aim to ensure that our tax returns are filed on time.

  Our annual tax strategy aligns with the principles set out in our tax risk management framework implemented through our tax risk management policy. The tax strategy and risk management objectives are reviewed and approved by the Board. These objectives reflect our open and transparent approach to our tax obligations and are also reflected in the products and services we offer to our customers.

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 inclusion and belonging 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 to share best practice, colleague hints and tips, and lockdown experiences
- Established a CEO town hall programme and holding regular CEO all-colleague briefings
- Weekly well-being and mindfulness sessions
- Manager Mondays aimed at our people managers and addressing the key challenges they face in the new virtual working environment

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

- Quarterly employee 'pulse surveys'
- Well-being surveys
- Colleague focus 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. Workplace diversity

Inclusion and belonging are important to Aldermore and is a standing item on its monthly Executive Committee ("ExCo") agenda, to give it the importance and visibility it deserves. Through our colleague network, Inclusion@Aldermore and our '*Value our Differences'* agenda, we discuss and work on plans to ensure our approach is understood and developed. We cover all aspects including age, gender, ethnicity, religion and belief, sexual orientation, disability, mental health awareness, social mobility and more. Key workstreams are accountable to an ExCo sponsor, and are committed to the delivery of practical and implementable solutions:

- *Inspiring Future Female Leaders* ("IFFL") – focus on female specific development to ensure we are recruiting, encouraging, empowering and elevating female talent. Following the launch of the Aldermore Female Network, founded by members of the IFFL workstream, the network has now attracted over 350 members from across the Group and is continuing to grow. We launched the pilot of our new flagship development programme: 'Leadership Summit' facilitated by diversity and inclusion experts, The Pipeline, with 25 women within the business. We also introduced our 'Leading Diverse Teams' programme for managers to support them in developing more inclusive teams.

- *BAME* – building mentoring and networking opportunities to help our BAME colleagues thrive. On 16 February 2021, the Board agreed to the adoption of the Parker Review recommendations and our D&I policy has been updated to reflect this. Having signed up to the Race at Work Charter, we have achieved some significant milestones, in particular, on the principle of taking action that supports ethnic minority career progression. One of the key hurdles for joining the Race at Work Charter is the principle of the Group capturing ethnicity data and publicising progress. To improve this, we have undertaken a number of campaigns to encourage this data to be completed by colleagues and a wider discussion on how we approach this is key to our success.

- *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. In May 2021, the organisation signed the Mindful Business Charter, which promotes better mental health and wellbeing in the workplace via a set of key principles. Going forward the workstream will be looking at how we can ensure all the principles from this charter play into our business on a more permanent basis. We participated in mental health charity Mind's Workplace Wellbeing Index to broaden our understanding of mental health matters in the workplace. As a result, we were delighted to be awarded a Mind Silver accreditation in our first year of participation.

- *LGBTQ+* – we have looked to help better support our LGBTQ+ colleagues through the creation of employee networks, inclusive policies and events to increase awareness and engagement. The workstream has been undertaking a policy review that has included implementing measures such as a 'Transitioning at Work' policy. A number of events have been held to increase awareness and understanding such as a conversation with leading LGBTQ+ campaigner Baroness Liz Barker in celebration of LGBTQ+ History Month; a series of events to celebrate Pride Month in June 2021, including a panel discussion with colleagues from the LGBTQ+ network and their allies as well as a jointly hosted session on LGBTQ+ Allyship with CEO Steven Cooper and Susan Allen, CEO of Retail & Business Banking at Santander, who is the lead sponsor of Santander's Embrace LGBTQ+ network.

Mentoring

Again, this year we participated in the world-leading, cross-company, cross-sector mentoring programme led by Moving Ahead. The '30% Club' focusses on gender diversity in order to build and strengthen necessary pipelines and achieve parity of women in leadership and board roles. We supported 40 mentoring partnerships, split between two initiatives over a period of nine months. The programme is part of our Inspiring Future Female Leaders and BAME workstreams within our overall diversity and inclusion approach.

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

We are creating a continuous improvement culture where we think differently and put our customers and our colleagues at the heart of our decisions. We have made some recent changes to our cultural approach including moving away from an annual engagement survey to more regular, timely pulse surveys (including external surveys by Mind, the mental health charity) and from June 2021, we have established a dedicated and focused cultural taskforce (12 culture change agents with sponsorship from ExCo). The cultural champions will support our cultural initiatives across the Group including bringing our Colleague Value Proposition to life, embedding it and hence helping to shift our culture.

Impact of Covid-19

During the past 18 months our colleague engagement and surveys have focused very much on our colleague's wellbeing, mental health and the support they need. After our Wellbeing Pulse Survey in January 2021, we have implemented a number of actions as a result:

- Meeting-free Wednesday afternoons – from a Group-wide perspective, we have implemented a meeting-free afternoon, every Wednesday

In addition, we are continuing to encourage:

- 'Walk and talks' – to reduce screen time to colleagues the time to exercise and get some fresh air during their working day

- Wellbeing Wednesdays – a series of wellbeing events for colleagues to provide a much-needed source of community and respite

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

In 2020, we launched our Colleague Value Proposition ("CVP"). It is a set of benefits and rewards we offer our colleagues in return for the skills, capabilities and performance they bring to Aldermore. It focuses on backing colleagues to bring their best:

- We value our inclusive culture, where we empower everyone to bring their best and be their true selves.
- We value our progressive culture, where we empower everyone to make a real contribution to our business.
- We are driven to put our customers and colleagues' needs at the heart of everything we do.
- A culture where we strive for continuous improvement and doing things differently.

As part of the CVP work to date:

- We developed our cultural vision and identified the cultural shifts that we need to make.
- All our leaders have been a series of sessions on leading through the CVP.
- We are now looking to embed our CVP in the 'moments that matter' across the colleague lifecycle and create a consistent colleague experience across the Group.
- We are currently building a manager development programme to build awareness and capability in embedding the CVP and the role they play in its delivery and success.

Our employee statistics for June 2021 and June 2020:

	June 2021	June 2020
Number of Group employees	2,029	1,966
Number of Group female employees	944	865
% of Group female employees	46%	44%

As at 30 June 2021, two out of ten Directors were female (2020: three out of 11 were female), and nine out of 39 Senior Managers were female (2020: 9 out of 42 were female).

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

- Our Group Employee Net Promotor Score ("eNPS") is currently +39 for recommending Aldermore as place to work
- Glass door rating (out of 5) 3.6 Aldermore Bank, 4.2 MotoNovo Finance
- Employee turnover was 14.7%

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.

Playing 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
- A signatory of the Women in Finance Charter
- A signatory of the Race to Work Charter
- A signatory of the Mindful Business Charter

We give back to the communities where we operate

The Group selects a charity of the year that are nominated and voted for by employees. Since September 2020, Aldermore's chosen charity has been Macmillan Cancer Support with colleagues raising more than £19,000. Macmillan Cancer Support is a national charity which offers information, advice and resources to people living with cancer. In addition, following the racist abuse suffered by a number of England football players during the Euro Championships, that has wider implications for racism in sport and the wider society, Aldermore Group wanted to demonstrate our support for those affected by making a donation of £5,000 to each of the following charities:

- Show Racism The Red Card
- FareShare
- Making The Leap

The Group also operates an employee £ for £ charity matching scheme. Many employees raise funds for their charity of choice and the Group supports them by matching up to £250 of money raised. This year the Group has paid over £22,000 to various charities under this scheme through colleague and dealership matched funding.

Human Rights and Modern Slavery Act

Aldermore Group PLC, and its principal operating subsidiaries, Aldermore Bank PLC and MotoNovo Finance Limited, 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 continued to present numerous challenges for our customers, colleagues, distribution partners and suppliers. As a result, all of the Group's markets continued to face significant challenges and all areas of our business were impacted and had to respond nimbly. Further details of how Covid-19 affected different aspects of our business and our stakeholders and our response can be found on page 6 of the Strategic Report.

Customers

The Group's customers are primarily UK consumers and SMEs, seeking specialist mortgages, savings accounts, motor finance and business finance solutions. Our customers sit at the centre of all decisions made and our long-term sustainable success is only possible with a customer-centric business model. Customer impact is therefore critical to the Board's decisions.

Following the success of the deep dives that took place during 2020, the Chair commissioned a deep dive into MotoNovo Finance's insurance products which took place at Board Risk Committee level. The Risk Committee agreed that the insurance offering supported the fair treatment of its customers as well as supporting MotoNovo Finance's obligation to engage in responsible business, particularly in the case of its highest risk customers. The Risk Committee welcomed the volume and rigour of processes and controls that existed for the distribution and governance of MotoNovo's insurance products and assured the Board that the insurance sales team remuneration scheme had been designed to ensure adherence to the principle of treating customers fairly.

As part of our Covid-19 response the Board and the Risk Committee discussed and reviewed activities to support customers. The Board welcomes the FCA's consultation on a new Consumer Duty and during the year gave its support to management's plans for development of a customer outcomes framework. During the year, the Board spent time at a number of its meetings carefully considering the customer impacts of a risk event involving an inadvertent breach of the Consumer Credit Act, further details of which are set out on page 154. The Board carefully considered, challenged and ultimately supported management's proposals for remediation. This included consideration of whether management's proposals produced fair outcomes for customers and were compliant with the FCA's guidance on motor finance agreements and Covid-19.

In November 2019 the PRA asked the Internal Audit functions of a sample of non-systemic deposit-takers, including the Group, to conduct a review of their Collections functions, in order to provide assurance over the effectiveness of controls in this area to the Board and to the PRA itself. This review reported during the year and the Board and its Committees digested the findings at numerous meetings and are closely tracking progress against the actions identified. The Board and management team had already identified a strategic need to enhance Collections capability prior to the impact of Covid-19 and the resultant increase in arrears levels. A number of short-term tactical actions to address current arrears levels, as well as longer-term strategic improvements to Collections capability, were progressed during the year. Tactical actions included applying additional rigour to the arrears forecasting process to determine future resourcing needs and plan for any future spikes in arrears volumes. Management information in this regard is reviewed at each meeting of the Risk Committee. During the year, the Board supported the creation of a Collections Centre of Excellence, bringing together Collections activity for all of the Group's business areas, in order to deliver the best possible customer outcomes.

People

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

Our people have been one of the Board's key priorities throughout the pandemic and the welfare, wellbeing and engagement of our employees has remained high on the Board's agenda. At the start of the pandemic colleagues were moved from our offices to working from home and many colleagues were redeployed into customer-facing areas of the business in order to manage increased work volumes in those areas. A small number of colleagues have now returned to work on-site under Government guidelines. Our robust systems and technology have allowed our colleagues to continue to perform their roles with minimal disruption and to serve our customers effectively. At the start of the pandemic, the Board supported management's decision not to furlough any of the Group's workforce.

During 2020, the Board considered findings from our participation in the Banking Standard Board's ("BSB's") annual survey, which measures the key elements of the culture of member firms. The BSB is an independent body that promotes high standards of behavior and competence across the UK banking industry. In its review of findings, the Board discussed a decrease in scores against the previous year's survey in respect of resilience, which it attributed to the extraordinary events of the year under review.

The Board also interrogated a theme that emerged from the survey about colleagues finding it difficult to speak up, and recommended coaching for people managers on the importance of listening, which the Board sees as fundamental to creating a safe space in which colleagues feel able to engage in open and honest conversations. In response to this recommendation bespoke sessions were held with all people managers within our business with the aim of developing managers as coaches, helping them build vulnerability, empathy and better listening skills. Feedback from the sessions showed an increase from 24% of managers at the start of sessions to 85% at the conclusion feeling equipped to lead for the Covid-19 pandemic. The Board also welcomes the launch of a pilot of a newly developed leadership programme in the new financial year, which will help to drive and embed these skills across all managers within the organisation.

The pandemic impacted the ability of the Board to hold its meetings across various regional offices, meaning that engagement with colleagues was not possible in person at those offices. Our new CEO Steven Cooper visited offices where possible as soon as he was able and held several "virtual hello" calls for all colleagues during his first month across the business to share a little about himself and his first impressions since joining the Aldermore Group. We saw great engagement from colleagues and a range of questions for Steven. The Board has ensured that engagement has been maintained through other means, such as intranet communications, blog entries, internal networks, virtual town hall meetings and newsletters. The non-executive members of the Board also launched a programme of virtual 'Meet the Board' sessions alongside the people team to meet with up-and-coming talent, following a review by the Board Corporate Governance and Nomination Committee of the succession and talent pipeline for all our senior roles. The programme has allowed the non-executive members of the Board to better understand the skills required to manage the business and assess any risks or potential gaps.

The Board acknowledges its leadership role, beyond Board composition, to promote the Group's broader societal responsibility to embrace and encourage diversity and inclusiveness. The Board has committed to encouraging people to uphold values and behaviours that promote diversity and inclusiveness, that ensure fairness of opportunities, and that remove any barriers to diversity, inclusivity and fairness where they might exist, through its governance processes and priorities. In reviewing the Company's Gender Pay Gap and Women in Finance data, the Board discussed performance with respect to gender diversity in senior management, which at 23%, was below the target as at 30 June 2021 of 30% female representation. The Board discussed and supported management's initiatives to increase momentum in this area and support the career progression of women in Financial Services, welcoming the introduction of milestones that will take the Group beyond the initial 30% and commit the Group to actions to achieve 50% representation within 5 years. 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 has recommended that management consider a socio-economic diversity workstream, as well as considering how to prepare for ethnicity and socio-economic pay gap reporting and looks forward to receiving progress reports from management against these recommendations. The Board supports and endorses the initiatives and workstreams within the "Value our Differences" agenda, details of which are set out in the Corporate Responsibility Statement on page 24.

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 timelier fashion. Within the 6-month period to June 2021, we paid 91% of our suppliers within our pre-agreed credit terms (90% in the 6-month period to January 2021), 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. Further details on the Group's Modern Slavery Statement can be found in the Corporate Responsibility section on page 28 of the Annual Report and on our website.

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 wider communities in which our customers and employees live and work are set out in our Corporate Responsibility Statement.

The Board expects developments on climate change to evolve rapidly, seeing these as being consumer-led as opposed to being led by regulation and has urged management to evolve its approach to managing the financial risks from climate change at pace. The Board looks forward to further details of management's roadmap towards disclosures aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures. Further climate disclosures can be found in the Energy and Carbon Report on page 32.

Regulators

The Board recognises the importance of regular, open and transparent dialogue with our regulators, ensuring that we remain aligned with evolving regulatory priorities. Throughout the year, our Chair 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 and our Executive Directors met representatives of the Prudential Authority of FirstRand's regulator, the South African Reserve Bank. In the year under review, the focus of regulatory engagement was on our Covid-19 response, in particular the support offered to customers, colleagues and suppliers.

In June 2021, representatives from the PRA attended a virtual Board meeting to present and discuss their findings arising from their 2021 Periodic Summary Meeting ("PSM") with the Board. The PRA welcomed the opportunity to fully explain its findings and the actions it expected the Group to take. The discussion was open and collaborative and was helpful to the Board in clearly understanding the PRA's expectations.

The Board regularly discusses regulatory developments and their potential impact on the Company. The Board welcomed the Bank of England ("BoE") consultation on its approach to setting a minimum requirement for own funds and eligible liabilities ("MREL") and its implications for proportionate regulation and looks forward to further engagement with the BoE on this matter. The Board and the Remuneration Committee also considered the impacts of the EU Capital Requirements Directive V ("CRD V") on deferral of variable remuneration for material risk takers, further details of which can be found in the Remuneration Committee Report on page 47.

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 maintain regular dialogue with debt investors. During the year, the Board and Senior Management carefully considered the investor impact of an inadvertent breach of the Consumer Credit Act, further details of which are set out on page 154 and in July 2021 a full repurchase and substitution exercise was undertaken, the outcome of which ensured that our debt investors' cashflows were not affected.

Energy and Carbon Reporting

Our developing approach to climate change and key areas of initial focus

Aldermore Group identifies climate change as a strategic risk and also recognises that this brings opportunities for us to be a part of the solution – in supporting the transition to a net zero economy and our customers, colleagues and communities on this journey. Our response to this key issue considers both the impact of climate change on the Group and our portfolios, as well as Aldermore Group's impact on the climate and environment – from our operational emissions and those arising indirectly from our lending activities.

The risks of climate change to Aldermore arise through two primary channels – firstly, through physical risks associated with changes in climate and weather (such as an increase in storms, floods and sea level rise) and secondly, through society's response to climate change and transition to a low carbon economy. These transition risks may be generated through climate-related policy and regulations, technology development and changes in sentiment and behavior. Climate risks, arising through either one or a combination of these channels, cut across our existing risk types – such as credit risk, market risk, operational risk and reputational risk. We are in the process of developing our understanding of these climate-related risks and updating and enhancing our existing frameworks for managing and monitoring these.

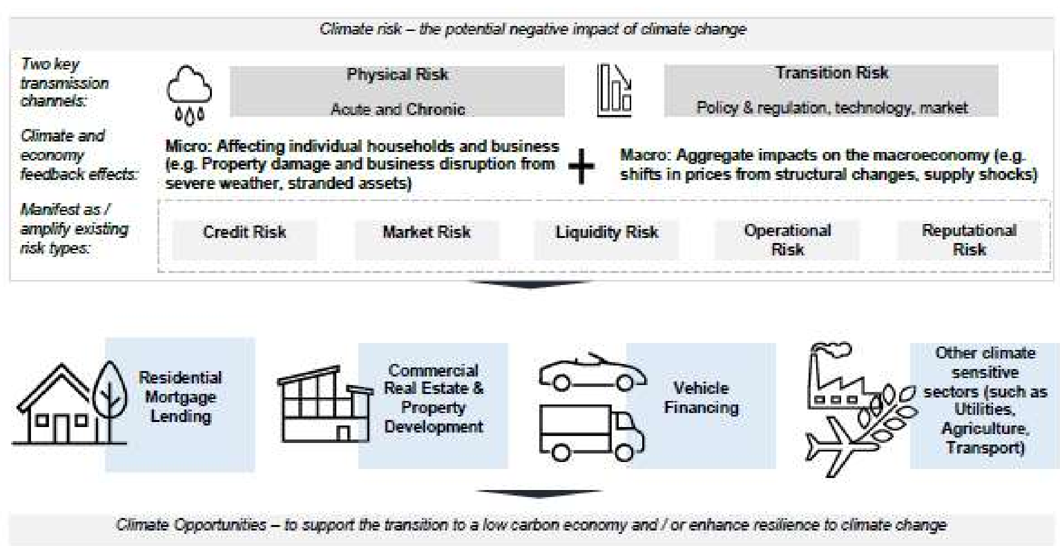
We plan to enhance our capability for disclosure, in closer alignment with the recommendations of the Taskforce for Climate-related Financial Disclosures ("TCFD"). We have committed to share a more advanced summary in our 2022 annual reporting and to enhance this year on year, including key metrics beyond our own operational energy consumption and emissions as presented in this report.

The Board has responsibility for the overall oversight of climate risk and the key activities the Group will be undertaking. Updates are being provided on delivery against our plan. A Board knowledge session on climate change was delivered in February 2020 and a further session is planned for October 2021 – recognising the evolving landscape of climate science, regulation and the latest guidance.

The Senior Management Function ("SMF") responsibility for management of climate risk presently rests with the Chief Risk Officer ("CRO"). Delivery of the Climate management is coordinated by the Risk function and progressed in collaboration with colleagues from across the business.

To support this oversight and management of climate risk, we are in the process of developing climate management information and key metrics which will be regularly reviewed.

The below provides an indication of the sectors and assets that the Group has assessed as exposed to heightened climate-related risks, where we are considering sector contribution to emissions in the UK, the potential vulnerability to physical risks and the proportion of lending relative to the Group's total portfolio to inform prioritisation of further assessment.



Energy consumption and GHG emissions

The Group has seen significant reductions in energy use and associated emissions due to changes in working practices in response to Covid-19, which have significantly reduced occupancy within office spaces and business travel. It is expected that as staff return to offices and business travel resumes to pre-Covid-19 levels over the coming months, that there will be an increase in the intensity ratio in the next reporting period.

The below emissions have been re-stated due to a change in the way we collect data related to business travel and heating within offices, as well as increasing numerical accuracy by reporting to one decimal place.

Breakdown of energy consumption used to calculate emissions (kWh):	Year ended 30 June 2021	Year ended 30 June 2020
Company owned vehicles	159,935	1,280,093
Electricity	702,041	1,261,974
Natural Gas	160,209	1,396,713
Employee owned vehicles where the Group purchases the fuel	29,986	675,142
Total gross energy consumed	1,052,171	4,613,922

Breakdown of emissions associated with the reported energy use (tCO_2e)	Year ended 30 June 2021	Year ended 30 June 2020
Scope 1		
Company owned vehicles	39.8	317.1
Natural Gas	29.5	256.8
Total Scope 1	69.3	573.9
Scope 2		
Electricity	163.7	322.6
Total Scope 2	163.7	322.6
Scope 3		
Employee owned vehicles where the Group purchases the fuel	7.7	193.1
Total Scope 3	7.7	193.1
Total gross emissions	240.7	1,089.6

	Year ended 30 June 2021	Year ended 30 June 2020	Change %
Tonnes of CO_2e per employee[1]	0.1	0.6	-83%

[1] Average number of employees within the reporting period was 2,029 (2020: 1,966).

