Aldermore Group PLC
Pillar 3 Disclosures
Year ended 30 June 2020

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Forward-looking statements

This document may contain "forward-looking statements" with respect to certain plans of Aldermore Group PLC and its subsidiary undertakings (together "the Group") and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK economic business conditions, market-related risks such as fluctuations in interest rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group operates. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements.

Forward-looking statements in this document are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this document shall be construed as a profit forecast.

1 Introduction

This document comprises Aldermore Group PLC's ("the Group") Pillar 3 disclosures on capital and risk management as at 30 June 2020. It has two principal purposes:

- To provide useful information on the capital and risk profile of the Aldermore Group; and
- To meet the regulatory disclosure requirements under the Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Part 8 – Disclosure by institutions and the rules of the Prudential Regulation Authority ("PRA") set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed.

Aldermore Group's strategy is underpinned by its purpose of 'Backing people to fulfil life's hopes and dreams' and supports a wide range of customers including UK SME's, homeowners, landlords, vehicle owners and savers. This is the first full year annual report of the newly enlarged Group which comprises of Aldermore Bank PLC ("Aldermore") and MotoNovo Finance Limited ("MotoNovo Finance"). MotoNovo Finance began trading as part of the Aldermore Group in May 2019.

The Aldermore Group is part of the FirstRand Group and, with no branch network, services customers and intermediary partners predominantly online and by phone.

Additional relevant information may be found in the 2020 Aldermore Group PLC Annual Report and Accounts (hereafter referred to as the "ARA") which includes a description of the Group's strategy and business model.

2 Summary analysis

Key ratios

A high-level summary of the key capital ratios on both a Group consolidated and Bank only basis as at 30 June 2020 is provided below.

Table 1: Key capital ratios

	Group		Bank	
	2020	**2019**	**2020**	**2019**
Common Equity Tier 1 (CET 1) ratio	13.3%	14.9%	13.4%	12.6%
Tier 1 capital ratio	14.7%	16.8%	14.4%	13.8%
Total capital ratio	17.4%	20.1%	16.9%	16.4%
Risk weighted assets (£ million)	7,864.0	6,484.4	6,406.3	6,179.0
Leverage ratio	7.4%	8.6%	6.1%	6.7%

Further details on the Group's capital ratios, risk weighted assets ("RWAs") and leverage ratio are presented in Section 8 of this document. The equivalent disclosures for the Bank are presented in Appendix 1.

Transitional own funds

The Group and Bank capital position is reported on a transitional basis.

Credit RWAs

Credit risk RWAs make up the majority of the Group's total RWAs balance. Credit RWAs at 30 June 2020 were £7,272.1 million (30 June 2019: £5,949.8 million).

The credit RWAs are summarised as follows:

	30 June 2020 £m	**30 June 2019 £m**	**Movement £m**
Asset Finance	1,313.4	1,409.3	(95.9)
Invoice Finance	251.0	350.9	(99.9)
SME Commercial Mortgages	1,232.4	1,180.3	52.1
Buy-to-Let	2,021.6	1,939.6	82.0
Residential Mortgages	775.7	649.2	126.5
MotoNovo Finance	1,302.5	274.0	1,028.5
Other Assets/Central Finance	374.5	146.5	228.0
Total credit risk weighted assets	7,272.1	5,949.8	1,322.3

Key matters arising during the period

Covid-19

The global Covid-19 pandemic presented challenges on an unprecedented scale and within Aldermore it had a significant financial impact, predominantly on impairments as provisions were adjusted to reflect the changing macroeconomic outlook, the higher expected level of defaults and the impact of payment breaks on the Group's loan portfolios. The Group also considered the impact of the pandemic on its risk profile. In recognition of the unprecedented political, fiscal and monetary measures put in place in response to Covid-19, the Group's suite of Emerging Risks were updated to reflect the crisis. More information can be found on page 58 of the ARA. The Group has remained resilient during the crisis and has been able to operationally support its customers and colleagues throughout the period.

The pandemic had a material financial impact on the Group's results to 30 June 2020, reporting a pre-tax profit of £48.8 million compared to a pre-tax profit of £129.6 million in the year to 30 June 2019. This was taken account of in the preparation of financial information within the ARA which 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.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. This year the impact of Covid-19 was 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 Effective Interest Rate ("EIR") calculations.