The Group reports its 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 on 1 April 2019.

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.

We continue to work with energy consultants Briar Associates (Briar Consulting Engineers Limited) to compile this report. 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 to provide figures back to July 2018. These methodologies provided a near continuous record of natural gas, electricity, and transport data (consisting of company cars and employee-owned vehicles).

The emissions are divided into mandatory and voluntary emissions according to the 2018 Regulations, then further divided into the direct combustion of fuels and the operation of facilities (scope 1), indirect emissions from purchased electricity (scope 2) and further indirect emissions that occur as a consequence of Company activities (scope 3).

Estimates of energy consumption have been made 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. Due to reduced occupancy in office buildings due to staff working from home as a result of our response to Covid-19, we have scaled benchmark figures to reflect the reduced energy use.

Energy efficiency action during current financial year

The management of resources and sustainability is an important issue for the Group. Energy management issues fall within the remit of the Environmental Steering 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 2020 to 30 June 2021, the Group has undertaken the following actions to improve energy efficiency:

- Reviewed and implemented office-based initiative as highlighted in the Energy Savings Opportunity Scheme ("ESOS") audit, including:
    - Implemented energy saving modes in high use peripherals such as coffee machines, boiler taps and AV equipment.
    - Installed timer plugs for the kitchen coffee machines which could not be placed into energy saving modes so they are only on within working hours.
    - Reviewed the driving on Company business policy including targeting the Green Fleet provision for Company cars.

- Continued to hold 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.

- Continued to undertake regular reporting to the Climate Change Working Group.

Savings for these measures have not been quantified.

This Strategic Report on pages 4 to 15 and the principal risks and uncertainties on pages 62 to 64, were approved by the Board and signed on its behalf by:

Claire Cordell

Director

14 September 2021

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.

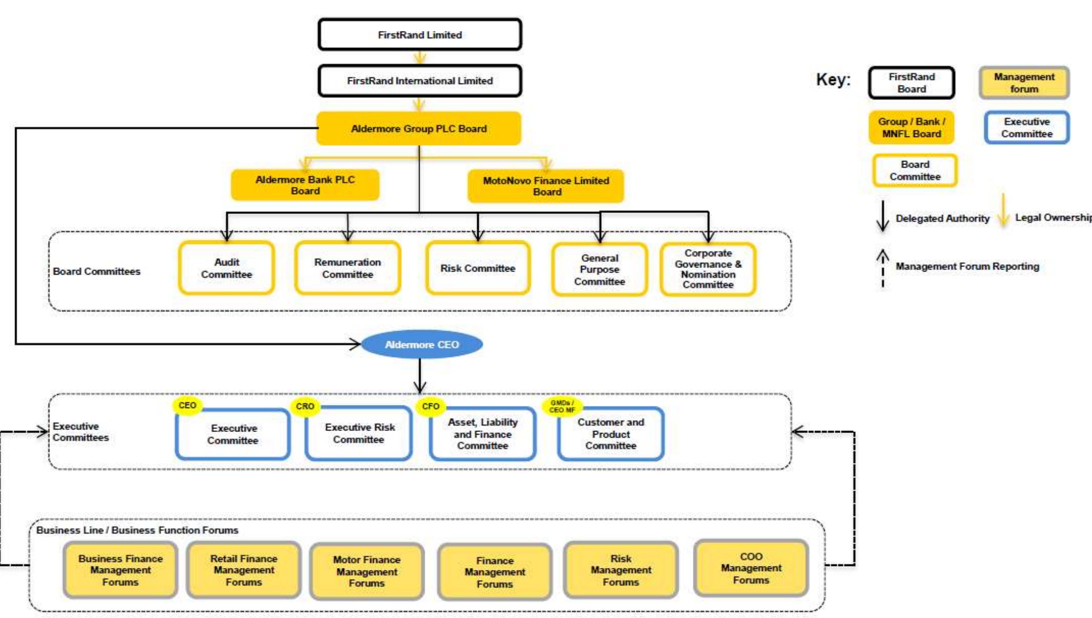
The Boards of Aldermore Group and its subsidiary undertakings are committed to implementing a well-defined and well-structured corporate governance framework to achieve long-term sustainable success.

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 Prudential Regulation Authority (“PRA”) and regulated by the Financial Conduct Authority (“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 2021.

During the summer of 2020, the Group appointed external corporate governance consultants to undertake a Governance Transformation project with the aim of streamlining the Group’s executive governance framework to support a commercial and nimble approach to decision-making. Our operating rhythm was reviewed to ensure, as we start to come out of the pandemic, that we have the right pace and focus to drive us forward. From 1 June 2021, our new executive committee governance structure was implemented, reducing the number of executive committees from nineteen to four. Our four executive committees focus on strategy, risk, financial performance and customer and products

Governance Structure Diagram



The Wates Corporate Governance Principles

As per the prior year, 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 identifying opportunities for further enhancements to our governance framework. 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 explains how each one has been applied by Board and indicates where more information can be found in the strategic and governance reports. Throughout 2021/22, 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, while at the same time considering how to implement policies and decisions made by the shareholder. It is responsible for approval of the Group's strategic plans, which aim to generate long-term sustainable value. Our Purpose – *"Backing people to fulfil life's hopes and dreams"* – is why we exist. We turn problems into opportunities and help those that others turn their backs on, looking for ways to say yes, rather than no, and focusing on people's future potential. We are committed to being fairer, more inclusive and making finance work for good, getting money to where it is needed and helping our economy prosper. We have supported small and medium sized businesses ("SMEs") and served society for over 12 years. SMEs drive growth and provide employment opportunities and by supporting these businesses and helping them get access to finance, we contribute to a more prosperous society.	4 24 28
Board composition	The Board comprises ten directors – the Chair, two executive directors, five 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 Board is partly determined by the agreement with the shareholder. The Board believes that diversity is an important ingredient of board effectiveness, and that a diverse board will bring richer and more broad-based perspectives to governance and decision-making. The Board adopted the targets of the Hampton-Alexander Review (33% female representation on the Board) and the Parker Review (one director of colour on the Board) in February 2021, as part of a longer-term aspiration for the composition of the Board to broadly match the gender mix of the UK population. As at the date of this report, the representation of women on our Board stands at 30% and the Board's membership includes one director of colour. The Board also acknowledges its leadership role, beyond Board composition, to promote the Group's broader societal responsibility to embrace and encourage diversity and inclusiveness. The Board has committed to encouraging people to uphold values and behaviours that promote diversity and inclusiveness, that ensure fairness of opportunities, and that remove any barriers to diversity, inclusivity, and fairness where they might exist, through its governance processes and priorities. 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	4 48 24

	seeks to ensure that at least half the Board, excluding the Chair, is made up of independent non-executive directors. The Company aims to have a Board that brings perspectives, skills and experiences from a wide range of backgrounds and disciplines. The Board appointment 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. The process includes consideration of the impact individual candidates will have on overall Board diversity. On 1 August 2021 an apprentice Board member, Nicolina Andall, was appointed. Nicolina will observe Board and Board Committee meetings and the Board has welcomed the creation of the role as a means of giving aspiring and diverse talent first-hand experience of a commercial board, as an observer rather than as a director. 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. In 2021 the review was facilitated by an external party, Mindcor, with the process additionally involving qualitative interviews with all Board members. The review examined Board composition, dynamics, decision-making, the quality of information received and how the Board spent its time. It evaluated the effectiveness of individual directors, the Board Committees and the Company Secretary. Progress against recommendations arising from the annual effectiveness review is monitored by the Board, and findings inform Board succession planning. The 2021 assessment concluded that the Board and the individual directors have been effective over the last year and identified future priorities. The Board agreed to strengthen its composition by adding more digital expertise and also to prioritise female candidates in searches for future Board vacancies, in order to increase female representation on the Board. It also identified a need to pivot its focus away from detailed operational matters to allow greater focus on commercial and strategic challenges and agreed steps to improve its oversight of strategy execution and change. It agreed to streamline attendance at Board meetings in order to support open, uninhibited discussions. Finally, the Board agreed to progress plans for alternating between face-to-face meetings and hybrid meetings, where some Board members attend in person and some join remotely, and to increase the amount of interaction outside of Board meetings with the shareholder non-executive directors.	

Directors' Responsibilities	The Board has a non-executive 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 whom are independent. The Board regularly reviews governance processes, the quality and integrity of management information and the effectiveness of internal processes and controls.	52
Opportunity and Risk	Long-term strategic opportunities are evaluated by the Board. The Risk Committee plays a key role in providing oversight 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 Risk 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.	42
Remuneration	The Remuneration Committee has clearly defined terms of reference and is responsible for setting the Group's 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, considering fair pay and conditions across the Group's workforce. Details of remuneration structures are set out in the Remuneration Committee Report on page 48. The Committee takes advice from independent external consultants who provide updates on legislative requirements, market best practice and remuneration benchmarking.	47
Stakeholder relationships and engagement	At the heart of our business is our Purpose – "*Backing people to fulfil life's hopes and dreams*". It is 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 28 sets out the details of some of the engagement that takes place at an operational or Group-level with key stakeholders.	28 4

Audit Committee Report

I am pleased to present the Audit Committee's report for the year ended 30 June 2021. It has been a challenging year and, as noted in the report below, the Committee has spent much time considering the economic impacts of Covid-19 on our loan loss provisions, where the level of uncertainty as to the future outlook has been unprecedentedly high. We have also continued to monitor the impact of working from home on our internal control environment. There have been a number of changes to the composition of the Committee over the year and I would like to thank Peter Shaw and Danuta Gray for their invaluable contributions to the Committee and to welcome Richard Banks, Desmond Crowley and Cathy Turner.

The Committee is comprised of Independent Non-Executive Directors. I was appointed Chair of the Committee in May 2014 and, as a qualified Chartered Accountant, act as the Committee member required to have recent and relevant financial experience. The Board has confirmed that it remains satisfied with my experience. The other members of the Committee are Richard Banks (appointed 1 September 2020), Desmond Crowley (appointed 1 May 2020) and Cathy Turner (appointed 3 July 2019). Peter Shaw and Danuta Gray were members of the Committee until their resignations from the Board on 30 September 2020 and 31 March 2021, respectively.

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 2020/21, the Committee:
  - Approved the Pillar 3 disclosures as at 30 June 2020 and the associated Pillar 3 Reporting Policy;
  - Reviewed the outcome of two deep-dive workshops between Deloitte and management around the performance of the Group's IFRS 9 credit models, in light of the Covid-19 pandemic and agreed the proposed enhancements to the models arising from the workshops;
  - Recommended the Annual Report and Accounts of the Company, the Bank and MotoNovo Finance, for the year-ended 30 June 2021, 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 2021 were:
    - Loan impairment provisions, reviewing the Group's approach to applying 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 for identified issues not fully covered by the provisioning models and the accuracy and validity of forward-looking indicators ("FLI") applied, as well as the adequacy of disclosures shown in the Annual Report. In particular this year the Committee reviewed the change in the construction of the Group's macroeconomic scenarios from inputs supplied by Oxford Economics to inputs supplied by the Group's parent, FirstRand as well as monitoring the Group's policy for identifying the level of provision needed for those cases among customers requesting forbearance in relation to the Covid-19 pandemic. The Committee took particular account of the circumstances surrounding the continuing Government support to business and the likely unwinding of that support in 2021/2022. The Committee also considered areas identified by the External Auditors where the provisioning process could be improved, noting that, while these did not impact the overall provision levels for the current year, they warranted pursuing for the future. The Committee concluded that management's approach and assumptions around IFRS 9 impairment provisions were appropriate and reflected fairly in the financial statements;
    - Assumptions on loan asset expected lives within the Effective Interest Rate accounting models, including the transition to new models to calculate Effective Interest Rate and the continuing impact of the pandemic on customer behaviour. The Committee endorsed the judgements made by management;
    - Reviewed the disclosures relating to Internal Benchmark Reform – phase 2 which the Group early adopted. The Committee determined that these disclosures were satisfactory; and
    - 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, following a detailed review of the underlying analysis prepared by management and the relevant disclosures in the financial statements.

- Monitoring the effectiveness of the Group's internal control systems.

  During 2020/21, the Committee:
  - Reviewed the final observations from the external auditor, Deloitte LLP ("Deloitte") arising from the testing of the Group's internal controls relevant to the audit of the financial statements for the year ended 30 June 2020 and the interim observations arising from the audit for the year ended 30 June 2021;
  - Considered the findings of the Group Internal Audit ("GIA") function's programme of audit reviews throughout the year;
  - Approved the annual Money Laundering Officer's report;
  - Approved the Anti-Bribery and Corruption policy;
  - Conducted an annual review of the Group's whistleblowing arrangements, concluding that these were adequate;
  - Ratified the findings of an assessment of the Group's internal financial controls at the half year 2021 and year end 2021, following recent changes to listing requirements for FirstRand Limited;
  - Assessed the Group's systems of risk management and internal controls, including a specific assessment that the financial statements were free from material error due to fraud.
  - The Committee paid particular attention to the degradation of user access review controls for the Group's key mortgages system identified by the External Auditor, noting that management had tightened the control on discovery of the lapse, and concluded that sufficient work had been carried out to give reasonable assurance that no unauthorised access to the system had occurred;
  - The Committee 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 GIA function and reviewing GIA reports and monitoring management's responsiveness to findings and recommendations.

  The GIA effectiveness review was undertaken in the first quarter of 2020/21 and, overall, the Committee concluded that the GIA effectiveness review responses had been positive from both Committee members and Management and that GIA was well resourced and effective.

  Specifically, during 2020/21, the Committee:
  - Approved audit plans for GIA reviews across both Aldermore and the MotoNovo Finance business covering the period from July 2021 to June 2022;
  - Approved an updated GIA Charter, which sets out the mandate and remit of the function;
  - Approved the GIA 2021/22 Skills and Capability Self-Assessment;
  - Reviewed the findings of GIA's thematic reporting on the internal control environment;
  - Reviewed quarterly reports from GIA on the output of the function's work, progress against the plans for 2020 to 2021 and management's progress on remediation of issues; and
  - The Chair met regularly with the Director of GIA and also conducted a virtual "Town Hall" session with the members of his team. The Committee also held a private session with the Director of GIA and a number of the senior members of the team made presentations to the Committee.

- Overseeing the relationship with and independence of the external auditor, Deloitte, appointed with effect from 1 January 2017.

  Specifically, during 2020/2021, the Committee:
  - Reviewed the external audit plan for 2020/2021, as well as Deloitte's terms of engagement and approved their 2020/21 fee proposal for the audit of the Group accounts for the year ended 30 June 2021. This review included consideration of the experience of the audit team assigned;
  - Approved the fees for the work undertaken to perform a set of specified procedures as requested by the FirstRand Group auditors;
  - 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 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 the annual report by the Financial Reporting Council ('FRC') on its review of audits carried out by Deloitte and the Deloitte audit team's contribution to the Audit Committee's discussions.

- Other activities

Additionally, the Committee undertook a review of its own effectiveness as part of the wider Board and Committee evaluation exercise. The review was conducted externally, facilitated by Mindcor and was conducted by way of a questionnaire that was issued to all Committee members, as well as qualitative interviews with 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 June 2021, the Corporate Governance and Nomination Committee and the Board discussed the outcome of the review, concluding that the Audit Committee operated effectively and there were no significant areas for concern. However, a dependency on the Chair of the Committee for technical accounting and reporting issues was noted and this is being considered by the Corporate Governance and Nomination Committee as part of its discussions regarding Board succession planning.

Following the issue of a White Paper in March 2021 by the Department for Business, Energy and Industrial Strategy ("BEIS") entitled 'Restoring trust in audit and corporate governance', the external audit Partner and the Chair provided the Committee with an overview of the key proposals for Directors and Audit Committees in June 2021, which included initial observations on how Aldermore Group PLC may be impacted by those proposals. It was agreed that Aldermore would submit responses to the consultation, which subsequently occurred.

The Committee also carried out a review of its own Terms of Reference during 2020/21. A number of minor updates were recommended to and approved by the Board.

John Hitchins
Audit Committee Chair

Risk Committee Report

I am pleased to present to you my inaugural report as Chair of the Risk Committee (the "Committee") and firstly take the opportunity to thank Peter Shaw for his guidance and support as the previous Committee Chair and to Pat Butler for acting as interim Committee Chair from 1 October 2020 until my approval by the PRA.

The Committee is comprised of Non-Executive Directors. I was appointed as a member on 1 September 2020, and as Chair with effect from 21 December 2020. The other members of the Committee are Desmond Crowley (appointed 1 May 2020), John Hitchins (appointed 28 May 2014), Harry Kellan (appointed 1 July 2020) and Alan Pullinger (appointed 1 July 2020). Peter Shaw, Danuta Gray and Cathy Turner stepped down as members of the Committee with effect from 30 September 2020, 7 October 2020 and 7 October 2020 respectively.

The Group's risk and compliance functions sit under the executive leadership of Andrew Lewis, the Group's Chief Risk Officer ("CRO"), who joined the Group in November 2020. As part of the transition from Peter Shaw and Pat Butler to myself as Chair of the Committee and from the former CRO to Andrew Lewis, all parties worked closely to ensure a smooth transition of both roles.

The Committee's key objective 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 making recommendations to the Board to ensure compliance with the Group's approved risk appetite.

The Committee continues 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. There has been active and healthy dialogue with regulators across a number of topics, including Covid-19 resilience, credit quality, thematic reviews and meetings with both myself as the Chair and Andrew Lewis as CRO.

Areas of focus

The rapid spread of Covid-19 continued during the financial year and the Committee's attention was firmly focussed on the implications of Covid-19 on our risk profile, our business, our customers and our people, during one of the most unprecedented economic periods the UK has experienced. Throughout the pandemic and in preparation for the end of the Government's Covid-19 support schemes, the Committee has assessed risks in operational capacity and change management to ensure that the Group is able to support customers and to ensure positive outcomes particularly as Government support falls away. The Group's credit risk profile has been subject to enhanced scrutiny by the Committee as a result of the Group's increased exposure to forbearance during the pandemic.

Andrew Lewis, as the Group's new CRO, presented his reflections on risk function priorities to the Committee in March 2021. He identified a series of priorities to recalibrate the focus of the Risk function. Inter alia these include progressing on the journey to achieve regulatory permission for an internal ratings-based approach to credit risk ensuring a strong relationship between our business strategy, risk appetite, the quality of earnings and the impact on capital and liquidity. There is also a need for increased automation in decision making and assessing credit risk and the automation of our key customer identification processes. Further investment in digitisation and automation will improve customer experience and good outcomes whilst strengthening the Group's operating structure to reflect the key risks to the business. The risks around the ongoing integration of MotoNovo's operations into the Group have and will also be a focus for the Committee with the aim to maximise efficiencies thorough best practice whilst minimising risk.

Other key matters discussed by the Committee during the year are set out below. In addition, pages 62 to 64 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 57 to 87.

Covid-19 impact

A key area of focus for the Group has been the ongoing impact of Covid-19. The Committee's role was to scrutinise the 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. These may increase post the end of furlough and Government support and efforts are focused on the impact on the Group's credit portfolios and operational capacity. In considering these matters, the Committee took into account the views of first line personnel, Risk and Group Internal Audit.

Other areas of focus

In addition to our response to the pandemic, the Committee continued to focus on its core responsibilities. A series of risk deep dives were provided to the Committee on areas such as the financial risks of climate change, the treatment of customers with higher risk characteristics, football finance, the Group's insurance products, non-performing loans and a growth analysis and strategic outlook for MotoNovo. The Committee considers these deep dives to be an important component of proactive risk management and welcomes the high quality, value-add discussions they facilitate. These, and focussed reports from the senior executives supported the Committee's assessment of the Group's principal risks.

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.

Frameworks

We approved reviews of the effectiveness of Risk Frameworks and further details of frameworks and polices approved by the Committee during the year are outlined in the following sections below. It also carried out a review of its own Terms of Reference during 2020/21. A number of minor updates were recommended to and approved by the Board.

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 which will be rolled out during 2021/22. As the Group continues to grow, it is recognised that there is a need for its risk management framework to evolve to reflect the maturity of the business.

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. An evaluation of credit risk data informed the focus for the second half of 2020/21 on the top-down risk appetite statement, a key building block for managing earnings, capital and liquidity.

The Committee also 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 metrics. During the year, the Committee scrutinised and 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. The Committee conducted an annual review of the Group's Market Risk Management Framework and approved changes to the document.

Operational risk

During the year the Committee took a number of steps to increase monitoring and scrutiny of the Group's operational risk profile and operational resilience. Operational resilience and resilience planning have been a major topic of discussion by the Committee as a consequence of Covid-19, the uncertainties of Brexit, the evolving cyber security threat and our portfolio of change and transformation. The Committee has overseen the business and risk functions working effectively together on these thematic areas, as well as specific areas such as exit plans for payment breaks and collections resourcing and activity. In particular, the Committee oversaw progress against actions to address findings following a review of collections by Group Internal Audit ("GIA"). This review was carried out by GIA at the request of the PRA which asked the internal audit functions of a sample of non-systemic banks and building societies in November 2019 to carry out a review of collections functions. The Committee also reviewed impact tolerances for the Group's critical business services and recommended these for Board approval and 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 key controls testing and the alignment of controls testing across Aldermore and MotoNovo Finance, as well as approving an updated approach to risk acceptances. In its annual review of the Group's Operational Risk Framework the Committee noted the impact of Covid-19 and the rapid deployment of working from home. As a consequence, over the year we have identified a number of process failures impacting a small number of customers which have/will require remediation. Notwithstanding these issues, the committee confirmed that the Group's approach was fit for purpose and proportionate.

In terms of the operational risk profile regular updates on business continuity and disaster recovery, cyber security and cyber risk management were reviewed. Cyber security remains an area of focus for the Group and the Committee received updates on progress against the Group's cyber strategy, which includes key areas, such as access management and control, data protection, security architecture and governance. As the cyber security threat continues to evolve at pace across the financial services industry, the Committee has instigated more frequent reporting on cyber security and cyber risk management.

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

Compliance, conduct and financial crime risk

Conduct risk management continues to be a key area of focus and 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. As mentioned above there have been a small number of customers impacted by process failures arising from our response to the Covid-19 epidemic. These have necessitated remediation activity to ensure good customer outcomes.

There is an increased attention on how we support vulnerable customers and the Group has an appropriate control framework in place to manage the associated risks. This will be a particular focus over the next 12 months. The effectiveness of the Financial Crime Risk Management Framework and Compliance Risk Framework were also reviewed.

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. The Board looks to the Risk Committee to monitor these risks and provide an appropriate level of assurance on management and mitigation. The Covid-19 pandemic saw the crystallisation of a number of risks, in particular in relation to operational resilience and the action taken to maintain this resilience is explained elsewhere in the Annual Report. This is another focus area for the CRO, who is establishing a Reputational Risk Forum to focus on client and deal suitability, staff and supplier conduct and risk appetite in sectors or segments with a heightened risk profile.

Financial risks from climate change

We received regular updates on the Group's approach to addressing the financial risks from climate change but this is an area we will devote more time to in the next year given its importance and the increasing attention of governments, regulators, investors and our customers.

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. It also considers 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 2020/21 the Committee reviewed regular reports from the Chief Risk Officer in relation to such matters.

Recovery Plan

During the year, the PRA supported the Committee's view that the 2019 Recovery Plan was materially more comprehensive than the previous year's plan. The Committee participated in a recovery planning fire drill exercise in September 2020, acting out key parts of a response to a designed scenario with facilitation by a third party. The objectives of the exercise were broadly met and feedback will be taken into account in developing the 2020 Recovery 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. In this context the CRO has implemented an organisational transformation and created a new Target Operating Model to drive more effective management of risk. This included creating a single, future-ready Risk function, moving to a risk partnering model and promoted first line empowerment by moving the second line of defence teams undertaking first line risk activities for our customer-facing divisions into the business lines. A series of shared services (for example, reporting, assurance and governance) and centres of excellence (such as models, credit decisioning and risk automation) have also been established to drive the efficiency and effectiveness of the function as capabilities are developed. As an example, model risk has been promoted to a tier 1 principal risk recognising the importance of models in driving our strategy and risk. The business has identified the need to enhance our modelling capability, in particular, the ECL models

Risk Committee effectiveness

The Committee undertook a review of its own effectiveness as part of the wider Board and Committee external evaluation exercise by Mindcor. This was conducted by way of a questionnaire and qualitative interviews with 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 June 2021, the Corporate Governance and Nomination Committee and the Board discussed the outcome of the review, concluding that the Risk Committee operated effectively and there were no significant areas for concern. A number of topics were identified for greater oversight by the Committee in 2021/22 and will be added to the Committee's agendas as appropriate. These included the financial risks of climate change, cyber security and model risk.

Horizon Risks

As discussed above there are a number of challenges both internal and external, such as the post Covid-19 support on customers and need for a customer focused approach, climate change and cyber security. There is also the impact of regulation – Capital Requirements Directive V, Basel III, the Bank of England's review of the minimum requirement for own funds and eligible liabilities, and various consultations, such as the new Consumer Duty proposed by the FCA. However, the business and the management team have the maturity to successfully face these challenges in 2021/22 and beyond.

Richard Banks
Risk Committee Chair

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 coming into force from 1 July 2021, certain changes to the Directors' Remuneration Policy will apply from next year to ensure that the variable to fixed cap of 2:1 (as approved by Aldermore's shareholder) is applied and new rules on deferral (including the requirement for a holding period on payments in instruments) comply with the new requirements.

Remuneration received by the Directors[1] in the year ended 30 June 2021 and 30 June 2020 is shown below:

£'000	Total fixed pay 2021	Total fixed pay 2020	Annual Incentive Plan 2021	Annual Incentive Plan 2020	Long-Term Incentive Plan 2021	Long-Term Incentive Plan 2020
Pat Butler, Chairman	250.0	247.5	-	-	-	-
Phillip Monks, CEO Resigned 7 May 2021	930.2	902.8	512.0	-	177.3	678.6
Steven Cooper[2], CEO Appointed 10 May 2021	1,151.8	-	97.5	-	-	-
Claire Cordell, CFO	390.6	189.1	290.0	-	-	-
James Mack, CFO Resigned 31 January 2020	-	328.5	-	-	-	-
Christine Palmer, CRO Resigned 31 July 2020	52.0	630.2	-	-	-	-
Richard Banks, Independent Non-Executive Director Appointed 1 September 2020	52.4	-	-	-	-	-
Desmond Crowley, Independent Non-Executive Director	78.5	13.0	-	-	-	-

£'000	Total fixed pay 2021	Total fixed pay 2020	Annual Incentive Plan 2021	Annual Incentive Plan 2020	Long-Term Incentive Plan 2021	Long-Term Incentive Plan 2020
Danuta Gray, Senior Independent Non-Executive Director Resigned 31 March 2021	76.7	108.0	-	-	-	-
John Hitchins, Independent Non-Executive Director	98.5	98.0	-	-	-	-
Peter Shaw, Independent Non-Executive Director Resigned 30 September 2020	25.9	103.0	-	-	-	-
Cathy Turner, Independent Non-Executive Director	100.0	103.0	-	-	-	-

[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] Steven Cooper was awarded a cash bonus buyout of £1.0 million upon commencement of employment with Aldermore Group.

The aggregate emoluments (i.e. salary/fees, market adjusted allowances, benefits and AIP) for the Directors in the year was £4.4 million.

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 £8.6 million. Of this, £6.3 million was fixed pay (salary, market adjusted allowance, benefits and pension) and £2.3 million was variable pay.

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
- Key control functions employees will not participate in the standard LTIP and will instead participate in equivalent 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 four occasions (2017-20). We are working on our reporting for 2021 and we are committed to continuing the progress we have made to reduce the gender pay gap, which we view as a representation rather than a pay differential issue.

In 2016, we became one of the first 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 to its four key pillars.

The commitments we made by signing the charter in are as important as ever because they align so closely with our purpose of 'backing people to fulfil life's hopes and dreams' and we are preparing milestones that take us beyond the initial 30%, and commit us to actions that will take us to 50% representation within 5 years.

Please 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 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.

Element of remuneration	Policy and operation	Performance measures and Committee flexibility
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. For financial years ending in 2021 and before, 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. From the 2022 financial year, the rules on deferral will be modified to ensure compliance with CRD V when AIP and LTIP are taken together. 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.

Element of remuneration	Policy and operation	Performance measures and Committee flexibility
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. For grants made on or before October 2021, awards may vest at or shortly following the end of the performance period. Subsequent awards will be subject to additional deferral and holding periods to comply with CRD V.	Performance for the LTIP 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 only 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.

Cathy Turner
Remuneration Committee Chair

Directors' Report

The Directors present their report and the financial statements of the Group for the twelve months ended 30 June 2021. 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 10 (Key performance indicators) Pages 62 to 64 (Principal risks)
Strategic report	The contents of the Strategic Report fulfil Section 414C of the Companies Act 2006.	Strategic Report	Pages 4 to 31
Results	The results for the year are set out in the income statement. The profit before taxation for the year ended 30 June 2021 was £157.8 million (year ended 30 June 2020: £48.8 million). A review of the financial performance of the Group is included within the Strategic report.	Income statement Strategic Report	Page 100 Page 10
Dividend	The Directors do not propose to recommend a final dividend in respect of the year ended 30 June 2021 (2020: £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 57
Post balance sheet events	On 29 July 2021, the Group successfully made an additional £200 million drawing on the Bank of England's Term Funding Scheme with additional incentives for SMEs.	Note 41 to the consolidated financial statements.	Page 170

Share capital	At 30 June 2021, the Company's share capital comprised 2,439,016,380 ordinary shares of £0.10 each. The Company did not issue or repurchase any of the issued ordinary shares during the twelve months ended 30 June 2021 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 156
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 157
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	Page4 Page 28 Page 24
Suppliers	Information on supplier engagement can be found in the Strategic report.	S172(1) Statement Corporate Responsibility	Page 28 Page 24
Corporate Governance Arrangements	For the year ended 30 June 2021, 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 35

Directors	The names of the current Directors who served on the Board and changes to the composition of the Board that have occurred during 2021 and 2020 and up to the date of this report are provided on page 2 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	Page 3
Directors' indemnities	The Directors who served on the Board up to the date of this 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 2021 (2020: None)	–	–
Political donations	£Nil for 2021 (2020: £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 Customer Committee.	Note 24 to the consolidated financial statements	Pages 151

Going concern	The financial statements are prepared on a going concern basis. 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 future increases in expected credit losses. As part of this, the Directors considered revised macroeconomic scenarios which were received from the Group's in-house experts. These are discussed 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; • Current and forecasted conditions are significantly less severe than the reverse stress scenario considered in the latest ICAAP presented to the Prudential Regulation Authority; • The plans for further improving the operational resilience of the Group including cyber and information security, information technology, supplier management, people and property. These improvements are planned as part of ongoing investment activity in the Aldermore Group; • 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 2020 AGM, at which a resolution authorising the Board to set Deloitte's remuneration was passed.	-	Page 41

This report was approved by the board on 26 August 2021 and signed on its behalf:

Claire Cordell

Director

14 September 2021

Risk Management

All areas of the following report are covered by the external auditor's opinion on pages 90 to 99, except for those areas highlighted in grey which are the yield curve on page 84, the leverage ratio and the risk weighted assets and associated capital ratios on page 87.

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 57.

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. As part of the Governance Transformation project set out on page 58, our risk governance structure was streamlined in 2020 to support a commercial, nimble approach to decision-making, The Executive Risk Committee is the formal executive committee responsible for risk and its sub-committees have been reconstituted as fora as part of this transformation project. 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 fora 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:

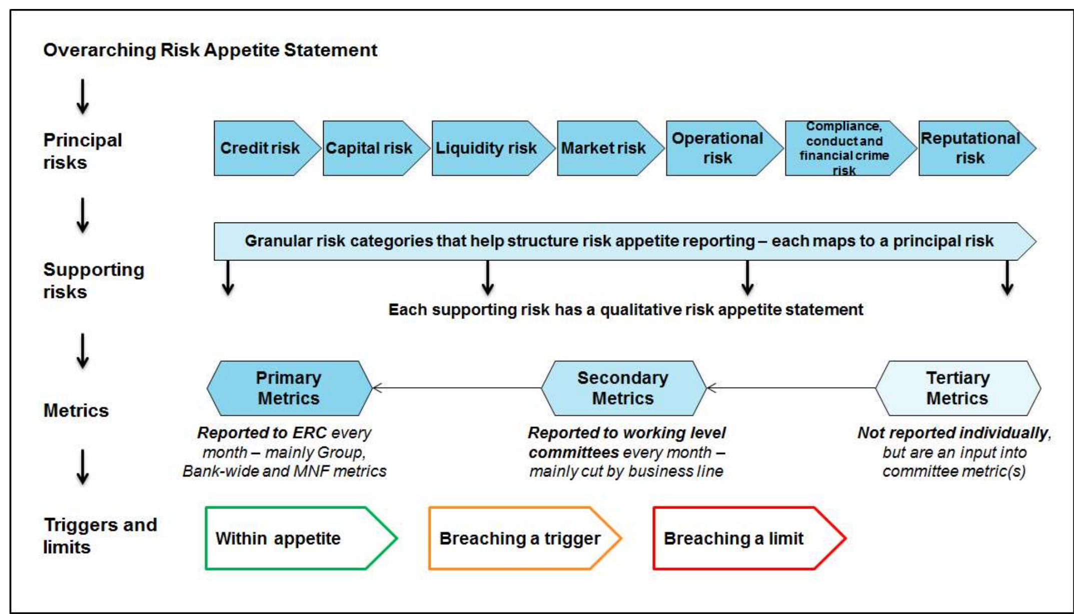
"Operate a sustainable and safe Group that conducts its activities in a prudent manner, taking into account the interests of customers and ensuring its obligations to key stakeholders are met." Key stakeholders are defined as customers, parent company, regulators and employees.

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 and fora 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 Board Risk Committee will assess the approach to scenario design, stress testing methodologies and results.

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 43.	• 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; and • Throughout the current Covid-19 crisis there has been a specific focus on managing customer forbearance and the associated impact on expected credit losses ("ECL") movements.	Although the outlook has been improving, the pace of recovery has been dampened slightly by the recent rise in Covid-19 infections. We continue to remain cautious around impacted sectors and origination levels remain constrained to where our appetite lies in the current environment.
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 44.	• 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. Moreover, the Group's Capital position 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 44.	• 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 44.	• 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 and fora reporting that brings together a diverse range of supporting risks; • Ensure a significant emphasis on IT resilience; • Regularly review the external threat posed by cyber-crime and ensure the adequacy/effectiveness of our defences; • Systematically monitor operational losses on both a net (overall financial impact) and gross (excluding recoveries) basis to understand risk profile and identify trends; and • Proactively identify changes to our risk profile and manage any changes required to our control environment as Covid-19 pandemic restrictions ease.	The Operational Risk profile has reverted to stable, with any remaining changes to the operational control environment due to Covid-19 incorporated into BAU risk management.
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 or as a result of the Group's activities being used by criminals for the purposes of money laundering, terrorist financing, bribery and corruption and fraud	• 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; • 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; and • Produce an annual Money Laundering Reporting Officer ("MLRO") Report, which is approved at BRC, and which includes an opinion from the MLRO relating to the	The Compliance Conduct and Financial Crime key risks remain unchanged. Our collections teams have seen a significant uplift in activity throughout the pandemic and the Group continues to closely monitor risks around unfair outcomes to customers, however, the outlook has stabilised.

	adequacy of the Group's existing systems and controls for the prevention of money laundering and terrorist financing risk.	
Reputational risk The risk of negative consequences arising from a failure to meet the expectations and standards of our customers, investors, regulators or other stakeholders during the conduct of any business activities.	• Assess the impact of reputational risk at the 'Reputational Risk Fora' chaired by the Chief Risk Officer and initiate mitigating actions as appropriate • Maintain a clear and explicit set of reputational risk policy requirements to which all colleagues must confirm their understanding and adherence; and • Ensure that the reputational impact of changes to products, pricing, systems and processes is formally considered at the relevant committees and fora.	The Group's risk profile remains within appetite. We remain mindful of our performance against the expectations of our stakeholders.
Model Risk The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Consequences can include poor business decisions, financial loss or the misstatement of financial and/or regulatory reports.	• Skilled second-line risk team is in place to drive and oversee model development and ongoing maintenance. • A robust Model Management Framework which details processes and controls for managing risk throughout the model lifecycle, which include: o Assigning accountable owners for all models; o Ensuring models are well-documented, with a clear understanding of strengths, limitations and assumptions; o Assigning a model risk rating based on materiality to the Group. The rating drives level of validation, approval and performance monitoring; o Ensuring every model is subject to validation and formal approval prior to implementation and thereafter on a regular basis; and o Regular tracking of model performance, including a robust process to remediate identified issues.	In recognition of increased sophistication and enhancements in the Group's modelling approaches, further elaboration of Model Risk will be carried out in Q4 2021. This includes the development of an associated Board approved risk appetite statement.

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>As a result of the global pandemic, and the lockdown of UK PLC, the Government and UK regulators intervened with a number of measures to support the economy and the customers who would be experiencing financial difficulties as a result – namely to provide customers with payment breaks for a range of financial services products, including those offered by Aldermore Group.
As a result of payment breaks needing to be repaid, and the threat of increased forbearance through a declining economic outlook, there is a risk that an increase in service demand is difficult to meet (both from a capacity and capability perspective) and that this impacts financial performance and customer outcomes.
The Group remains cognisant that Covid-19 is still ongoing, and unprecedented in its nature. As restrictions ease the Group continues to monitor implications and take a cautious approach and in full compliance with Government guidelines.</td><td>In response to this risk, the Group has focused on increasing capacity and capability in the collections space in order to support future spikes in service demand driven by the aftermath of payment break requests and managing these back into performance, as well as a potential future spike in arrears due to a potential downturn.
The Group will continue to focus on supporting its customers, managing risks appropriately and meeting regulatory obligations.</td></tr>
<tr><td>Risks from Climate Change</td><td>Climate change and society's response to it presents a global threat. The risks associated with climate change arise via two primary transmission 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). These risks manifest themselves across and amplify other financial and non-financial risk types.</td><td>Our CRO has responsibility for overseeing the development of approach and ensuring it is grounded in risk management, engaging with key members of ExCo including the CFO, with oversight from the Board Risk Committee.
Implementation of a multi-year plan is underway - including near-term introduction of framework for climate risk, development of internal capabilities and tools.
The Group is developing our approach and disclosures in line with accepted and emerging standards, including the Taskforce for Climate-related Financial Disclosures.</td></tr>
</table>

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. • The Covid-19 pandemic continues to challenge affordability as customers lose income. Further impacts may be felt if the furlough scheme finally terminates at the end of September 2021 as planned.	• 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 continue to apply enhanced income checks as part of our underwriting. • Tighter automated credit rules, implemented at the start of the pandemic, remain in place.
Covid-19 – Operational impacts	• The economic environment created by the impacts of Covid-19 has created an increased market demand for certain skillsets, particularly in the collections space, which continues to challenge us from an operational capacity perspective.	• A plan is in place to increase capacity in collections including deployment of existing resources along with use of third parties to allow the Group to continue to scale up resources where required. • The Group continues to proactively monitor any changing impacts on our operations as the pandemic continues and restrictions are eased.
Covid-19 – ongoing impact on credit provisioning	• 2020 saw extreme earnings volatility as a result of Covid-19's impact on forward looking macroeconomic scenarios and its impact on credit losses. • This has continued to result in a higher than pre-Covid-19 proportion of Post Model Adjustments in the credit provisioning, albeit these are slightly reduced from 2020 year end. • The charge for impairment losses has reduced as the forward-looking economic outlook has become more stable.	• A new Forward Looking Indicator model has been implemented which provides a better indication of the forward looking macroeconomic adjustments. Further validation of the impact of this will be undertaken during 2022. • Post Model Adjustments continue to be assessed on a regular basis for their continued appropriateness.
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, including potential for additional impacts should further Covid-19 lockdowns be required.	• 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.	• With the largest exposure from a 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

	• The risks are that a shift in these scenarios could result in high levels of exposure on the current book of Aldermore vehicle assets, however, currently consumer demand remains strong in the used market, but we continue to monitor closely.	risk management to reflect the changes and outlook. • Continue to monitor the threats and opportunities.
Exposure to geopolitical risk	• There is a potential rebalancing of global power post Covid-19 towards China / Asia. This could threaten the ability of NATO / EU to shape and defend rules-based international order. • Covid-19 highlighted supply chain vulnerabilities. Economic nationalism and export restrictions could lead to a longer-term protectionism trend and a resurgence of nation state power. This could be particularly pronounced between the UK-EU given recent tensions emanating from Brexit. • There is the potential for increased inter-state conflict and separation, particularly as the US continues to decouple China from its supply chain.	• Watching brief to be maintained on these risks, which are tracked in the macroeconomic forecasts reporting produced.
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.	• We have developed specialist market-leading analytics to improve insight into the market and our own performance and risk profile. • We also regularly review competitor performance and propositions.
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.	• MotoNovo Finance has begun to adjust and segment its approach to strategy in light of the market dynamics and competitor threat. A strategic review is nearing completion.