Please see note 3 of the Aldermore Group PLC consolidated accounts for more information. In addition, the Directors assessed the impact of the crisis on the Group's ability to continue to operate for the foreseeable future and hence report the financial statements contained within the ARA on a going concern basis. After due consideration of 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, the Directors concluded that the financial statements should be prepared on a going concern basis.

Additional Tier 1 capital

On 9 December 2014, the Company issued £75.0 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the "Securities"). The securities were redeemed on 30 April 2020 and the Company paid the £75.0 million on redemption. 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.

Please see note 35 of the Aldermore Group PLC consolidated accounts for more information.

Securitisation

In September 2019, the Group issued two new securitisations (Oak No.3 and MotoMore) providing £343.5 million and £250.2 million of funding respectively with £324.2 million and £249.8 million in issue as at 30 June 2020 for Oak No.3 and MotoMore respectively.

The underlying mortgages within the outstanding Oak No.3 securitisation will continue to be repaid with a call option in July 2024 and the MotoMore securitisation will continue to be repaid with a call option in August 2024.

New accounting standards applied in the year - IFRS 16 and revised IAS 12

The Group adopted IFRS 16 effective 1 July 2019, which replaces IAS 17 and various related interpretations. IFRS 16 introduced a single lease accounting model for leases, which had an impact on the Group's financial results as at 1 July 2019.

The Group also adopted IFRIC 23. This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The IFRIC requires the tax credit on the coupons paid on AT1 capital by the Group to be included in the income statement rather than in the statement of changes in equity.

For more detail on the impact of the above including the amounts restated in the comparatives, refer to note 42 of the Aldermore Group PLC consolidated accounts.

3 Disclosure policy

The following sets out a summary of the Group's Pillar 3 disclosure policy, including basis of preparation, frequency, media and location, verification and risk profile disclosure.

Basis of preparation

This document sets out the disclosures under Part VIII of the Capital Requirements Regulation (EU Regulation 575/2013, the "CRR"), which represents the Pillar 3 regulatory disclosure requirements in the UK under CRD IV1. Details on the scope of consolidation are provided within the next section. No material disclosures have been omitted and nor have any disclosures been omitted from this document for confidentiality purposes.

Frequency, media and location

The Group's policy is to publish the Pillar 3 disclosures on an annual basis. The information is published in conjunction with the ARA. The Pillar 3 disclosures are published on the Group's website: www.investors.aldermore.co.uk.

The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

Verification

The Group's Pillar 3 disclosures have been reviewed and approved by the Audit Committee on behalf of the Board. In addition, the remuneration disclosures as detailed in Section 18 of this document have been reviewed by the Remuneration Committee. The disclosures are not subject to audit.

Board responsibility for risk management and disclosures

A core objective of the Group is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Group's Board of Directors, who are also responsible for setting the Group's strategy, risk appetite and control framework.

The Board considers that, as at 30 June 2020, it had in place adequate systems and controls with regard to the Group's risk profile and strategy. Furthermore, the Board can confirm that the Group remained within defined limits for risk exposure throughout the year for all principal risks. The Group also operated in line with its internal capital targets.

In accordance with Part VIII of the CRR and the Group's Pillar 3 disclosure policy, the Group is required to ensure that its external disclosures portray its risk profile comprehensively. The Directors have considered the adequacy of the Pillar 3 disclosures in relation to these requirements and are satisfied that they convey the risk profile of the Group comprehensively. The disclosures of risk management objectives and procedures within this Pillar 3 document are detailed further within the Risk Management Report of the ARA.

4 Scope of consolidation

There are no differences between the basis of consolidation of the Group for accounting and regulatory purposes. All the Group's subsidiary undertakings are included in the data provided in the Pillar 3 disclosures. Full details of the Group's subsidiaries as at 30 June 2020 are provided in note 22 to the ARA.

The following companies are securitisation vehicles established in connection with the Group's securitisation programme. Although the share capital of these securitisation vehicles is not owned by the Group, these vehicles are included in the consolidated financial statements as they are controlled by the Group.