Technology Risk		
Cyber-crime incidents	• Cyber threat remains significant and high profile across all industries. Cyber threats continue to evolve, with increased monetisation of cyber to substitute more traditional crime. • The industry continues to see increased Phishing/Smishing attempts with attackers capitalising on the Covid-19 situation.	• 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.
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. • The Supplier Relationship Model is being refined and updated in line with EBA/PRA third party guidance. • Effective third-party supplier management is a critical pillar of Operational Resilience and the Group has further initiatives planned as part of broader enhancement activities in this area.
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.	• Good progress continues on plans to migrate the Motor and Bank tenancies, enabling a number of collaboration features across the Group. • 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.
Negative Interest Rates	• Risk that the Aldermore Group is exposed to a UK negative or zero interest rate policy. • The BoE on 4th February 2021 set a six-month notice period to 5th August 2021 for the financial services industry to be tactically ready to administer negative rates.	• Whilst the probability of negative interest rates has decreased, the Group has put in place manual workarounds to satisfy the readiness requirement until permanent system solutions can be implemented.

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 2021 was £134 million (30 June 2020: £244 million), and net exposure was £131 million (30 June 2020: £242 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 2021 was £16,792.9 million (30 June 2020: £15,510.3 million), an increase of 8.3%. The main factors contributing to the increase were:

i) the growth in gross loans and advances to customers (our largest credit risk exposure), by £1,026.1 million;
ii) the growth in cash and balances at central banks by £146.1 million; and
iii) an increase in commitments to lend by £69.9 million.

Included in the statement of financial position:	Note	30 June 2021 £m	30 June 2020 £m
Cash and balances at central banks		688.5	542.4
Loans and advances to banks		223.0	228.6
Debt securities		1,999.5	1,941.1
Derivatives held for risk management		19.6	9.3
Loans and advances to customers	19	13,612.6	12,586.5
Other financial assets	39	29.5	20.7
		16,572.7	**15,328.6**
Irrevocable Commitments to lend	37	412.4	342.5
Gross credit risk exposure		**16,985.1**	**15,671.1**
Less: allowance for impairment losses	19	(192.2)	(160.8)
Net credit risk exposure		**16,792.9**	**15,510.3**

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. In the past 12 months, the Group has implemented a new macroeconomic model to increase sensitivity to forward-looking macro scenarios and undertaken an upward recalibration of a number of the Probability of Default (PD) models. These modelling changes have resulted in some general upward migration of PDs across the portfolio in the current year.

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

30 June 2021	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	52.9	3.2	144.7	722.1	314.5	1,888.5	3,125.9
Medium risk	1,005.5	238.6	755.5	3,848.1	1406.0	990.5	8,244.2
High risk	311.7	157.1	26.5	112.7	109.9	46.1	764.0
Total	**1,370.1**	**398.9**	**926.7**	**4,682.9**	**1,830.4**	**2,925.1**	**12,134.1**
Fair value of collateral held	**877.1**	**413.9**	**926.7**	**4,682.9**	**1,830.4**	**2,925.1**	**11,656.1**

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

30 June 2021	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	0.5	-	9.9	22.6	15.9	31.4	80.3
Medium risk	75.8	1.1	110.9	213.6	110.6	90.2	602.2
High risk	118.7	2.8	43.8	148.0	82.5	7.8	403.6
Total	**195.0**	**3.9**	**164.6**	**384.2**	**209.0**	**129.4**	**1,086.1**
Fair value of collateral held	**117.0**	**3.9**	**164.6**	**384.2**	**209.0**	**129.4**	**1,008.1**

Stage 3 per IFRS 9 – credit impaired assets:

30 June 2021	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	46.7	3.6	56.1	127.5	110.1	48.4	392.4
Total	**46.7**	**3.6**	**56.1**	**127.5**	**110.1**	**48.4**	**392.4**
Fair value of collateral held	**28.7**	**1.7**	**56.1**	**127.5**	**110.1**	**48.4**	**372.5**

[1] The above analysis includes Property Development.

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	3,505.7	1315.5	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	16.5	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**	**32.2**	**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.

The credit quality in respect of irrevocable commitments to lend, which, as at 30 June 2021 and 30 June 2020, 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 2021	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	-	-	11.6	9.1	17.5	-	38.2
Medium risk	-	-	60.9	48.0	78.4	33.9	221.2
High risk	-	-	2.2	1.4	6.1	3.6	13.3
Total	**-**	**-**	**74.7**	**58.5**	**102.0**	**37.5**	**272.7**
Assessed fair value of collateral to be provided	**-**	**-**	**74.7**	**58.5**	**102.0**	**37.5**	**272.7**

[1] The above analysis excludes Property Development.

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.

Not included in the above are £139.7 million (30 June 2020: £144.8 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 £380.3 million (30 June 2020: £674.5 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 increased significantly in the prior year due to Covid-19 payment breaks, although they have reduced materially in the current year as customers started to repay. The Group still has a proportion of accounts that were subject to a deferred payment as at 30 June 2021 with the balance of forborne accounts by payment status shown in the tables below. Forbearance is usually a trigger for accounts to be moved into stage 2 or stage 3. Where payment breaks 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 PMAs which the Group applies to the modelled IFRS 9 ECL provisions). The Group's policy is to classify all customers exceeding 6 months of payment breaks as stage 3.

30 June 2021	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	0.3	-	-	23.9	5.9	2.7	32.8
Stage 2	0.3	0.3	6.3	3.9	4.3	7.7	22.8
Stage 3	4.3	-	10.5	19.3	26.2	10.9	71.2
Total	**4.9**	**0.3**	**16.8**	**47.1**	**36.4**	**21.3**	**126.8**

[1] The above analysis includes Property Development.

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	404.0	165.3	1,636.6
Stage 2	100.3	20.3	25.6	103.7	33.8	26.8	310.5
Stage 3	6.1	1.2	8.5	11.0	21.8	5.1	53.7
Total	**440.3**	**21.9**	**83.7**	**798.1**	**459.6**	**197.2**	**2,000.8**

[1] The above analysis includes Property Development.

As at 30 June 2021, we had undertaken forbearance measures as follows in the following segments:

	30 June 2021 £m	30 June 2020 £m
Asset Finance		
Reduced monthly payments	0.1	0.3
Loan-term extension	-	0.7
Deferred payment	4.8	439.3
Total Asset Finance	**4.9**	**440.3**
Forborne as a percentage of the total divisional gross lending book (%)	0.30%	23.20%
Invoice Finance		
Agreement to advance funds in excess of normal contractual terms	0.3	21.9
Total Invoice Finance	**0.3**	**21.9**
Forborne as a percentage of the total divisional gross lending book (%)	0.10%	7.40%
SME Commercial Mortgages[1]		
Temporary or permanent switch to interest only	0.3	2.4
Deferred payment	16.5	81.5
Total SME Commercial Mortgages	**16.8**	**83.9**
Forborne as a percentage of the total divisional gross lending book (%)	1.65%	7.20%
Buy to Let		
Temporary or permanent switch to interest only	0.1	-
Reduced monthly payments	-	0.8
Payment, waiver or lower rate product switch	-	0.5
Deferred payment	47.0	796.7
Total Buy to Let	**47.1**	**798.0**
Forborne as a percentage of the total divisional gross lending book (%)	0.90%	15.10%
Residential Mortgages		
Temporary or permanent switch to interest only	-	1.4
Reduced monthly payments	2.2	6.7
Payment, waiver or lower rate product switch	-	0.4
Deferred payment	34.2	451.2
Total Residential Mortgages	**36.4**	**459.7**
Forborne as a percentage of the total divisional gross lending book (%)	1.70%	22.10%
MotoNovo Finance		
Reduced monthly payments	15.5	3.4
Deferred payment	5.8	193.8
Total MotoNovo Finance	**21.3**	**197.2**
Forborne as a percentage of the total divisional gross lending book (%)	0.72%	11.20%

	30 June 2021	30 June 2020
	£m	£m
Total forborne		
Total temporary or permanent switch to interest only	0.4	3.8
Total reduced monthly payments	17.8	11.2
Total loan-term extension	-	0.7
Total Payment, waiver or lower rate product switch	-	0.9
Total deferred payment	108.3	1,962.5
Total agreement to advance funds in excess of normal contractual terms	0.3	21.9
Total forborne	**126.8**	**2,001.0**
Total forborne as a percentage of the total gross lending book (%)	0.93%	16.80%

[1] The above analysis includes Property Development.

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

4. Diversity and 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 2021		30 June 2020	
	£m	%	£m	%
Asset Finance	1,570.3	12	1,857.9	15
Invoice Finance	401.6	3	278.7	2
SME Commercial Mortgages[1]	1,126.0	8	1,139.1	9
Buy to Let	5,159.5	38	5,246.9	42
Residential Mortgages	2,136.2	16	2,079.6	17
MotoNovo Finance	3,026.8	23	1,823.5	15
	13,420.4	**100**	**12,425.7**	**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 2021	30 June 2020
	%	%
East Anglia	10.8	10.6
East Midlands	6.6	6.3
Greater London	17.3	17.0
North East	3.1	3.0
North West	10.3	10.4
Northern Ireland	1.2	1.4
Scotland	6.5	6.7
South East	18.2	18.1
South West	8.9	8.9
Wales	3.3	3.8
West Midlands	6.5	6.8
Yorkshire and Humberside	7.3	7.0
	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 2021 %	30 June 2020 %
Agriculture, hunting and forestry	0.2	0.3
Construction	3.2	4.2
Education	0.1	0.2
Electricity, gas and water supply	0.1	0.3
Financial intermediation	1.7	0.2
Health and social work	0.2	0.2
Hotels and restaurants	0.3	0.4
Manufacturing	1.4	2.7
Mining and quarrying	0.1	0.1
Private households with employed persons	4.3	3.0
Real estate, renting and business activities	15.2	17.9
Residential	68.6	66.4
Transport, storage and communication	1.7	2.4
Wholesale & retail trade repair of motor vehicles & household goods	2.9	1.7
	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 2021	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m
£0 - £50k	582.4	2.5	5.0	68.6	38.7	2,939.8
£50 - £100k	304.9	5.9	26.1	670.7	341.2	18.9
£100 - £150k	161.0	7.7	30.9	658.8	490.8	5.4
£150 - £200k	100.8	7.2	28.5	633.2	383.6	6.4
£200 - £300k	104.0	16.2	40.0	1,174.4	500.6	9.5
£300 - £400k	58.7	14.3	41.9	822.5	206.1	9.1
£400 - £500k	45.2	14.8	38.7	379.1	82.3	4.2
£500k - £1m	90.0	53.4	143.7	484.9	87.9	12.7
£1m - £2m	51.4	40.9	169.2	171.2	3.0	15.4
£2m+	71.9	238.7	470.8	96.1	2.0	5.4
Total	1,570.3	401.6	994.8	5,159.5	2,136.2	3,026.8

[1] The above analysis excludes Property Development.

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.

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

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

SME Commercial Mortgages[1]

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

	30 June 2021 £m	30 June 2020 £m
100%+	36.0	4.0
95-100%	21.6	5.3
90-95%	34.9	18.2
85-90%	41.0	18.9
80-85%	47.9	29.3
75-80%	71.5	79.2
70-75%	128.2	116.3
60-70%	215.2	190.8
50-60%	176.8	205.6
0-50%	221.7	229.1
	994.8	896.7
Capital repayment	480.6	494.0
Interest only	514.2	402.7
	994.8	896.7
Average loan-to-value percentage	64.23%	60.17%

[1] The above analysis excludes Property Development.

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 2021 was 61.8% (30 June 2020: 66.1%).

Buy to Let

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

	30 June 2021 £m	30 June 2020 £m
100%+	11.4	17.7
95-100%	7.2	9.9
90-95%	16.0	17.1
85-90%	47.7	54.6
80-85%	132.5	213.3
75-80%	409.7	722.3
70-75%	943.0	1,274.9
60-70%	2,003.3	1,594.6
50-60%	932.5	753.1
0-50%	656.2	589.4
	5,159.5	5,246.9
Capital repayment	289.5	310.7
Interest only	4,870.0	4,936.2
	5,159.5	5,246.9
Average loan-to-value percentage	63.62%	65.82%

Residential Mortgages

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

	30 June 2021 £m	30 June 2020 £m
100%+	5.3	13.4
95-100%	10.6	38.6
90-95%	54.9	178.9
85-90%	145.4	207.9
80-85%	242.3	165.4
75-80%	257.1	207.0
70-75%	256.4	253.0
60-70%	443.8	372.9
50-60%	303.4	267.1
0-50%	417.0	375.4
	2,136.2	2,079.6
Capital repayment	1,961.0	1,885.0
Interest only	175.2	194.6
	2,136.2	2,079.6
Average loan-to-value percentage	65.00%	67.70%

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 2021, 96% of the exposures with a current LTV in excess of 85% relate to either HTB or MIG (30 June 2020: 97%). The average LTV for mortgages with a guarantee was 80% (30 June 2020: 85%). As at 30 June 2021, the average LTV of the non-mortgage guarantee owner occupied book is 56% (30 June 2020: 58%).

The LTV for Commercial Mortgages is elevated due to subdued new business levels over the pandemic period.

Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 30 June 2021, 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 68.3% (30 June 2020: 67.5%).

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 2021, the total amount of such unsecured lending was £18.9 million (30 June 2020: £37.0 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 2021 £m	30 June 2020 £m
100%+	1,000.8	642.9
95-100%	393.1	237.6
90-95%	364.0	214.5
85-90%	293.4	170.4
80-85%	226.9	126.8
75-80%	172.1	97.6
70-75%	128.2	71.9
60-70%	172.9	96.5
50-60%	107.9	57.5
0-50%	93.5	51.2
	2,952.8	**1,766.9**

Group impairment coverage ratio

Impairment coverage is analysed as follows:

30 June 2021	Gross carrying amount £m	Provisions £m	Coverage Ratio %
Stage 1	12,134.1	60.1	0.50%
Stage 2	1,086.1	42.5	3.91%
Stage 3	392.4	89.6	22.83%
Undrawn loan facilities	412.4	0.7	0.17%
Total	14,025.0	192.9	1.38%

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%

The increase in provisions as at 30 June 2021 is predominantly driven by an increase of stage 3 provisions as a result of a change in the definition of default to include accounts that have requested Covid-19 related payment holidays in excess of 6 months. There has also been an increase in exposure to the MotoNovo Finance portfolio during the year which generally attracts a higher coverage level.

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, which only allows for offsetting in certain circumstances such as default, 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 2021 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)	3,425.1	3,425.1	(1,326.6)	-	2,098.5
Derivatives held for risk	19.6	19.6	(7.2)	(12.4)	-
	3,444.7	3,444.7	(1,333.8)	(12.4)	2,098.5
Liabilities					
Amounts due to banks (central bank under the TFS)	(1,326.6)	(1,326.6)	1,326.6	-	-
Derivatives held for risk	(40.9)	(40.9)	7.2	30.5	(3.2)
	(1,367.5)	(1,367.5)	1,333.8	30.5	(3.2)

30 June 2020	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)	2,987.0	2,987.0	(2,173.5)	-	813.5
Derivatives held for risk management	9.3	9.3	(9.2)	(0.1)	-
	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)

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 2021 and at 30 June 2020, all treasury assets were classified as stage 1 assets per IFRS 9 and no treasury assets were past due or impaired. The Group deems the likelihood of default across the respective asset counterparties as immaterial, and hence does not recognise a provision against the carrying balances.

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 2021 £m	30 June 2020 £m
Cash and balances at central banks and loans and advances to banks		
- Rated AA+ to AA-	911.5	552.6
- Rated A+ to A-	-	15.3
- Rated BBB+	-	203.1
	911.5	771.0
High quality liquid assets included in the liquidity buffer		
- Rated AAA	1,489.0	1,230.5
- Rated AA+ to AA-	510.5	165.4
- Rated A+ to A-	-	5.3
- Rated BBB+	-	425.5
Debt securities: Asset backed securities		
- Rated AAA	-	114.4
	1,999.5	1,941.1
Derivatives held for risk management purposes		
- Rated A+ to A-	19.6	9.1
- Rated BBB+	-	0.2
	19.6	9.3
	2,930.6	2,721.4

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

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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 2021 £m	30 June 2020 £m
Level 1		
Bank of England reserve account and unencumbered cash and bank balances	652.3	512.6
UK gilts and Treasury bills, other Sovereign, Supranational and Covered bonds	1,829.6	1,753.4
Level 2		
Covered bonds	54.5	73.4
Asset backed securities	115.4	114.3
Total liquidity buffer	2,651.8	2,453.7
As a % of funding liabilities	*17.62%*	*17.54%*

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

Customer deposits and wholesale funding

As at 30 June 2021, deposits have grown by 14.2% to £12.5 billion (30 June 2020: £10.9 billion) and securitisation funding has grown by 52%. 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 £97.8 million in issue as at 30 June 2021. The underlying mortgages within the outstanding Oak No.2 securitisation will continue to be repaid with a call option in February 2023.

The Group issued two further tranches of Tier 2 subordinated debt, to its fellow subsidiary FirstRand Bank during the 2019 financial 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 a new securitisation (Oak No.3) providing £343.5 million of funding with £219.5 million in issue as at 30 June 2021. The underlying mortgages within the outstanding Oak No.3 securitisation will continue to be repaid with a call option in July 2024.

In September 2019 the Group issued a new securitisation (MotoMore) providing £250.2 million of funding with £250.2 million in issue as at 30 June 2021. The revolving period end date is anticipated to occur in September 2021 and the final maturity date in October 2027.

In October 2020 the Group issued a new securitisation (Turbo 9) providing £519.5 million of funding with £519.5 million in issue as at 30 June 2021. The Turbo 9 securitisation will continue to be repaid with a call option which will become applicable once the notes outstanding reach 10% of the original principal balance of the notes.

	30 June 2021 £m	30 June 2020 £m
Retail deposits	7,503.8	6,658.3
SME deposits	3,768.4	3,253.5
Corporate deposits	1,155.1	974.7
Customer deposits	12,427.3	10,886.5
Term Funding Scheme (“TFS”)	726.1	1,671.4
Term Funding Scheme for SMEs (“TFSME”)	600.0	-
Other eligible schemes	-	500.3
Asset Backed Securities (including RMBS)	835.5	462.4
Warehouse backed by auto loans	250.2	249.9
Deposits by banks	0.5	1.8
Subordinated liabilities	213.6	213.5
Wholesale funding	2,625.9	3,099.3
Total funding	15,053.2	13,985.8

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. The Group is not exposed to significant foreign exchange or equity price risk.

Effect of IBOR reform

The reform and replacement of benchmark interest rates such as interbank offered rates (“IBORs”) with alternative risk-free rates (“ARRs”) has become a priority for global regulators. These reforms are at various stages globally. On 5 March 2021, the ICE Benchmark Administration Limited (“IBA”) confirmed the intention to cease the publication of EUR, CHF, JPY and GBP LIBOR for all tenors after 31 December 2021 and USD LIBOR after 30 June 2023. Aldermore Group is exposed to GBP LIBOR Reform only. The Group established a steering committee in 2019 to oversee the transition to alternative rates and as at 30 June 2021 the transition is materially complete with a small number of transactions due to transition ahead of the 31 December 2021 deadline.

During the financial year, new products have been launched to replace previous GBP LIBOR offerings in our Retail Mortgages, Business Finance and Motonovo Finance divisions with Bank Base Rate (“BBR”) and internal standard variable rates (“SVR”) utilised as alternative rates. The derivative portfolio has been materially transitioned onto SONIA.

The Group has also materially transitioned legacy GBP LIBOR loan agreements onto comparable rates, which mostly utilise BBR plus a credit adjustment spread to ensure economic equivalence. To ensure the best possible outcome for our customers, the effective rate for customers transitioned ahead of 31 December 2021 GBP cessation is the lower of GBP LIBOR and the comparable rate.

The table below shows the financial instruments including derivatives that are subject to GBP LIBOR Reforms which have not yet transitioned to replacement rates as at 30 June 2021 and which will not have matured by the 31 December 2021 LIBOR cession date:

Financial assets subject to LIBOR reform that have not transitioned to replacement rates at 31 December 2021

	Amount £m
Assets recognised on the balance sheet	
Derivative Financial Instruments	283.8
Advances	70.7
Total assets recognised on the balance sheet subject to IBOR reform	**354.4**

Financial liabilities subject to LIBOR reform that have not transitioned to replacement rates at 31 December 2021

	Amount £m
Deposits	250.2
Total liabilities subject to IBOR reform	**250.2**

These balances represent the notional amount directly impacted by the IBOR reform.

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 on profit/(loss) of a 2 percentage point shift in the interest yield curve is as follows:

	30 June 2021 £m	30 June 2020 £m
2% shift up of the yield curve:		
As at year end	(0.6)	(3.1)
Average of month end positions	(4.1)	(7.2)
2% shift down of the yield curve:		
As at year end	0.9	0.9
Average of month end positions	1.9	1.7

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 2021	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	0.3	450.2	275.5	601.3	-	1,327.3
Customers' accounts	3,532.4	4,249.7	3,241.8	1,473.4	0.2	12,497.5
Other liabilities	41.9	4.6	4.8	18.5	14.9	84.7
Debt securities in issue	21.8	19.0	169.9	425.1	93.9	729.7
Subordinated notes	-	-	70.0	164.5	-	234.5
Unrecognised loan commitments	412.4	-	-	-	-	412.4
	4,008.8	4,723.5	3,762.0	2,682.8	109.0	15,286.1
Derivative liabilities						
Derivatives held for risk management settled net	-	6.2	17.6	17.3	(0.1)	41.0
Amounts received	-	4.3	-	-	-	4.3
Amount paid	-	(4.4)	-	-	-	(4.4)
	-	6.1	17.6	17.3	(0.1)	40.9

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

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 2021 and 30 June 2020.

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

	30 June 2021 £m	30 June 2020 £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 and PVA	8.3	1.5
Retained earnings	796.5	680.6
IFRS 9 Transitional adjustment[1]	63.4	62.9
Less: intangible assets	(15.0)	(13.7)
Total Common Equity Tier 1 capital (CET1)	1,171.6	1,049.7
Additional Tier 1	108.0	108.0
Total Tier 1 capital	1,279.6	1,157.7
Tier 2 capital		
Subordinated notes	212.0	212.0
Total Tier 2 capital	212.0	212.0
Total capital resources	1,491.6	1,369.7
Risk weighted assets – Pillar 1[2]	8,434.4	7,864.0
Capital ratios – regulatory basis[2]		
Common Equity Tier 1 ratio	13.9%	13.3%
Tier 1 capital ratio	15.2%	14.7%
Total capital ratio	17.7%	17.4%
Leverage ratio (%)	7.6	7.7

[1] Under the regulatory rules, an addback to CET1 for the transitional adjustment arising on the implementation of IFRS 9 on 1 July 2018 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 2021 £m	30 June 2020 £m
Capital ratios– fully loaded basis[1]		
Common Equity Tier 1 ratio	13.3%	12.7%
Tier 1 capital ratio	14.6%	14.0%
Total capital ratio	17.1%	16.8%

[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 2021 £m	30 June 2020 £m
Equity per statement of financial position	1,231.2	1,108.5
Add: subordinated notes	212.0	212.0
Add: IFRS 9 transitional adjustment	63.4	62.9
Less: intangible assets	(15.0)	(13.7)
Total capital resources	1,491.6	1,369.7

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

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

Company law requires the Directors to prepare 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 United Kingdom.

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 31 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
14 September 2021

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 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 risk management and capital disclosures marked as audited on pages 57 to 87; and
- the related notes 1 to 41.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements 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 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 on 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 £6.1m 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	Our audit approach is consistent with that of the prior year. We have not identified any additional key audit matters and the determination of materiality remains in line with the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's going concern assessment, which included specific consideration of the impacts of the Covid-19 pandemic and the Group's operational resilience, in order to understand and assess the key judgements made by management;
- Obtaining management's capital and liquidity forecasts and assessing the key assumptions and their projected impact on capital and liquidity ratios;
- Assessing the consistency of assumptions used in forecasts with the assumptions used in other key estimates;
- Obtaining the most recent ICAAP and ILAAP submissions and involving our in-house prudential risk specialists to assess management's capital and liquidity projections and the results of management's capital reverse stress testing;
- Assessing key assumptions and methods used in the capital reverse stress testing models and checking the mechanical accuracy of the capital reverse stress testing models;
- Reading correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators, and evidence any changes to those requirements;
- Assessing the historical accuracy of forecasts prepared by management; and
- Assessing the appropriateness of the going concern disclosures made in the financial statements in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from the when the financial statements are authorised for issue.
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 on 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 2021 were £192.2m (2020: £160.8m), which represented 1.4% (2020: 1.3%) of loans and advances to customers. The income statement charge for the year was £51.3m (2020: £120.5m). As detailed in note 3 on pages 121 to 126 'Use of estimates and judgements', determining the ECL provision is inherently uncertain and requires management to make significant judgements and estimates. Covid-19 has increased the complexity in estimating ECLs, in particular with respect to the incorporation of forward-looking information and identifying significant increases in credit risk. Due to the considerable judgement required to estimate the ECL, which by its nature, gives 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. We identified five specific areas in relation to the ECL that require significant management judgement or relate to assumptions to which the overall ECL is particularly sensitive: • The appropriateness of the Probability of Default (PD) and Loss Given Default (LGD) considering the actual performance of the book. There is a risk that models are not reflective of the actual performance of the book given the unprecedented economic environment. • The staging and PD for Covid-19 affected borrowers and those with increased risk of distress. There is a risk that the models do not capture the increased risk of default in these customers/sectors. • The inclusion of post model adjustments (PMAs). The inherent limitations of credit risk models are that not all prevalent credit risks may be appropriately captured and thus are mitigated by PMAs which, given their nature, are based on management judgements and quantified using a range of assumptions. • The selection of macroeconomic scenarios and the associated weightings applied. ECL provisions are required to be calculated on a forward look basis under IFRS 9. Whilst the economic outlook has improved over the year, significant uncertainty still remains. Management have had to apply significant judgement to determine the future macroeconomic forecasts under the four different scenarios selected and the weighting applied to each scenario. • The ECL on significant exposures in default included in Stage 3 is individually assessed on a loan by loan basis considering the individual case workout strategy and valuation of collateral. There is a risk that the collateral is not appropriately valued, and all cash flows and workout scenarios are not considered.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant management assumptions and judgements used in the ECL determination. Given the inherent judgemental nature of determining the ECL provision we did not plan to rely on internal controls.

To challenge the modelled PDs (including those of Covid-19 affected borrowers) and LGDs we involved our credit modelling specialists and:

- Tested the key data inputs into the models for accuracy and completeness;
- Performed an assessment of the model methodology;
- Assessed whether the PDs and LGDs were calculated in line with the model methodology;
- Assessed the model performance monitoring and validation work undertaken by management;
- Segregated the population into different risk characteristics to assess whether PDs and LGDs were appropriate for those segments.

To challenge the staging of Covid-19 affected borrowers we:

- Performed a loan by loan independent qualitative assessment of a sample of affected borrowers and assessed whether these loans were included in the correct stage;
- Assessed the staging thresholds, significant increase in credit risk triggers and default definitions applied by management; and
- Identified sectors where we considered there to be a higher risk of default and assessed whether borrowers were in the correct stage and had an appropriate ECL.

To challenge the PMAs implemented by management we involved our credit modelling specialists and:

- Performed an assessment of management's model methodology to identify where model limitations existed and whether these were addressed by a PMA;
- Assessed whether each PMA was implemented appropriately and addressed the model limitation; and
- Validated management's process to identify PMAs and recalculated the quantification.

To challenge the macroeconomic forecasts and scenarios we involved our credit modelling specialists and economic advisory specialists and we:

- Assessed management's determination of the scenarios and probability weightings applied to them as at 30 June 2021;
- Evaluated the economic outlook under each of the scenarios with reference to available macroeconomic data;
- Assessed whether the appropriate scenarios and forecasts were implemented in the model;
- Performed a benchmarking exercise to compare the weightings and forecasts implemented by management to those used by peer lenders;
- Assessed whether management had implemented an appropriate selection of economic variables; and
- Assessed whether the macroeconomic scenarios and forecasts translated into an appropriate ECL under each scenario.

To challenge the provisions that are individually assessed by management we:

- Independently assessed the appropriateness of the workout scenarios considered by management;
- Involved our property valuation specialists for exposures with complex collaterals to independently assess the property values applied in the ECL calculation;
- Evaluated the expected cash flows for the individual cases; and
- Tested the mechanical accuracy of the ECL by recalculating the ECL amount for a sample of exposures.

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). As detailed in note 3, 'Use of estimates and judgements' on pages 121 to 126 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 £436.4m (June 2020: £370.5m). 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 which 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 prepayment information. 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. Given the inherent judgemental nature of determining the EIR calculation we did not plan to rely on internal controls. In addition, for all portfolios we: • Assessed management's accounting policies and confirmed they are in accordance with accounting standards. A particular focus was the fees included / excluded from the EIR models; • Tested the relevant loan data inputs, to check they had been completely and accurately included in the EIR models; and • 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 loan prepayments we involved our data analytic specialists to: • Assess 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	£6.1m (2020: £5.5m)	£3.1m (2020: £2.8m)
Basis for determining materiality	0.5% of Net Assets (2020: 0.5% of Net Assets)	0.5% of Net Assets (2020: 0.5% of Net Assets)
Rationale for the benchmark applied	In the prior year the impact of Covid-19 led to significant volatility in the profit before tax. Given the continued uncertainty and volatility in earnings we therefore continued to identify net assets as a more stable and appropriate benchmark on which to base our materiality.	For the parent company financial statements, we have determined our materiality on the basis of 0.5% of net assets, but this has been 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.

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.

	Group financial statements	Parent Company financial statements
Performance materiality	70% (2020: 40%) of group materiality	70% (2020: 40%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year. Our performance materiality was reduced to 40% in the prior year in response to the potentially pervasive impact of Covid-19 on the control environment and financial reporting as well as to comply with the instructions provided to us by the auditor of FirstRand Limited.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300k (2020: £140k), 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 engagement team.

7.2. Our consideration of the control environment

In order to test controls, a combination of re-performance, inquiry, observation and inspection was performed on a sample basis, tailored to the nature and timing of each control. The IT systems used for the gross loans and advances to customers were in scope for our control testing approach.

We planned to take a controls reliance strategy over gross loans and advances to customers. We obtained an understanding and tested controls within the following lending cycles: mortgages, asset finance, invoice finance, and motor leases. Based on our work performed, we identified that the IT user access review controls over the key mortgages system did not operate effectively during the financial reporting period. We were therefore not able to take a controls reliance approach for our audit of the mortgages cycle. We modified our planned audit approach and, increased the extent of our audit procedures over these balances.

The Audit Committee has performed their own assessment of the internal control environment as set out on page 41.

8. OTHER INFORMATION

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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;
- the matters discussed among the audit engagement team and involving relevant internal 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 Group for fraud and identified the greatest potential for fraud in the following areas: expected credit losses on loans and advances to customers and effective interest rate income recognition. 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 UK 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 authorised permissions and regulatory capital, liquidity and solvency requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified expected credit losses on loans and advances to customers and effective interest rate income recognition were relevant 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.

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 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 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 2021 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 WHICH WE ARE REQUIRED TO ADDRESS

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 year ended 30 June 2018 and subsequent financial periods. The period of total uninterrupted engagement of the firm is 4 years, covering the years ending 30 June 2018 to 30 June 2021.

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
14 September 2021

Consolidated income statement
For the year ended 30 June 2021

	Note	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Interest income	5	592.5	563.8
Interest expense	6	(156.1)	(193.3)
Net interest income		436.4	370.5
Fee and commission income	7	6.8	5.6
Fee and commission expense	8	(10.1)	(10.1)
Net losses from derivatives and other financial instruments at fair value through profit or loss	9	(0.5)	(8.1)
Net gains/(losses) on disposal of financial assets at fair value through other comprehensive income		0.7	(0.1)
Other operating income		37.6	54.3
Total operating income		470.9	412.1
Provisions	29	(3.8)	(3.2)
Other administrative expenses	10	(245.3)	(216.8)
Administrative expenses	10	(249.1)	(220.0)
Depreciation and amortisation	14	(12.6)	(12.1)
Operating profit before impairment losses		209.2	180.0
Share of profit of associate	22	0.7	0.5
Impairment losses on loans and advances to customers	19	(51.3)	(120.5)
Impairment losses on lease modifications	19	(0.8)	(11.2)
Profit before taxation		157.8	48.8
Taxation	15	(33.4)	(10.2)
Profit after taxation - attributable to equity holders of the Group		124.4	38.6

The notes and information on pages 105 to 170 form part of these financial statements.

Consolidated statement of comprehensive income
For the year ended 30 June 2021

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Profit after taxation	124.4	38.6
Other comprehensive income/(expense):		
Items that may subsequently be transferred to the income statement:		
FVOCI debt securities:		
Fair value movements	10.3	1.8
Amounts transferred to the income statement	(0.7)	(0.5)
Taxation	(2.8)	(0.3)
Total other comprehensive income	6.8	1.0
Total comprehensive income attributable to equity holders of the Group	131.2	39.6

The notes and information on pages 105 to 170 form part of these financial statements.

Consolidated statement of financial position
As at 30 June 2021

	Note	30 June 2021 £m	30 June 2020 £m
Assets			
Cash and balances at central banks	36	688.5	542.4
Loans and advances to banks	16	223.0	228.6
Debt securities	17	1,999.5	1,941.1
Derivatives held for risk management	18	19.6	9.3
Loans and advances to customers	19	13,420.4	12,425.7
Fair value adjustment for portfolio hedged risk		14.2	58.1
Other assets		29.4	20.7
Prepayments and accrued income		18.4	15.4
Taxation asset		0.7	11.8
Deferred taxation	21	7.6	4.5
Investment in associates	22	5.7	5.5
Plant and equipment	23	47.1	46.8
Intangible assets	24	15.0	13.7
Total assets		**16,489.1**	**15,323.6**
Liabilities			
Amounts due to banks	25	1,326.6	2,173.5
Customers' accounts	26	12,427.4	10,886.4
Derivatives held for risk management	18	40.9	99.8
Fair value adjustment for portfolio hedged risk	18	-	2.1
Other liabilities	27	84.7	90.5
Accruals and deferred income	28	62.9	32.5
Current taxation		11.0	-
Provisions	29	5.1	4.5
Debt securities in issue	30	1,085.7	712.3
Subordinated notes	31	213.6	213.5
Total liabilities		**15,257.9**	**14,215.1**
Equity			
Share capital	33	243.9	243.9
Share premium account		74.4	74.4
Additional Tier 1 capital	35	108.0	108.0
Capital redemption reserve		0.1	0.1
Fair value through other comprehensive income		8.3	1.5
Retained earnings		796.5	680.6
Total equity		**1,231.2**	**1,108.5**
Total liabilities and equity		**16,489.1**	**15,323.6**

The notes and information on pages 105 to 170 form part of these financial statements.
These financial statements were approved by the Board and were signed on its behalf by:

Steven Cooper
Director
14 September 2021
Registered number: 06764335

Claire Cordell
Director
14 September 2021

Consolidated statement of cash flows
For the year ended 30 June 2021

	Note	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Cash flows from operating activities			
Profit before taxation		157.8	48.8
Adjustments for non-cash items and other adjustments included within the income statement	36	65.8	136.2
Increase in operating assets	36	(973.3)	(2,106.9)
Increase in operating liabilities	36	663.8	2,315.3
Income tax paid		(17.1)	(40.3)
Net cash flows (used in)/generated from operating activities		**(103.0)**	**353.1**
Cash flows from investing activities			
Purchase of debt securities	17	(444.6)	(1,085.3)
Proceeds from sale and maturity of debt securities	17	333.1	281.3
Capital repayments of debt securities	17	61.4	89.7
Interest received on debt securities	5	6.8	8.5
Purchase of property, plant and equipment and intangible assets		(14.1)	(7.2)
Net cash used in investing activities		**(57.4)**	**(713.0)**
Cash flows from financing activities			
Proceeds from issue of debt securities	30	519.5	592.6
Capital repayments on debt securities issued	30	(146.2)	(144.5)
Coupons paid on Additional Tier 1 capital	35	(8.6)	(12.4)
Proceeds from the issue of Additional Tier 1 capital		-	61.0
Redemption of Additional Tier 1 capital		-	(75.0)
Interest paid on debt securities issued	30	(7.1)	(8.1)
Repayment of lease liabilities – principal		(5.1)	(3.4)
Interest paid on lease liabilities		(0.4)	(0.4)
Net cash generated from financing activities		**352.1**	**409.8**
Net increase in cash and cash equivalents		**191.7**	**49.9**
Cash and cash equivalents at start of the period	36	583.6	533.7
Movement during the period		191.7	49.9
Cash and cash equivalents at end of the period	36	**775.3**	**583.6**

Consolidated statement of changes in equity
For the year ended 30 June 2021

	Note	Share capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	FVOCI reserve £m	Retained earnings £m	Total £m
Year ended 30 June 2021								
As at 1 July 2020		243.9	74.4	108.0	0.1	1.5	680.6	1,108.5
Profit after taxation		-	-	-	-	-	124.4	124.4
Other comprehensive income		-	-	-	-	6.8	-	6.8
- Coupon paid on Additional Tier 1 capital securities		-	-	-	-	-	(8.5)	(8.5)
As at 30 June 2021		243.9	74.4	108.0	0.1	8.3	796.5	1,231.2
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

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 the UK adopted IFRS.

During the year ended 30 June 2021, the Group has adopted the following new amendment to existing standards which were effective for accounting periods starting on or after 1 July 2020. There were no new standards in the year which effected the Group.

New Accounting Standards	Description of change	Impact on the Group
IBOR Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	The amendments provide temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative nearly risk-free interest rate (RFR). These included: ➢ Practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred. Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are substantial, the instrument is derecognised. If they are not substantial, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss. ➢ The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes. The amendments provide temporary relief to entities from having to meet the separately	Although the amendments are effective for periods beginning on or after 1 January 2021, the Group elected to early adopt the Phase Two amendments. In doing so, the practical expedients were applied for advances and lease receivables where changes in the movement in a market rate of interest impacted by IBOR, was treated as a change in a floating interest rate and not as a modification in terms of IFRS 9. Any other changes to the interest rate made at the same time were assessed to determine if they were substantial enough to warrant a derecognition event or if not deemed significant, then to update the EIR and recognise the resultant modification gain or loss. The other temporary relief provided under Phase Two, relate to hedge accounting under IFRS 9. The Group has evaluated the relief provided against the current hedges in place and noted that no adjustment was necessary. Furthermore, it was noted that no comparative information required restatement and as such, there was no impact on the current period opening reserves balance upon early adoption. Early adoption required the Group to provide the following disclosure: ➢ How the Group is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform;

New Accounting Standards	Description of change	Impact on the Group
	identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.	➢ Disaggregated by each significant IBOR benchmark, quantitative information about financial instruments that have yet to transition to RFRs; and ➢ If IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes. See page 83 for the Group disclosures.

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, see page 169 for the Company profit disclosure.

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 Bank 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 2021.

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. 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 future increases in expected credit losses. As part of this, the Directors considered revised macroeconomic scenarios which were received from the Group's in-house experts. These are discussed 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;
- Current and forecasted conditions are significantly less severe than the reverse stress scenario considered in the latest ICAAP presented to the Prudential Regulation Authority;
- The plans for further improving the operational resilience of the Group including cyber and information security, information technology, supplier management, people and property. These improvements are planned as part of ongoing investment activity in the Aldermore Group;
- 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 57 to 87. 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 90.

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 UK (except where stated) are applicable to the business of the Group. The Group will comply with these from the stated effective date.

New Accounting Standards	Description of change	Impact on the Group
Classification of liabilities as current or non-current (IAS 1)	The amendments clarify the requirements for classifying liabilities as current or non-current. More specifically: ➢ The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. ➢ Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments clarify the situations that are considered settlement of a liability.	Effective date: 01 July 2022 – 30 June 2023. The Group presents its assets and liabilities in order of liquidity in its statement of financial position. This amendment will only affect the disclosures and the Group does not expect this amendment to have a significant impact on the annual financial statements.
Property, plant and equipment (IAS 16)	The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.	Effective date: 01 July 2022 – 30 June 2023. The amendment is not expected to have a significant impact on the annual financial statements.
Onerous contracts – cost of fulfilling a contract (IAS 37)	The amendments apply a ‘directly related cost approach’. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.	Effective date: 01 July 2022 – 30 June 2023. The amendment is not expected to have a significant impact on the annual financial statements.
Business combinations (IFRS 3)	Reference to the Conceptual Framework – Amendment to IFRS 3. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the	Effective date: 01 July 2022 – 30 June 2023. The amendment is not expected to have a significant impact on the annual financial statements.

New Accounting Standards	Description of change	Impact on the Group
	scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.	
Improvements to IFRS (Annual improvements 2016 – 2018)	The IASB issued the Annual improvements to IFRS standards 2016-2018 Cycle. These annual improvements include amendments to the following standards. IFRS 9 – The amendment clarifies that fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.	Effective date: 01 July 2022 – 30 June 2023. The amendments are not expected to have a significant impact on the annual financial statements.
Improvements to IFRS (Annual improvements 2018 – 2020)	IFRS 1 First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter ➢ The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. IFRS 9 Financial Instruments Fees in the '10 per cent' test for derecognition of financial liabilities ➢ The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. ➢ An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.	Effective date: 01 July 2022 – 30 June 2023. The amendments are not expected to have a significant impact on the annual financial statements.