Company	Principal activity	Country of incorporation
Oak No.1 Mortgage Holdings Limited*	Holding company for securitisation vehicle	United Kingdom
Oak No.2 Mortgage Holdings Limited*	Holding company for securitisation vehicle	United Kingdom
Oak No.2 PLC*	Securitisation vehicle	United Kingdom
Oak No.3 Mortgage Holdings Limited*	Holding company for securitization vehicle	United Kingdom
Oak No.3 PLC*	Securitisation vehicle	United Kingdom
MotoMore Limited*	Securitisation vehicle	United Kingdom

* *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.*

Aldermore Group PLC is subject to consolidated supervision, with Aldermore Bank PLC also subject to solo regulatory supervision by the PRA. Therefore, it is a requirement to calculate and maintain regulatory capital ratios on both a Group basis and on a solo basis for the Bank. The Group's capital requirements are presented in Section 8 of this document. The Bank's capital requirements are presented in Appendix 1. The differences between the Group and the Bank relate primarily to reserves held by entities that sit outside of the scope of the Bank, including MotoNovo Finance, amounts included in the Bank's results in relation to transactions with the Group's securitisation vehicles which are eliminated upon consolidation and a small impact from the risk weighted assets of these entities.

There are no current or foreseen material, practical or legal impediments to the transfer of capital resources or the repayment of liabilities between consolidated entities within the Group, with the exception of assets and liabilities of the Group's securitisation vehicles which are not immediately available to other members of the Group.

5 Changes to disclosures

The Group continues to look to develop and enhance the quality and transparency of Pillar 3 disclosures to ensure that they are as clear and informative as possible.

The Financial Stability Board ("FSB") established the Enhanced Disclosures Task Force ("EDTF") with a remit to broaden and deepen the risk disclosures of financial institutions in a number of areas, including risk management, liquidity and funding risk, credit risk and market risk.

The Group's Pillar 3 disclosures have been enhanced with the aim of providing a clear, succinct and transparent document. All new and current requirements are complied with.

6 Regulatory capital framework

CRD IV came into force in the European Union on 1 January 2014. The rules include disclosure requirements known as "Pillar 3" which apply to banks, building societies and investment firms. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU. The framework consists of three "pillars", as summarised below:

- **Pillar 1 - Minimum capital requirements:** defines the minimum capital requirements that institutions are required to hold for credit, market and operational risks.
- **Pillar 2 - Supervisory review process:** includes a requirement for firms to undertake an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP represents the aggregated view of the risks faced by the Group and is used by the Board and management to understand the levels of capital required to be held over the planning horizon to cover these risks and to withstand a range of adverse stress scenarios. The ICAAP is reviewed by the PRA during its Supervisory Review and Evaluation Process and is used to determine the overall capital requirements that apply to the Group and the Bank.
- **Pillar 3 - Market discipline:** aims to improve market discipline by requiring institutions to publish information on their principal risks, capital structure and risk management to provide more transparency to market participants.

6.1 Capital requirements

The following table provides a summary of the capital requirements applicable to the Group and brief details of the calculation method applied by the Group for each element of the requirements. Further details of each aspect can be found later in this document as highlighted.

Requirement	Calculation method	Description	Requirements	Further information
Pillar 1				
Credit risk	Standardised Approach	The Group applies the standardised method to the entire loan book and other assets. The standardised approach applies a prescribed set of risk weightings to credit risk exposures.	Pillar 1 requirements (as per Article 92 of the CRR): 4.5% of RWAs met by CET 1 capital. 6.0% of RWAs met by Tier 1 capital. 8.0% of RWAs met by total capital.	Section 8.5 and Section 9.2
Market risk	Standardised Approach	The Group applies the standardised method to relevant assets in determining the level of capital held for regulatory purposes.		Section 8.5
Operational risk	Basic Indicator Approach ("BIA")	The Group applies the BIA for operational risk capital requirements in accordance with CRR Article 315. A 15% multiplier is applied to the historical average net interest and fee income of the last three years.		Section 8.5 and Section 12.3
Credit valuation adjustment ("CVA")	Standardised Approach	A CVA is an adjustment to the fair value of a derivative contract reflecting the counterparty credit risk inherent in the contract. Calculated in accordance with CRR Article 384.		Section 8.5
Pillar 2				
Pillar 2A	Calculated by Aldermore and reflected in the ICAAP. Used by the PRA as a basis for determining the Total Capital Requirement ("TCR") which comprises of the Pillar 1 and Pillar 2A requirements.	Percentage of RWAs.	Supervisory Statement 31/15 requires firms to disclose the amount and quality of its TCR, at the highest level of consolidation in the UK. Aldermore Group's TCR is 9.72% of RWAs. At least 56.0% of this must be met with CET 1. See Table 3.	n/a