2. Significant accounting policies

(a) Interest income and expense

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

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 note19);
- Interest income is net of variations in interest income which reflect any non-compliance of interest charged to customers;
- Modification gains and losses in Asset Finance calculated on the modified cash flows, discounted at the original interest rate and 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

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers. 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.

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 point in time or over a period of time.

The vast majority of fee and commission income is earned on the execution of a single performance obligation and as such, it is not necessary to make significant judgements when allocating the transaction price to the performance obligation. As such, fee and commission income is recognised at a point in 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.

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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. MotoNovo Finance recognises a reduction of certain income for policies expected to be cancelled against this based on the long run average cancellation rate over the life of the agreement.
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 gains/(losses) from derivatives and other financial instruments at fair value through profit or loss relate 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

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the TFS and TFSME (Term Funding Scheme with additional incentive for SMEs) 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 2021 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 the 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 cash flows 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 net of transaction costs incurred. They are subsequently measured at amortised cost. Any difference between the fair value 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 estimate 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. The Group deems the likelihood of default across the respective asset counterparties as immaterial, and hence does not recognise a provision against the carrying balances.

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.

Accounts that have requested payment breaks in relation to Covid-19 that were not in arrears at the start of the payment break 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;
- Qualitative criteria, which vary according to the type of lending being undertaken, but include indicators such as bankruptcies, Individual Voluntary Arrangements and permanent forbearance; and
- Accounts that have requested Covid-19 related payment breaks in excess of 6 months are considered to be in distress and moved to stage 3.

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.

During the reporting period the Group has changed the sourcing of its forward-looking economic scenarios and probability weightings from an external supplier to internally produced scenarios.

(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.

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 accumulated 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
- Assets under operating leases — one to seven 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 on the acquisition of businesses and subsidiaries represents excess consideration transferred and is recognised as an intangible asset at cost less accumulated impairment losses.

ii. Computer systems

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Cloud computing software is expensed to the Income Statement unless the recognition criteria in IAS 38 can be met.

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 for impairment. Goodwill is tested annually for impairment or earlier if there are objective indicators of impairment. Other intangible assets are reviewed for impairment semi – annually or earlier if there is an indicator 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 higher 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

Other intangible assets are tested for impairment at least semi-annually. 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. 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 elected to apply the short-term lease exemption to leases with a lease term of less than 12 months. The Group recognises lease liabilities at the present value of the lease payments outstanding at commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Each lease payment is allocated between lease liability and interest expense. Interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are recognised at cost, comprising the amount of initial measurement of the lease liability plus initial direct costs. The right-of use asset is subsequently depreciated over the lease term on a straight-line basis.

(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.

See note 29 for provisions in respect of customer redress and other provisions in accordance with IAS 37.

(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 income tax arising from distributions made on other equity instruments is recognised in the income statement as the distributions are made from retained earnings arising from profits previously recognised in the income statement.

Deferred tax assets arise on tax deductible temporary differences and are recognised to the extent that these may be utilised against available taxable profits based on management's review of the budget and forecast information. 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 reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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.

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 change 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 - as part of their remuneration - awards, which are linked to the quoted share price of FirstRand Limited. The awards are recognised in the financial statements 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.

The cost of such awards are settled by payments made by the Company to an associate of the FirstRand Group which assumes the 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. This results in the derecognition of the share-based payment obligation and the recognition of a prepaid debtor, which the Group releases to the income statement over the vesting period of the original award granted to the employees.

In respect of the equity-settled schemes entered into before the takeover in March 2018, 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 the investee. 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 continued 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 2(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 2(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 2(g) for more details.

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

As explained in note 2(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 change in the definition of default to include cases in distress that had taken a Covid-19 related payment break during the year. It should be noted that £21.7 million (30 June 2020: £2.3 million) of the stage 3 ECL at 30 June 2021 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 £7.3 million as at 30 June 2021 (30 June 2020: £10.2 million).

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"), used car prices 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 £16.0 million as at 30 June 2021 (30 June 2020: £19.7 million).
- A 10.0% relative reduction in the HPI would increase the total impairment provisions for mortgage lending by £8.4 million as at 30 June 2021 (30 June 2020: £4.4 million).
- A 5.0% absolute increase in the FSD would increase the total impairment provisions for mortgage lending by £6.3 million as at 30 June 2021 (30 June 2020: £2.1 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 £2.6 million as at 30 June 2021 (30 June 2020: £2.9 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 £5.9 million as at 30 June 2021 (30 June 2020: £4.5 million).
- A 20.0% relative reduction in the TTS would reduce the total impairment provisions for mortgage lending and Asset Finance business by £2.2 million as at 30 June 2021 (30 June 2020: £1.7 million)

Forward looking macroeconomic scenarios

From 1 July 2019 to 28 February 2021 the probability weighted forward-looking macroeconomic scenarios were obtained through the IFRS9 Scenario Service from Oxford Economics. After this period the scenarios have been obtained through an internal function of the Group. The move to the internal scenarios reduced the number of scenarios from six to four, assisting the Group in having greater control over the shape and severity of the forecasts and also creating an alignment between provisioning and scenario information used for budgeting. It is recognised that due to Covid-19, macroeconomic projections for the UK economy are changing rapidly. For this reason, the economic scenarios were obtained on a monthly basis throughout the period.

The probability weighted scenarios are used to model impacts on ECL through an expert judgement-based model. The model combines a cohort of carefully selected macroeconomic variables with expert judgement assigned weightings to produce an index ranging between 0 and 100. An index level of 50 corresponds to a through the cycle level. An index level below 50 indicates worse than average economic conditions and an index level above 50 describes better than average economic conditions.

As the forecast moves further into the horizon, mean reversion is introduced to bring the index level toward the mean as the forecast date moves over the 5 year forecast period.

The IFRS9 scenarios used at 30 June 2021 use forecast-error distributions as outlined below:

- Upside scenario;
- Base 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. Scenarios and weightings are approved at the Credit Management Forum prior to deployment for use in the ECL.

As at 30 June 2021, 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	Bank of England Base Rate	Unemployment rate	Consumer Price Index
Severe Downside	15%	(1.50%)	(0.43%)	8.44%	0.66%
Downside	25%	1.42%	(0.14%)	6.46%	1.13%
Base	50%	2.17%	0.12%	4.76%	1.64%
Upside	10%	4.09%	1.04%	3.78%	2.48%

As at 30 June 2021, applying a 100% weighting to the severe downside scenario would result in an incremental £25.5 million of provisions being required. Applying a 100% weighting to the upside scenario would result in a £27.1 million reduction of provisions being required. The macroeconomic impact and post model adjustments are excluded from this weighting.

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	Bank of England Base Rate	Unemployment rate	Consumer Price Index
Severe Downside	15%	4.75%	(0.34%)	7.61%	0.684%
Downside	10%	5.47%	(0.02%)	6.97%	0.960%
Stagnation	10%	5.91%	0.24%	6.60%	1.126%
Base	45%	7.02%	0.23%	4.28%	1.639%
Mild Upside	10%	7.69%	1.13%	4.11%	1.898%
Upside	10%	8.25%	1.61%	3.07%	2.170%

The external provider's forecasts only covered a 5-year period, so the Group 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 macroeconomic 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 macroeconomic 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 periodic basis at the Credit Management Forum and Audit Committee. The PMAs applied at 30 June 2021 are listed below:

- Asset Price and Property Price PMA applied to the MotoNovo Finance, Asset Finance, Commercial Mortgages, Buy to Let, Property Development and Residential Mortgages portfolios to reflect potential increased volatility in asset and property values driven by economic uncertainty due to Covid-19;
- Non-Performing Loan PMA applied to MotoNovo Finance customers to account for the FCA prohibition on Write-Offs and Recoveries. During the initial stages of the Covid-19 pandemic, the FCA launched a prohibition on vehicle repossession; this lasted until 31 January 2021. The inability to repossess meant that the business could not write-off loans that were beyond the point of repaying as the vehicle could not be recovered. A PMA was introduced to account for the higher losses that are likely to accrue due to the vehicle ageing and the balance not being repaid;
- Covid-19 Scalar PMA applied to customers that have taken a payment break in relation to Covid-19 to account for the additional risk of default once the payment break has 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 break was in place. The model assigned a Covid-19 adjusted PD at a contract level for the customers who requested a payment break, the Covid-19 adjusted PDs are compared to the macroeconomic 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 breaks, they are covered by the Covid-19 Scalar PMA (as above). Where customers in these sectors have not requested payment breaks, 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;
- 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;
- PMA to compensate for a lack of historic impairments causing volatility in the observed defaults and loss given defaults;
- Operational controls on payment breaks impacting ECL staging PMA;
- Cladding PMA to cover additional risk in relation to properties with cladding that may require removal/refitting; and
- Management overlay PMA to reflect its view that the forward-looking scenarios used to build the forward-looking information (FLI) component of the ECL cannot appropriately incorporate all of the potential short to medium-term risk given the uncertainty created by Covid-19. The PMA has been isolated to the SME sector of the Group's portfolio, as this sector is deemed the most sensitive to any likely adverse impacts.

The total value of ECL PMAs as at 30 June 2021 is £42.8 million (30 June 2020: £38.8 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 £6.9 million as at 30 June 2021 (30 June 2020: £3.2 million).

(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 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, Asset 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 2021, included within the overall Residential Mortgages book, are a small number of portfolios which were acquired by the Group and represent approximately 1.1% and 0.7% of Buy to Let and Residential Mortgages net loans respectively (30 June 2020: 1.0% and 1.3% 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 during the year. As a consequence, an overall adjustment of £14.8 million (30 June 2020: £3.1 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. Buy to Let was impacted most materially from this reassessment during the year, reflecting changed customer behaviour in more recent years (principally lower repayment levels).

The adjustment made at the year end is analysed as follows:

	Year ended 30 June 2021 interest income £m	Year ended 30 June 2020 interest income £m
Asset Finance - organic lending	(1.1)	(0.3)
SME Commercial - organic lending	(1.6)	(2.3)
Buy to Let - organic lending	(13.3)	(1.1)
Residential - acquired portfolios	(1.0)	0.8
Residential - organic lending	2.2	(0.2)
	(14.8)	(3.1)

A change in the estimated expected lives to extend the expected lives of the SME Commercial, Buy to Let and Residential Mortgage portfolios by six months would have the effect of reducing the cumulative profit before tax recognised as at 30 June 2021 by £0.7 million (30 June 2020: cumulative increase in profit of £0.5 million). Included within this sensitivity of £0.7 million, is a £1.2 million cumulative reduction in profit relating to acquired portfolios (30 June 2020: £1.4 million) due to a change in the unwind of the discount together with a £0.5 million cumulative increase in profit relating to the organic portfolios (30 June 2020: cumulative increase in profit of £1.9 million).

There were not any critical accounting estimates in Asset Finance or MotoNovo Finance.

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 SME Commercial Mortgages); Retail Finance (made up of Residential Owner Occupied Mortgages and Buy to Let Mortgages) and MotoNovo Finance. All 2021 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 2021 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 Owner Occupied 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 2021

	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	93.4	23.2	62.2	192.3	85.7	148.0	(12.3)	592.5
Interest expense – external customers	-	-	-	-	-	-	(156.1)	(156.1)
Interest (expense)/income – internal	(20.8)	(2.0)	(11.0)	(77.2)	(27.6)	(34.7)	173.3	-
Net fees and other income – external customers	2.5	3.7	0.6	0.2	0.2	32.5	(5.2)	34.5
Total operating income	**75.1**	**24.9**	**51.8**	**115.3**	**58.3**	**145.8**	**(0.3)**	**470.9**
Administrative expenses including depreciation and amortisation	(15.5)	(9.3)	(7.2)	(12.5)	(6.6)	(82.0)	(128.6)	(261.7)
Impairment losses	(4.3)	(1.0)	(5.3)	(13.4)	(2.8)	(25.3)	-	(52.1)
Share of profit of associate	-	-	-	-	-	-	0.7	0.7
Segmental result	**55.3**	**14.6**	**39.3**	**89.4**	**48.9**	**38.5**	**(128.2)**	**157.8**
Tax								(33.4)
Profit after tax								**124.4**
Assets	1,570.3	401.6	1,126.0	5,159.5	2,136.2	3,026.8	3,068.2	16,488.6
Liabilities							(15,257.4)	(15,257.4)
Net assets/(liabilities)	**1,570.3**	**401.6**	**1,126.0**	**5,159.5**	**2,136.2**	**3,026.8**	**(12,189.2)**	**1,231.2**

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[1] £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**

5. Interest income

On financial assets not at fair value through profit or loss:	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
On loans and advances to customers*	604.7	557.7
On loans and advances to banks	0.7	3.1
On debt securities - measured at FVOCI	8.1	8.7
	613.5	**569.5**
On financial assets at fair value through profit or loss:		
Net interest expense on financial instruments hedging assets	(21.0)	(5.7)
	592.5	**563.8**

* Interest Income on loans and advances to customers includes a £(2.2) million adjustment to reflect the non-compliant nature of interest charged to customers during a period of non-compliance. See note 29 for more information.

6. Interest expense

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
On financial liabilities not at fair value through profit or loss:		
On customers' accounts	118.3	146.4
On amounts due to banks	2.8	9.9
On debt securities in issue	10.0	9.4
On subordinated notes	12.7	12.7
On lease liabilities	0.4	0.4
Other	0.5	0.3
	144.7	**179.1**
On financial liabilities at fair value through profit or loss:		
Net interest expense on financial instruments hedging liabilities	11.4	14.2
	156.1	**193.3**

7. Fee and commission income

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Invoice Finance fees	0.9	0.8
Valuation fees	0.9	0.5
HP income, option fees and secondary rental fees	2.1	1.7
Annual administration and arrears fees	0.6	0.7
Other fees	2.3	1.9
	6.8	**5.6**

8. Fee and commission expense

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Introducer commissions	1.0	0.8
Legal and valuation fees	1.1	1.9
Company searches and other fees	6.4	5.9
Credit protection and insurance charges	1.6	1.5
	10.1	10.1

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

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Net gains/(losses) on derivatives	(0.3)	(8.2)
Net (losses)/gains on available for sale assets held in fair value hedges	(0.2)	0.1
	(0.5)	(8.1)

Included within net gains / (losses) on derivatives on financial instruments at fair value through profit or loss are gains of £44.2million (2020: £47.5 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 losses of £44.4 million (2020: £40.0 million gain) representing changes in the fair value of the hedged interest rate risk. Also included are losses of £3.5 million (2020: £2.3 million gain) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with customer deposits, together with gains of £2.6 million (2020: £1.1 million loss) representing changes in the fair value of the hedged interest rate risk.

10. Administrative expenses

	Note	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Staff costs	11	138.8	108.5
Legal and professional and other services		38.4	42.6
Information technology costs		44.5	37.3
Office costs		6.2	7.1
Provisions	29	3.8	3.2
Impairment of leases		0.6	-
Other		16.8	21.3
		249.1	220.0

Included in legal and professional and other services is remuneration to the Group's external auditors (Deloitte LLP) for the annual audit of £1.3 million, of which £0.1m relates to prior year overruns (2020: £1.0 million) and £0.1 million for other assurance services (2020 £0.1 million).

Included in office costs are operating lease rentals (including service charges) of £0.8 million (2020: £1.5 million).

Included in other administrative expenses are costs relating to temporary staff of £5.6 million (2020: £11.4 million), travel and subsistence of £0.3 million (2020: £2.7 million) and staff recruitment of £2.2 million (2020: £2.2 million).

11. Staff costs

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Wages and salaries	115.1	89.1
Social security costs	13.8	11.2
Other pension costs	5.9	5.5
Share based payments	4.0	2.7
	138.8	**108.5**

Wages and salaries in 2021 includes the reintroduction of staff bonuses of £21.3m that were not awarded in 2020 due to the pandemic.

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

	Year ended 30 June 2021	Year ended 30 June 2020
Central functions	695	677
Business Finance and Retail Finance	576	540
MotoNovo Finance	758	749
	2,029	**1,966**

12. Remuneration of directors

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Directors' emoluments	4,113.8	2,750.8
Payments in respect of personal pension plans	60.2	98.3
Contributions to money purchase pension scheme	17.0	10.3
Long term incentive schemes	177.3	678.6
	4,368.3	**3,538.0**

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 2021, the Group's securitisation vehicles paid third party fees of £44,500 for corporate director services (2020: £29,000). 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 incentive schemes were introduced following the acquisition by FirstRand in March 2018. These new schemes are a mixture of equity-settled, a requirement to purchase FirstRand shares at vesting, and cash-settled schemes. Amounts are reflected in the above remuneration disclosures when the awards are payable as a result of the Director 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 2021 £'000	Year ended 30 June 2020 £'000
Emoluments	1,392.7	855.0
Payments in respect of personal pension plans	49.5	47.8
Long term incentive schemes	177.3	678.6
	1,619.5	**1,581.4**

13. Pension and other post-retirement benefit commitments

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £5.9 million (2020: £5.5 million) were charged to the income statement during the year in respect of these schemes. The Group made payments amounting to £60,220 (2020: £86,040) in aggregate in respect of Directors' individual personal pension plans during the year. There were outstanding contributions of £0.7 million at the year end (2020: £0.5 million).

14. Depreciation and amortisation

	Note	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Depreciation	23	10.6	8.7
Amortisation of intangible assets	24	2.0	3.4
		12.6	**12.1**

15. Taxation

a) Tax charge

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Current tax on profits for the year	39.5	11.4
Over provision in previous periods	(0.2)	(1.2)
Total current tax	**39.3**	**10.2**
Deferred tax	(5.5)	-
Over provision in previous periods	(0.4)	-
Total deferred tax charge/(credit)	**(5.9)**	**-**
Total tax charge	**33.4**	**10.2**

Current tax on profits reflects UK corporation tax levied at a rate of 19% for the year ended 30 June 2021 (30 June 2020: 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 £2.8 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 2021 (30 June 2020: £0.3 million credit).

The tax relief on the contingent convertible security coupon costs for the consolidated Group for the year is £2.0 million (30 June 2020: £2.6 million). This comprises £1.6 million at mainstream rate (30 June 2020: £2.3 million) and £0.4 million at surcharge rate (30 June 2020: £0.3 million).

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023 as substantively enacted on 24 May 2021. Deferred tax amounts are measured taking into account this change.

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 2020: 19%). The differences are explained below:

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Profit before tax	157.8	48.8
Tax at 19% (2020: 19%) thereon	30.0	9.3
Effects of:		
Expenses not deductible for tax purposes	0.3	0.2
Over provision in previous periods	(0.6)	(1.2)
Deferred tax rate adjustment	(2.1)	-
Effect of banking tax surcharge	8.0	3.9
Other differences	(0.6)	0.3
Tax credit relief for contingent convertible securities coupon	(1.6)	(2.3)
	33.4	10.2

The effective tax rate of 21.1% (30 June 2020: 21.0%) is higher than the UK corporation tax rate due to the impact of the banking surcharge.

16. Loans and advances to banks

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	123.0	71.1
Cash collateral on derivatives placed with banks	84.8	147.6
Other loans and advances to banks	15.2	9.9
	223.0	228.6

£15.2 million is recoverable more than 12 months after the reporting date in respect of cash held by the Group's securitisation vehicles (30 June 2020: £10.0 million).

All loans and advances to banks were stage 1 assets under IFRS 9 as at 30 June 2021 and as at 30 June 2020. There were no significant impairment provisions in respect of expected losses as at 30 June 2021 or during the year then ended.

17. Debt securities

	30 June 2021 £m	30 June 2020 £m
FVOCI debt securities:		
UK Government gilts	133.3	189.0
Supranational bonds	1,061.2	990.6
Treasury bonds	-	46.1
Asset-backed securities	115.4	114.4
Covered bonds	495.9	529.7
Debt securities at amortised cost		
UK Government gilts	107.3	48.4
Supranational bonds	86.4	22.9
	1,999.5	**1,941.1**

At 30 June 2021, £1,659.6 million (30 June 2020: £1,875.5 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 2021 and as at 30 June 2020. There were no significant impairment provisions in respect of expected losses as at 30 June 2021 or as at 30 June 2020.

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:

	2021		2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Instrument type				
Interest rate (not in hedging relationships)	1.8	1.6	3.9	4.1
Interest rate (fair value hedges)	17.8	39.3	5.3	95.6
Equity	-	-	0.1	0.1
	19.6	40.9	9.3	99.8

All derivatives are held either as fair value hedges qualifying for hedge accounting (from January 2014) or are held for the purpose of managing risk exposures arising on the Group's other financial instruments (all periods).

a) Fair value hedges of interest rate risk

In accordance with its risk management strategy as described on page 57, 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 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:

	Nominal amount of the hedging instruments Year ended 30 June 2021	Carrying amount of the hedging instruments Year ended 30 June 2021		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 2021
Fair value hedges *Interest rate risk*	£m	Assets £m	Liabilities £m		£m
Interest rate swaps	10,591.1	17.8	39.3	Derivatives held for risk management	63.6

	Nominal amount of the hedging instruments Year ended 30 June 2020	Carrying amount of the hedging instruments Year ended 30 June 2020		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
Fair value hedges *Interest rate risk*	£m	Assets £m	Liabilities £m		£m
Interest rate swaps	8,328.7	5.0	92.8	Derivatives held for risk management	(59.6)

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:

	Carrying amount of the hedged items Year ended 30 June 2021		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged items Year ended 30 June 2021		Line item in the statement of financial position where the hedged items are included
Fair value hedges *Interest rate risk*	Assets £m	Liabilities £m	Assets £m	Liabilities £m	
Loans and advances to customers	8,168.3	N/A	13.7	N/A	Loans and advances to customers
Debt securities	899.8	N/A	(0.9)	N/A	Debt securities
Customer deposits	N/A	2,765.0	N/A	0.5	Customer accounts

	Carrying amount of the hedged items Year ended 30 June 2020		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		Line item in the statement of financial position where the hedged items are included
Fair value hedges *Interest rate risk*	Assets £m	Liabilities £m	Assets £m	Liabilities £m	
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

The table below summarises the hedge ineffectiveness recognised in profit or loss during the financial year ended 30 June 2021 and the comparative period, for the Group's designated fair value hedge relationships.

	Ineffectiveness recognised in the income statement Year ended 30 June 2021 £m	Line item in the statement of financial position where the hedged instrument is located
Fair value hedges *Interest rate risk*	5.7	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 2020 £m	Line item in the statement of financial position where the hedged 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

Interest Rate Benchmark Reform (“IBOR”)

The Group adopted the amendments to IAS 39 and IFRS 9 Interest Rate Benchmark Reform in the current year. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the financial period or were designated thereafter.

The amendments provide temporary relief from specific hedge accounting requirements to hedging relationships directly affected by any IBOR reform. The reliefs have the effect that the IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness would continue to be recognised in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from IBOR reforms no longer being present.

The relief provided by the amendments that apply to the Group are as follows:

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Group assumes that the IBOR interest rate in the hedge relationship is not altered by its corresponding IBOR reform; and
- The Group only assessed whether the hedged IBOR risk component is a separately identified risk at first designation and not on an ongoing basis.

The total notional amount of the derivatives impacted by IBOR are set out below:

	Notional Amount £m
GBP LIBOR	283.7

These derivatives will be transitioned via ISDA protocols. Refer to page 83 for a detailed explanation of how the Group is managing the transition to alternative risk-free rates.

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 2021 £m	30 June 2020 £m
Gross loans and advances	13,612.6	12,586.5
less: allowance for impairment losses	(192.2)	(160.8)
	13,420.4	**12,425.7**
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	11,627.4	10,897.5

At 30 June 2021, loans and advances to customers of £3,425.1 million (30 June 2020: £2,987.0 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 2021, loans and advances to customers included £1,146.6 million (30 June 2020: £795.5 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

£m	30 June 2021			
	Gross loans and advances (amortised cost)			
	Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2020	10,992.4	1,356.3	237.8	12,586.5
Improvement in credit exposure				
Stage 2 to stage 1	633.9	(633.9)	-	-
Stage 3 to stage 1	9.5	-	(9.5)	-
Stage 3 to stage 2	-	8.7	(8.7)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(574.9)	574.9	-	-
Stage 1 to stage 3	(149.9)	-	149.9	-
Stage 2 to stage 3	-	(74.5)	74.5	-
Opening balance after transfers	10,911.0	1,231.5	444.0	12,586.5
Repayments of loans and advances	(2,533.6)	(421.1)	(63.7)	(3,018.4)
Change in exposure due to new business in the current year	3,757.1	276.0	45.2	4,078.3
Modifications that did not give rise to derecognition	(0.4)	(0.2)	(0.1)	(0.7)
Bad debts written off	-	-	(33.1)	(33.1)
Amount as at 30 June 2021	12,134.1	1,086.2	392.3	13,612.6

£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	60.1	5,133.7
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	237.9	12,586.6

Analysis of loss allowances

£m	30 June 2021 Allowance for impairment losses (amortised cost)			
	Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2020	**63.5**	**49.9**	**48.0**	**161.4**
Improvement in credit exposure				
Stage 2 to stage 1	10.8	(10.8)	-	-
Stage 3 to stage 1	1.6	-	(1.6)	-
Stage 3 to stage 2	-	1.9	(1.9)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(4.0)	4.0	-	-
Stage 1 to stage 3	(1.7)	-	1.7	-
Stage 2 to stage 3	-	(4.3)	4.3	-
Opening balance after transfers	**70.2**	**40.7**	**50.5**	**161.4**
Change in exposure of back book in the current year	**(27.5)**	**(4.7)**	**61.9**	**29.7**
Attributable to change in measurement basis	-	(3.2)	-	(3.2)
Attributable to change in risk parameters	(27.5)	(1.5)	61.9	32.9
Change in exposure due to new business in the current year	17.4	6.5	10.3	34.2
Bad debts written off	-	-	(33.1)	(33.1)
Amount as at 30 June 2021	**60.1**	**42.5**	**89.6**	**192.2**
Included in the total loss allowance				
Netted against loans and advances to customers	59.4	42.5	89.6	191.5
Included in respect of loan commitments*	0.7	-	-	0.7
Other components of the total loss allowance				
- Forward looking information	11.0	5.8	0.3	17.1
- Changes in models	12.2	1.4	0.5	14.1
- Interest on stage 3 advances**	-	-	7.3	7.3

£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**

	Stage 1	Stage 2	Stage 3	Total
Included in the total loss allowance				
Netted against loans and advances to customers	62.9	49.9	48.0	160.8
Included in respect of loan commitments*	0.6	-	-	0.6
Other components of the 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

Breakdown of impairment charge recognised during the year

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Included in provisions in respect of loan commitments	(0.1)	0.8
Change in exposure of back book in the current year	29.8	67.1
Change in exposure due to new business in the current year	34.2	63.1
Interest income suspended	(3.3)	(4.7)
Increase in loss allowance	**60.6**	**126.3**
Recoveries of bad debts	(9.3)	(5.8)
Impairment losses on loans and advances to customers	**51.3**	**120.5**
Impairment losses on lease modifications	0.8	11.2
Impairment of advances recognised during the period	**52.1**	**131.7**

*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 2021.

Basis of preparation of the gross carrying amount and loss allowance

The reconciliation of the gross carrying amount and loss allowance is 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 2020, 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.

The impairment charge is split between the back book and new business in the gross carrying amount and ECL reconciliation as management believes that that providing this split provides meaningful information to the user in gaining an understanding of the performance of advances overall.

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.

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 £33.1 million.

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 2020	17.3	17.2	15.0	49.5
Improvement in credit exposure				
Stage 2 to stage 1	4.8	(4.8)	-	-
Stage 3 to stage 1	0.9	-	(0.9)	-
Stage 3 to stage 2		1.4	(1.4)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(1.1)	1.1	-	-
Stage 1 to stage 3	(0.6)	-	0.6	-
Stage 2 to stage 3		(1.1)	1.1	-
Opening balance after transfers	21.3	13.8	14.4	49.5
Change in exposure of back book in the current year	(11.9)	(5.4)	22.1	4.8
Attributable to change in measurement basis	-	(2.0)	-	(2.0)
Attributable to change in risk parameters	(11.9)	(3.4)	22.1	6.8
Change in exposure due to new business in the current year	2.9	1.1	0.7	4.7
Bad debt written off	-	-	(17.4)	(17.4)
Amount as at 30 June 2021	12.3	9.5	19.8	41.6
Included in the total loss allowance				
Netted against loans and advances to customers	12.3	9.5	19.8	41.6
Other components of total loss allowance				
- Forward looking information	1.3	0.2	-	1.5
- Changes in models	3.0	0.4	0.2	3.6
- Interest on stage 3 advances**	-	-	0.7	0.7

	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
Other 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

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 2020	**2.6**	**0.4**	**2.7**	**5.7**
Improvement in credit exposure				
Stage 2 to stage 1	0.3	(0.3)	-	-
Stage 3 to stage 1	0.1	-	(0.1)	-
Deterioration of credit exposure				
Opening balance after transfers	**3.0**	**0.1**	**2.6**	**5.7**
Change in exposure of back book in the current year	**0.3**	**(0.1)**	**0.3**	**0.5**
Attributable to change in measurement basis	-	(0.1)	-	(0.1)
Attributable to change in risk parameters	0.3	-	0.3	0.6
Change in exposure due to new business in the current year	0.4	-	-	0.4
Bad debt written off	-	-	(2.0)	(2.0)
Amount as at 30 June 2021	**3.7**	**-**	**0.9**	**4.6**
Included in the total loss allowance				
Netted against loans and advances to customers	3.7	-	0.9	4.6
Other components of total loss allowance				
- Forward looking information	(0.1)	-	-	-0.1
- Changes in models	0.3	-	-	0.3

	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	5.7
Other components of total loss allowance				
- Forward looking information	0.6	0.2	-	0.8

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 2020	6.5	4.2	6.2	16.9
Improvement in credit exposure				
Stage 2 to stage 1	0.4	(0.4)	-	-
Stage 3 to stage 1	0.1	-	(0.1)	-
Stage 2 to stage 3	-	(0.1)	0.1	-
Opening balance after transfers	7.0	3.7	6.2	16.9
Change in exposure of back book in the current year	(2.1)	0.9	5.7	4.5
Attributable to change in measurement basis	-	0.3	-	0.3
Attributable to change in risk parameters	(2.1)	0.6	5.7	4.2
Change in exposure due to new business in the current year	0.4	0.2	0.9	1.5
Bad debt written off	-	-	(1.5)	(1.5)
Amount as at 30 June 2021	5.3	4.8	11.3	21.4
Included in the total loss allowance				
Netted against loans and advances to customers	4.9	4.8	11.3	21.0
Included in respect of loan commitments*	0.4	-	-	0.4
Other components of total loss allowance				
- Forward looking information	0.4	-	-	0.4
- Changes in models	2.0	0.3	0.1	2.4
- Interest on stage 3 advances**	-	-	0.9	0.9

	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 respect of loan commitments*	0.4	-	-	0.4
Other 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

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 2020	5.0	6.1	11.2	22.3
Improvement in credit exposure				
Stage 2 to stage 1	1.0	(1.0)	-	-
Stage 3 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		(0.6)	0.6	-
Opening balance after transfers	6.0	4.6	11.7	22.3
Change in exposure of back book in the current year	2.6	2.2	7.2	12.0
Attributable to change in measurement basis	-	1.9	-	1.9
Attributable to change in risk parameters	2.6	0.3	7.2	10.1
Change in exposure due to new business in the current year	0.6	0.4	0.5	1.5
Bad debt written off	-	-	(0.6)	(0.6)
Amount as at 30 June 2021	9.2	7.2	18.8	35.2
Included in the total loss allowance				
Netted against loans and advances to customers	9.0	7.2	18.8	35.0
Included in respect of loan commitments*	0.2	-	-	0.2
Other components of total loss allowance				
- Forward looking information	2.3	0.2	0.1	2.6
- Changes in models	4.5	0.4	0.1	5.0
- Interest on stage 3 advances**	-	-	2.4	2.4

	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 respect of loan commitments*	0.1	-	-	0.1
Other 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

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 2020	2.9	1.6	6.7	11.2
Improvement in credit exposure				
Stage 2 to stage 1	0.1	(0.1)	-	-
Deterioration of credit exposure				
Stage 2 to stage 3	-	(0.1)	0.1	-
Opening balance after transfers	3.0	1.4	6.8	11.2
Change in exposure of back book in the current year	(1.0)	0.8	1.0	0.8
Attributable to change in measurement basis	-	0.1	-	0.1
Attributable to change in risk parameters	(1.0)	0.7	1.0	0.7
Change in exposure due to new business in the current year	0.5	0.3	0.7	1.5
Bad debt written off	-	-	(0.1)	(0.1)
Amount as at 30 June 2021	2.5	2.5	8.4	13.4
Included in the total loss allowance				
Netted against loans and advances to customers	2.4	2.5	8.4	13.3
Included in respect of loan commitments*	0.1	-	-	0.1
Other components of total loss allowance				
- Forward looking information	1.1	0.2	0.1	1.4
- Changes in models	2.4	0.3	0.1	2.8
- Interest on stage 3 advances**	-	-	2.0	2.0

	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
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 respect of loan commitments*	0.1	-	-	0.1
Other 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

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 2020	29.2	20.4	6.2	55.8
Improvement in credit exposure				
Stage 2 to stage 1	4.2	(4.2)	-	-
Stage 3 to stage 1	0.4	-	(0.4)	-
Stage 3 to stage 2	-	0.5	(0.5)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(2.8)	2.8	-	-
Stage 1 to stage 3	(1.1)	-	1.1	-
Stage 2 to stage 3	-	(2.4)	2.4	-
Opening balance after transfers	29.9	17.1	8.8	55.8
Change in exposure of back book in the current year	(15.4)	(3.1)	25.6	7.1
Attributable to change in measurement basis	-	(3.4)	-	(3.4)
Attributable to change in risk parameters	(15.4)	0.3	25.6	10.5
Change in exposure due to new business in the current year	12.6	4.5	7.5	24.6
Bad debt written off	-	-	(11.5)	(11.5)
Amount as at 30 June 2021	27.1	18.5	30.4	76.0
Included in the total loss allowance				
Netted against loans and advances to customers	27.1	18.5	30.4	76.0
Other components of total loss allowance				
- Forward looking information	6.0	5.2	0.1	11.3
- Interest on stage 3 advances**		-	1.3	1.3

	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
Other components of total loss allowance				
- Forward looking information	9.6	7.7	-	17.3

*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 2021.

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 2021 £m	Year ended 30 June 2020 £m
Modifications losses of assets in stage 2 and 3	(0.4)	(2.0)
Gross carrying amount of assets before modification	120.0	162.9
Loss allowance on asset before modification	(21.9)	(12.3)
Amortised cost of assets before modification	**98.1**	**150.6**
Gross carrying amount of assets modified while in stage 2 or 3 and now in stage 1	16.0	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 2021 £m	Year Ended 30 June 2020 £m (restated)
Gross investment in finance leases, receivable:		
Less than one year	1,455.5	1,183.9
Between one and five years	3,613.5	2,814.2
More than five years	64.4	85.0
	5,133.4	4,083.1
Unearned finance income	(738.9)	(573.8)
Net investment in finance leases	4,394.5	3,509.3
Net investment in finance leases, receivable:		
Less than one year	1,235.3	999.5
Between one and five years	3,102.7	2,425.8
More than five years	56.5	84.0
	4,394.5	3,509.3

The amounts shown for Gross Investment in Finance Leases; Unearned Finance Income; and Net Investment in Finance Leases as at 30 June 2020 have been restated to correct for the amounts for Loans relating to the Asset Finance business which had been included in error twice.

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 £61.0 million (30 June 2020: £100.7 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 2021 (30 June 2020: no material residual values).

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.2 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.2 PLC*	Securitisation vehicle	*	*	UK[4]
Oak No.3 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.3 PLC*	Securitisation vehicle	*	*	UK[4]
MotoMore Limited*	Securitisation vehicle	*	*	UK[4]
Turbo Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Turbo 9 Finance Limited*	Securitisation vehicle	*	*	UK[4]

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 4th Floor Block D, Apex Plaza, Forbury Road, Reading, England, United Kingdom RG1 1AX

[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 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 2020 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance as at 30 June 2021 £m
Year ended 30 June 2021				
Capital allowances less than depreciation	2.2	3.3	-	5.5
FVOCI debt securities transition adjustment	(0.5)	-	-	(0.5)
Gains on debt securities recognised through other comprehensive income	(0.3)	-	(2.8)	(3.1)
IFRS 9 transition adjustment	1.7	0.3	-	2.0
Other temporary differences	0.9	2.4	-	3.3
Share-based payment timing differences	0.5	(0.1)	-	0.4
	4.5	5.9	(2.8)	7.6

	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 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

The deferred tax asset at 30 June 2021 of £7.6 million (30 June 2020: £4.5 million) has been based on substantively enacted tax rates at the balance sheet date. These rates should apply when the temporary differences giving rise to the deferred tax are expected to reverse. The deferred tax asset relates mainly to timing differences between capital allowances and depreciation.

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023 as substantively enacted on 24 May 2021. Deferred tax rates have been remeasured to take account of this change.

There were no unrecognised deferred tax balances at 30 June 2021 (30 June 2020: £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 2021 and 2020	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 2021 is £5.7 million (30 June 2020: £5.5 million). This includes a £0.7 million share of profit of associate which has been recognised in the Consolidated Income Statement for the period ended 30 June 2021 (30 June 2020: £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 2021 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 2021 (adjusted by the Group for equity accounting purposes).

	30 April 2021 £m	30 April 2020 £m
Current assets	7.0	4.1
Non-current assets	0.5	0.6
Current liabilities	4.7	2.2
Non-current liabilities	0.2	0.2

	Year ended 30 April 2021 £m	Year ended 30 April 2020 £m
Revenue	22.9	18.7
Profit from continuing operations	1.7	1.5
Profit for the period	1.7	1.5
Total comprehensive income for the period	1.7	1.5
Dividends received from the associate during the period	0.5	0.4

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 2021	30 June 2020
	£m	£m
Net assets of the associate	2.6	2.3
Proportion of the Group's ownership Interest in the Associate	48%	48%
Group share of net assets of the associate	1.2	1.0
Goodwill	4.5	4.5
Dividend received from associate	(0.5)	(0.4)
Carrying amount of the Group's interest in the associate	5.7	5.5

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	Asstes Under Operating Lease £m	Total £m
Cost						
1 July 2020	7.9	13.0	39.1	1.5	-	61.5
Additions	1.8	0.6	4.6	0.4	7.8	15.2
Disposal	(0.2)	(1.5)	(5.7)	-	-	(7.4)
30 June 2021	9.5	12.1	38.0	1.9	7.8	69.3
1 July 2019	6.6	12.0	-	-	-	18.6
IFRS 16 transition	-	-	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
Depreciation						
1 July 2020	5.0	4.4	4.9	0.4	-	14.7
Charge for the year	1.9	1.9	5.1	0.6	1.1	10.6
Disposals	(0.1)	(1.0)	(1.9)	(0.1)	-	(3.1)
30 June 2021	6.8	5.3	8.1	0.9	1.1	22.2
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
Net book value						
30 June 2021	2.7	6.8	29.9	1.0	6.7	47.1
30 June 2020	2.9	8.6	34.2	1.1	-	46.8

24. Intangible assets

	Computer Systems £m	Goodwill £m	Total £m
Cost			
1 July 2020	20.1	8.6	28.7
Additions	3.3	-	3.3
Retirements	(0.2)	-	(0.2)
30 June 2021	23.2	8.6	31.8
1 July 2019	18.8	8.6	27.4
Additions	2.2	-	2.2
Retirements	(0.9)	-	(0.9)
30 June 2020	20.1	8.6	28.7
Amortisation			
1 July 2020	15.0	-	15.0
Charge for the year	2.0	-	2.0
Retirements	(0.2)	-	(0.2)
30 June 2021	16.8	-	16.8
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
Net book value			
30 June 2021	6.4	8.6	15.0
30 June 2020	5.1	8.6	13.7

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 2021 has been determined in a similar manner as at 30 June 2020.

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. Cash flows after the planning period were extrapolated using a constant growth rate of 2.0% (30 June 2020: 2.0%) into perpetuity; and
- A pre-tax discount rate of 14.4% (30 June 2020: 13.9%) 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 2021 £m	30 June 2020 £m
Cash collateral received on derivatives	0.5	1.8
Due to banks - central banks - Term Funding Scheme interest accrual	1.1	0.4
Due to banks - central banks - other eligible schemes	-	0.3
	1.6	2.5
Amounts repayable within 12 months:		
Due to banks – central banks – Term Funding Scheme interest accrual	725.0	946.0
Due to banks – central banks – other eligible schemes interest accrual	-	500.0
	725.0	1446.0
Amounts repayable after 12 months:		
Due to banks – central banks – Term Funding Scheme	600.0	725.0
	600.0	725.0
	1,326.6	2,173.5

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 2021 £m	30 June 2020 £m
Retail deposits	9,009.3	7,701.1
SME deposits	2,263.0	2,210.7
Corporate deposits	1,155.1	974.6
	12,427.4	10,886.4
Amounts repayable within one year	10,985.9	9,285.0
Amounts repayable after one year	1,441.5	1,601.4
	12,427.4	10,886.4

27. Other liabilities

	30 June 2021 £m	30 June 2020 £m
Amounts payable within 12 months:		
Amounts payable to Invoice Finance customers	14.9	17.9
Other taxation and social security costs	4.2	5.7
Trade creditors	8.3	6.1
Lease liabilities	30.7	35.0
Other payables	26.6	25.8
	84.7	90.5

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

	30 June 2021 £m	30 June 2020 £m
Maturity analysis of finance leases:		
Less than one year	5.3	5.0
Between one and five years	16.2	18.1
More than five years	9.2	11.9

28. Accruals and deferred income

	30 June 2021	30 June 2020
Amounts payable within 12 months:		
Accruals	62.0	32.0
Deferred income	0.9	0.5
	62.9	32.5

The increase in accruals for the year ended 30 June 2021 is largely due to the reintroduction of staff bonuses of £21.6m that were not awarded in 2020 due to the pandemic.