<table>
<tr><th>Requirement</th><th>Calculation method</th><th>Description</th><th>Requirement</th><th>Further information</th></tr>
<tr><td colspan="5">Buffers</td></tr>
<tr><td>Capital conservation buffer (“CCoB”)</td><td>Expressed as a percentage of RWAs.</td><td rowspan="2">The capital conservation buffer is part of the CRD IV combined buffer. It is held in combination with the counter-cyclical buffer and the PRA buffer to ensure the Group can withstand an adverse market stress.

The combined buffer needs to held in the form of CET 1 capital.</td><td>2.5%</td><td>n/a</td></tr>
<tr><td>Counter-cyclical Buffer (“CCyB”)</td><td>Expressed as a percentage of RWAs for a specific jurisdiction. In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Group’s aggregate risk weighted exposures, all exposures have been allocated to the UK, as such no other CCyB is applicable to Aldermore Group.</td><td>Set by the Financial Policy Committee (“FPC”), the UK CCyB rate is currently zero. The CCyB rate is reviewed on a quarterly basis by the FPC and increases apply 12 months after they are announced.</td><td>n/a</td></tr>
<tr><td>PRA buffer</td><td>Expressed as a percentage of RWAs.</td><td>The PRA buffer, in combination with the CRD IV combined buffer, is held to ensure the Group can withstand an adverse market stress. The PRA buffer must be met fully with CET 1 capital.</td><td>The PRA buffer is set by the PRA and is not disclosed.</td><td>n/a</td></tr>
</table>

6.2 Capital resources

The following table provides a summary of the main components of the Group's capital resources as at 30 June 2020:

Type of capital	Description	Further information
Common Equity Tier 1 ("CET 1")	Comprises ordinary share capital, share premium and allowable reserves including retained earnings. Adjustments included in CET1 include a deduction for intangible assets, a Prudent Valuation Adjustment (per CRR Article 105) and IFRS 9 transitional arrangements.	Details of the terms and conditions of each instrument are provided in Appendix 4. Quantitative disclosures can be found in Section 8.6.
Additional Tier 1 ("AT1")	Comprises Fixed Rate Reset Additional Tier 1 ("AT1") Perpetual subordinated contingent securities issued by the Group in June 2019 and April 2020	Details of the terms and conditions of the AT1 instruments are provided in Appendix 4. Quantitative disclosures can be found in Section 8.6. Further details can be found in note 35 to the ARA.
Tier 2	Comprises qualifying subordinated notes.	Details of the terms and conditions of the subordinated notes are provided in Appendix 4. Quantitative disclosures can be found in Section 8.6. Further details can be found in note 31 to the ARA.

The Group's quantitative disclosures in respect of capital reserves are provided in Section 8 of this document.

7 Risk management

7.1 The Group's approach to risk

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 approach applies across Aldermore Group and its subsidiaries. The Risk Management Framework ("RMF") provides the overarching approach on how the Group manages risk.

7.2 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.

7.3 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 loss or misstatement.

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.

7.4 Risk Management Framework

The RMF defines the Group's overall approach to risk management across all roles and material risk types. The RMF underpins the process of identifying, managing, monitoring and reporting the risks to which the Group is exposed. The RMF is supported by supplemental frameworks, policies, processes and procedures. These combine to ensure that the Group's risks are managed in a manner which is appropriate to the size and nature of the Group's operations. The RMF and associated policies are aligned to regulatory requirements and reflect current industry practice. The Group will continue to develop and increase its range of products to better serve its customers, it does so in a manner consistent with the RMF, focusing on sustainable and controlled growth.

The management of risk is based on an understanding of the risks that the Group faces, an assessment of these risks and establishing an appropriate control environment. Risks are assessed at the inherent level (before being mitigated by controls) and at the residual level (once controls and their effectiveness have been considered). Controls include policies, procedures, mandates and defined limits to risk exposures. The design and effectiveness of these controls is performed by all three lines of defence.