29. Provisions

	Customer Redress £m	Other £m	Total £m
1 July 2020	1.5	3.0	4.5
Utilised during the year	-	(3.2)	(3.2)
Provided during the year	3.3	0.5	3.8
30 June 2021	4.8	0.3	5.1
1 July 2019	1.3	1.1	2.4
Utilised during the year	-	(1.2)	(1.2)
Provided during the year	0.2	3.1	3.3
30 June 2020	1.5	3.0	4.5

Customer Redress

Motor Finance Remediation

Due to the Covid-19 pandemic, the Group had to make swift changes to systems and processes to ensure we could provide our customers with the Government support measures in place to protect those financially affected by the pandemic. As a result, in the Motor Finance business line due to certain variations in procedures followed by the Group during the Covid-19 pandemic, management discovered that certain Consumer Credit Act (CCA) related documents that should have been required to have been delivered to a sub-section of loan receivable customers were not delivered during part of the financial year.

Provisions include £2.0m in respect of estimated costs to undertake a remediation programme to correct the impacted customers' loan balances to reflect the period of non-compliance with certain provisions of the CCA. This provision is expected to be utilised over the next twelve to eighteen months. Additionally, Interest Income and Loans and Advances to Customers reflect a £2.2m adjustment to affect a position of compliance on the customer loan accounts concerned.

Mortgages Remediation

Swift changes had to be made in the Mortgages division in response to the Government support measures in place to help those financially affected by the pandemic. Although the majority of payment break cases were dealt with seamlessly, a population of customers were not moved back onto their normal interest terms upon conclusion of their payment break. As a result, the Group has employed external consultants to assess the size and cost of any potential remediation. The cost of this remediation exercise which is currently recognised within provisions at 30 June 2021, is expected to be £1.7m, to be utilised over the next twelve to eighteen months.

Debt Consolidation

Following an internal compliance review, it became evident that a small population of 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 2021 for £0.9 million (30 June 2020: £1.0 million) for potential compensation based on an analysis of a sample of cases reviewed to that date.

Other

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 2021 of £0.2 million (30 June 2020: £0.7 million) represents the interest element of the compensation levy for the 2020/2021 scheme year (30 June 2020: interest levy for the 2019/2020 scheme year).

Onerous Contracts

The decision was made in June 2020 to stop using a third-party reward system for dealers, called MotorV8, by the end of 2021 and as a result has given rise to an onerous contract and therefore a provision of £0.1m (30 June 2020: £0.2m).

Cancellations

Payment Protection Insurance ("PPI") income is recognised in full when sold to the customer, however MotoNovo Finance recognises a reduction in receivables and income for policies expected to be cancelled against this based on the long run average cancellation rate over the life of the agreement.

A review of this balance was conducted in the current year leading to a change in accounting practice. The PPI cancellation provision (30 June 2020: £1.6 million) has been reclassified to now offset against the receivables balance of the customer PPI payments, whilst the cost recognised for this has been reclassified to offset against the Operating Income earned from the PPI income.

Expected Losses on Loan Commitments

In prior years, a provision has been recognised for impairment losses expected in respect of any outstanding irrevocable loan commitments (30 June 2020: £0.5 million). A review of this accounting practice was conducted in the year, with this balance subsequently reclassified to Loans and Advances to Customers to recognise the expected losses against the loans and receivables book.

30. Debt securities in issue

	30 June 2021 £m	30 June 2020 £m
Debt securities in issue - Oak No 2 PLC	97.5	138.7
Debt securities in issue - Oak No 3 PLC	219.2	323.7
Debt securities in issue - MotoMore Limited	250.2	249.9
Debt securities in issue - Turbo Finance 9 PLC	518.8	-
	1,085.7	**712.3**

Debt securities in issue with a book value of £1,085.7 million (2020: £712.3 million) are secured on certain portfolios of variable and fixed rate mortgages and auto loans 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 and auto loan 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. The final maturity date in respect of Turbo Finance 9 PLC is 21 August 2028. A clean up call will occur when the book value of the Turbo 9 Finance PLC notes becomes less than 10% of the initial principal balance.

During the year, Aldermore Bank repurchased £nil (2020: £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 2021 £m	30 June 2020 £m
Subordinated notes 2026	60.5	60.5
Subordinated notes 2028	100.8	100.7
Subordinated notes 2029	52.3	52.3
	213.6	**213.5**

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 2021

	As at 1 July 2020 £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 2021 £m
Debt Securities in Issue - note 30	712.3	518.2	(146.2)	(6.8)	8.2	1,085.7
Subordinated notes - note 31	213.5	-	-	(12.6)	12.7	213.6

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.

33. Share capital

	30 June 2021 £m	30 June 2020 £m
Type		
Ordinary shares authorised and fully paid up of £0.10 each	243.9	243.9

As at 30 June 2021, there were 2,439,016,370 ordinary £0.10 shares in issue resulting in share capital of £243,901,637 (30 June 2020: 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 2021 £m	Year ended 30 June 2020 £m
Share plans issued in period ended 30 June 2018	-	(0.4)
Share plans issued in year ended 30 June 2019	0.5	0.7
Share plans issued in year ended 30 June 2020	0.6	0.7
Share plans issued in year ended 30 June 2021	1.0	-
Total share-based payment charge	**2.1**	**1.0**

The table below shows the number of awards outstanding as at 30 June 2021:

Plan	Awards outstanding value 30 June 2021 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached [1]	Settlement	Liability transferred to RMBMS by assumption of liability agreement [2]	Aldermore Group Residual Liability	Charge for current year £m
Deferred Bonus Scheme FY18	0.1	Sep-21	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	-
Deferred Bonus Scheme FY19	0.5	Sep-21 Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
Deferred Bonus Scheme FY21	1.0	Sep-21 Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.3
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	-
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 (risk & compliance) FY21	0.4	Sep-23	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards FY19	0.3	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	0.5	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1

LTIP awards FY21	0.5	Sep-23	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
LTIP awards (Exco) FY19	0.6	Sep-21	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
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	0.2
LTIP awards (Exco) FY21	0.9	Sep-23	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
Conditional Share Plan (MotoNovo Finance) - CP18	0.6	Sep-21	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.2
Conditional Share Plan (MotoNovo Finance) - CP19	0.3	Sep-22	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1
Conditional Share Plan (MotoNovo Finance) - CP20	0.6	Sep-23	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1
Covid-19 Conditional Incentive Plan	0.6	Sep-21 Sep-22 Sep 23	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Sep-23 vesting only	Yes	0.2
Total	8.3							2.1

[1.] 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.
[2.] 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 2020:

Plan	Awards outstanding value 30 June 2020 £m	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 [1]	-	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 terms of the schemes which are all cash-settled are as follows:

a) 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 three 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.

b) LTIP (Long Term Incentive Plan)

A long term incentive plan ("LTIP") for which vesting occurs three 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.

c) 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 to 30 June 2020 given that the performance conditions were not met.

d) Covid-19 Conditional Incentive Plan

An equity linked Covid-19 Conditional Incentive Plan was awarded by FirstRand to Aldermore Group employees in September 2020. The award was introduced to replace the LTIP awards due to vest in September 2021, 2022 and 2023 and will only pay out if these LTIP awards do not meet their vesting conditions. The tranche due to vest in September 2023 will be paid out regardless of the LTIP also due to vest on this date's performance. This award has been granted to a small number of senior employees within the Group.

All the schemes identified above have employee service conditions.

35. Additional Tier 1 capital

	30 June 2021 £m	30 June 2020 £m
Perpetual subordinated capital notes - issued May 2019	47.0	47.0
Perpetual subordinated capital notes - issued April 2020	61.0	61.0
	108.0	108.0

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 2021 £m	Year ended 30 June 2020 £m
Depreciation and amortisation	12.6	12.1
Amortisation of securitisation issuance cost	0.1	1.1
Impairment losses on loans and advances	51.3	129.0
Lease modifications	0.8	11.2
Unwind of discounting	-	(0.7)
Interest in suspense	-	2.1
Gains/(losses) on hedged available for sale debt securities recognised in profit or loss	0.1	(17.0)
Net gains/(losses) on disposal of available for sale debt securities	2.6	(0.5)
Interest expense on subordinated notes	0.1	0.1
Interest income on debt securities	(8.1)	(8.7)
Interest expense on debt securities in issue	7.0	8.0
Share of profit of associate	(0.7)	(0.5)
	65.8	**136.2**

b) Increase in operating assets

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Loans and advances to customers	(1,046.8)	(1,972.2)
Loans and advances to banks	57.6	(83.6)
Derivative financial instruments	(10.3)	(0.2)
Fair value adjustments for portfolio hedged risk	43.9	(40.2)
Other operating assets	(18.2)	(11.1)
Dividend received from associate	0.5	0.4
	(973.3)	**(2,106.9)**

c) Increase in operating liabilities

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Amounts due to banks	(846.9)	358.9
Customers' accounts	1,540.9	1,914.6
Derivative financial instruments	(58.8)	62.4
Fair value adjustments for portfolio hedged risk	(2.1)	1.1
Increase/(decrease) in operating liabilities	30.1	(21.7)
Increase/(decrease) in provisions	0.6	(0.2)
	663.8	**2,315.1**

d) Cash and cash equivalents

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

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Cash and balances at central banks	688.5	542.5
Less restricted balances	(36.2)	(29.9)
Loans and advances to banks	123.0	71.0
	775.3	583.6

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 2021 include £15.2 million held by the securitisation vehicles, which are not available to the other members of the Aldermore Group (30 June 2020: £10.0 million).

37. Commitments and contingencies

At 30 June 2021, the Group had undrawn commitments to lend of £412.4 million (30 June 2020: £342.5 million). These relate mostly to irrevocable lines of credit granted to customers.

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 2021, the Group also incurred fees of £68,500 (30 June 2020: £137,000) in relation to the Directors who represent the ultimate parent company.

As at 30 June 2021, the Group owed FirstRand Bank Limited a balance of £261.0 million (30 June 2020: £261.0 million) which includes subordinated securities totalling £260.8 million and were owed a balance of £6.0 million from FirstRand Bank Limited (30 June 2020: £3.4 million) consisting of recharged administrative and operational costs.

During the year ended 30 June 2021, the Group received income from FirstRand Bank Limited totalling £27.1 million (30 June 2020: £42.6 million) relating to administrative costs recharged to FirstRand Bank Limited by MotoNovo Finance Limited and were recharged expenses totalling £16.5 million (30 June 2020: £12.6 million) which includes a subordinated loan note coupon of £7.5 million, an AT1 coupon of £8.6 million and the remainder being software license costs and non-executive director fees.

FirstRand Limited has issued a guarantee to the Bank of England to cover Aldermore Group's drawings on the TFS and TFSME facilities. See page 82 for the Group's drawings at 30 June 2021.

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 2021, the Group paid commission of £1.6 million to the associate (year ended 30 June 2020: £2.0 million). The Group also received dividends totalling £0.5 million during the year (30 June 2020: £0.4 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 2021 £'000	Year ended 30 June 2020 £'000
Emoluments	6,968.2	4,081.6
Payments in respect of personal pension plans	146.2	182.6
Contributions to money purchase scheme	51.6	44.8
Termination benefits	-	130.3
Share-based payments	1,871.9	1,031.7
	9,037.9	5,471.0

Key persons' emoluments include £0.5 million of deferred bonus (year ended 30 June 2020: £nil).

Share-based payments ("SBP")

During the year ended 30 June 2021, 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 2021	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	688.5	-	-	-	-	688.5
Loans and advances to banks	223.0	-	-	-	-	223.0
Debt securities	193.7	1,805.8	-	-	-	1,999.5
Derivatives held for risk management	-	-	19.6	-	-	19.6
Fair value adjustment for portfolio hedged risk	-	-	-	14.2	-	14.2
Loans and advances to customers	13,420.4	-	-	-	-	13,420.4
Other assets	29.4	-	-	-	-	29.4
Total financial assets	**14,555.0**	**1,805.8**	**19.6**	**14.2**	**-**	**16,394.6**
Non-financial assets	-	-	-	-	-	94.5
Total assets	**14,555.0**	**1,805.8**	**19.6**	**14.2**	**-**	**16,489.1**
Amounts due to banks	-	-	-	-	1,326.6	1,326.6
Customers' accounts	-	-	-	-	12,427.4	12,427.4
Derivatives held for risk management	-	-	40.9	-	-	40.9
Other liabilities	-	-	-	-	84.7	84.7
Debt securities in issue	-	-	-	-	1,085.7	1,085.7
Subordinated notes	-	-	-	-	213.6	213.6
Total financial liabilities	**-**	**-**	**40.9**	**-**	**15,138.0**	**15,178.9**
Non-financial liabilities	-	-	-	-	-	79.0
Total liabilities	**-**	**-**	**40.9**	**-**	**15,138.0**	**15,257.9**

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	13,288.7	1,869.8	9.3	58.1	-	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	-	-	99.8	2.1	14,076.2	14,215.1

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 2021		30 June 2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and balances at central banks	688.5	688.5	542.4	542.4
Loans and advances to banks	223.0	223.0	228.6	228.6
Loans and advances to customers	13,420.4	13,387.3	12,425.7	12,433.3
Debt securities	193.7	193.8	71.3	72.2
Other assets	29.4	29.5	20.7	20.7
Total financial assets	14,555.1	14,522.1	13,288.7	13,297.2

	30 June 2021		30 June 2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Amounts due to banks	1,326.6	1,326.6	2,173.5	2,173.5
Customers' accounts	12,427.4	12,453.5	10,886.4	10,968.8
Other liabilities	84.7	84.7	90.5	90.5
Debt securities in issue	1,085.7	1,089.4	712.3	714.4
Subordinated notes	213.6	227.6	213.5	214.0
Total financial liabilities	15,138.0	15,181.8	14,076.2	14,161.2

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. The Group has calculated the fair value of loans and advances to customers based on the present value of expected future principal and interest cash flows, discounted at appropriate market rates, and then adjusted for lifetime expected credit losses.

(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 ("TFS" and "TFSME"). These transactions are collateralised by the Group's eligible loan pool.

(f) Customers' accounts

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

(g) Debt securities in issue

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

(h) Subordinated notes

The estimated fair value of the subordinated notes is based on discounted cash flows using interest rates for similar liabilities with the same remaining maturity, credit ranking and rating.

The following table provides an analysis of financial assets and liabilities held on the consolidated statement of financial position at fair value, 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 they meet both 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 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	19.6	-	19.6
Debt securities:				
Asset-backed securities	-	115.4	-	115.4
UK Gilts and Supranational bonds	1,194.5	-	-	1,194.5
Covered bonds	495.9	-	-	495.9
	1,690.4	135.0	-	1,825.4
Financial liabilities:				
Derivatives held for risk management	-	40.9	-	40.9
	-	40.9	-	40.9

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	1179.6	-	-	1179.6
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

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 vehicles 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 vehicles 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 vehicles are held by the Group and as such are not shown in the consolidated statement of financial position of the Group.

30 June 2021	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	128.0	97.5	130.8	98.3	**32.4**
Oak No.3 PLC	215.7	219.2	220.3	221.5	**(1.2)**
MotoMore Limited	286.6	250.2	269.1	250.4	**18.7**
Turbo Finance 9 PLC	516.3	518.8	532.8	519.1	**13.7**

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

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 2021 £m	Year ended 30 June 2020 £m
Total operating income	UK	470.9	412.1
Profit before tax	UK	157.8	48.8
Corporation tax (paid net of refunds received)	UK	(11.7)	(40.3)
Employees (average FTE equivalent)	UK	2,029	1,966

41. Post balance sheet events

On 29 July 2021, the Group successfully made an additional £200 million drawing on the Bank of England's Term Funding Scheme with additional incentives for SMEs.

The Company statement of financial position

As at 30 June 2021

	Note	30 June 2021 £m	30 June 2020 £m
Assets			
Investment in Group undertakings	3	515.6	465.6
Investment in associated companies	5	4.8	4.8
Amounts receivable from Group undertakings	6	361.7	411.3
Total assets		**882.1**	**881.7**
Liabilities			
Amounts payable to Group undertakings	7	23.4	21.3
Subordinated notes	8	213.7	213.7
Total liabilities		**237.1**	**235.0**
Equity			
Share capital	9	243.9	243.9
Share premium account		74.4	74.4
Additional Tier 1 capital	10	108.0	108.0
Capital redemption reserve		0.1	0.1
Retained earnings		218.6	220.3
Total equity		**645.0**	**646.7**
Total liabilities and equity		**882.1**	**881.7**

The notes and information on pages 174 to 176 form part of these financial statements.

Aldermore Group PLC profit for the year ended 30 June 2021 was £6.9 million (30 June 2020: profit of £11.9 million).

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

Steven Cooper
Director
14 September 2021
Registered number: 06764335

Claire Cordell
Director
14 September 2021

The Company statement of cash flows

For the year ended 30 June 2021

	Note	30 June 2021 £m	30 June 2020 £m
Cash flows from operating activities			
Profit before taxation		6.9	11.9
Decrease in operating liabilities		-	(0.1)
Adjustments for non-cash items within the income statement		2.1	0.5
Net cash flows generated from operating activities		9.0	12.3
Cash flows from investing activities			
Investment in Subsidiaries	3	(50.0)	(61.0)
Disposal of investment in Subsidiaries		-	74.3
Dividend income from associate		-	0.4
Net cash used in investing activities		(50.0)	13.7
Cash flows from financing activities			
Proceeds from deposit with Bank	6	49.6	-
Interest received on subordinated loan	6	-	1.1
Interest paid on subordinated notes	8	-	(2.6)
Proceeds from issue of AT1 capital	10	-	61.0
Redemption of AT1 capital		-	(74.0)
Coupon paid on contingent convertible securities, net of tax		(8.6)	(12.4)
Net cash received from financing activities		41.0	(26.9)
Net increase/(decrease) in cash and cash equivalents		-	(0.9)
Cash and cash equivalents at start of the year		-	0.9
Movement during the year		-	(0.9)

The Company statement of changes in equity

For the year ended June 2021

	Share Capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Year ended 30 June 2021						
As at 1 July 2020	243.9	74.4	108.0	0.1	220.3	646.7
Profit for the year	-	-	-	-	6.9	6.9
Transactions with equity holders:						
- Coupon paid on contingent convertible securities	-	-	-	-	(8.6)	(8.6)
As at 30 June 2021	**243.9**	**74.4**	**108.0**	**0.1**	**218.6**	**645.0**
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:						
- Issuance of Additional Tier 1 capital	-	-	61.0	-	-	61.0
- Redemption of Additional Tier 1 capital	-	-	(74.0)	-	(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**

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 the UK adopted IFRS. The significant accounting policies adopted are set out in note 2 to the consolidated financial statements.

b) Going concern

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

c) Income statement

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

2. Net profit attributable to equity shareholders of the Company

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Net profit attributable to equity shareholders of the Company	6.9	11.9

3. Investment in Group undertakings

	30 June 2021 £m	30 June 2020 £m
As at 1 July	465.6	478.9
Capital injection - Preference share capital (note 6)	50.0	-
Issuance of Additional Tier 1 Capital	-	61.0
Redemption of Additional Tier 1 Capital	-	(74.3)
As at Year End	515.6	465.6

As at 30 June 2021, £nil investments (30 June 2020: £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 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.

4. Related party transactions

Details of related party transactions of the Company are provided in note 38 to the consolidated financial statements.

5. Investment in associated companies

	30 June 2021 £m	30 June 2020 £m
Investment in AFS Group Holdings Limited	4.8	4.8
	4.8	4.8

6. Amounts receivable from Group undertakings

	30 June 2021 £m	30 June 2020 £m
Subordinated loan to Aldermore Bank PLC	161.4	161.4
Deposit with Aldermore Bank PLC	200.3	249.9
	361.7	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.

On the 8th September 2020 MotoNovo Finance issued unsecured, non-voting, cumulative, redeemable preference shares of £50.0 million to Group. Group funded the preference shares through the partial withdrawal of the deposit with Bank.

7. Amounts payable to Group undertakings

	30 June 2021 £m	30 June 2020 £m
Intercompany loans from Aldermore Bank PLC	23.4	21.3
	23.4	21.3

Amounts payable to Aldermore Bank PLC carry interest of between 1.0 - 1.3% per annum above LIBOR charged on the outstanding loan balances.

8. Subordinated notes

	30 June 2021 £m	30 June 2020 £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.

9. Share capital

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

10. 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.

11. 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 57 apply to the Company where relevant and therefore no additional disclosures are included in this note.

12. 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.

13. Controlling party information

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

14. 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.