7.5 Risk governance

The Board has responsibility for setting the overall risk appetite, understanding the principal risks taken by the Group and setting acceptable risk limits within the RAF. As part of this, the Board reviews and approves the business strategies, principal risk statements, supporting frameworks and key Group policies. The Board is ultimately responsible for ensuring that an adequate and effective system of internal control is maintained and regularly reviewed. The Board Risk Committee ("BRC") and Board Audit Committee are the main oversight committees in this regard. Full details of the Group's governance structure can be found in the Corporate Governance section of the ARA from page 33 onwards, with Risk governance and oversight to be found on page 34.

7.6 Three lines of defence

The governance framework adheres to a "three lines of defence" model to ensure a clear delineation of responsibilities between control over day-to-day operations, risk oversight and independent assurance of the Group's activities.

All three lines of defence are responsible for supporting and developing a culture of risk-awareness. Risk management responsibilities are understood at all levels, ownership and accountabilities are clear, and control and oversight are maintained throughout the Group. Full details of the Group's three lines of defence structure can be found on page 51 of the ARA.

7.7 Risk Appetite Framework and risk appetite statement

The Group's risk appetite is set by the Board and embedded down to each business line through the risk sub-committees, driving a consistent message across the organisation.

The RAF is the framework through which the Group sets individual risk appetites for each principal risk and monitors performance against the risk appetite. The RAF therefore forms an important element within the overall RMF.

Each principal risk identified within the RAF has 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 enables systematic monitoring of the risk profile against appetite and is reported to appropriate risk committees on a monthly basis.

The RAF applies to Aldermore Group in its entirety, including MotoNovo Finance. The RAF document provides guidance to all colleagues responsible for defining risk appetite metrics and/or statements, providing risk appetite data or monitoring risk appetite reports.

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

- The RAF is aligned with the 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.

The RAF supports the Group's Strategic Plan to "build out the Aldermore Group through controlled, sustainable and customer-centric growth". The overarching risk appetite statement supports the delivery of this objective.

In determining its risk appetite, the Group has taken into consideration the expectations of its stakeholders, the need for regulatory compliance at all times, the preservation of the Group's franchise and reputation and desire for controlled and sustainable profit growth.

The RAF includes the following components:

- **Overarching risk appetite statement** – this is the primary statement outlining the Group's approach to risk taking linked to the pursuit of the Group's business objectives:

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

- **Principle risk appetite statement definition** – the articulation of the type and level of specific risks (derived from the principal risks) that the Group is willing to accept or tolerate;

- **Risk metrics, limits and tolerances definition** – quantitative or qualitative measures that allocate the Group's aggregate risk appetite statements to individual business activities; and

- **Risk profile definition** – the point in time assessment of the Group's risk exposures.

7.8 Risk culture

The Board is accountable for ensuring that the Group actively embraces a strong risk culture where all staff are accountable for the risks that they take. Senior management leads in implementing the risk appetite and ensuring that the Risk Management Framework is fully embedded. There is a strong focus on adherence to the risk appetite which is monitored through a defined suite of metrics.

Risk culture is further embedded through:

- A number of 'people' metrics reported monthly to Conduct and Operational Risk Committee, including: voluntary leaver turnover; total vacancies; staff performance; staff absence rate; mandatory training completion; new joiner induction completion; succession planning gaps; and senior management gender diversity;
- Risk-based remuneration, in part considering whether the Group maintains a sound risk culture and strong levels of risk awareness, and resolves actions agreed to mitigate risk in a timely manner;
- Comprehensive Whistleblowing arrangements, including a policy which is assigned the highest materiality rating (Tier 1) and approved by Board Audit Committee.

When assessing its risk culture, Aldermore draws upon a range of sources, including: (1) Banking Standards Board Survey results, which explores a number of themes relevant to Risk Culture; (2) Group Internal Audit findings, including audit ratings and the timeliness of issue closures; and (3) the annual assessment of the Group's risk profile produced by the Risk Function, which is considered by the Remuneration Committee and used to support the annual remuneration process. The most recent qualitative assessment of Aldermore's Risk Culture concluded that it is robust, and developing in line with the organisation's growth.

7.9 Risk policies and operating procedures

Risk policies and operating procedures are the formal documentation detailing the methods used to manage, control, oversee and govern each principal risk. They articulate the limits, operating standards and procedures by which risks are identified, monitored, managed and reported at all stages of the business and risk life cycle.

7.10 Principal and emerging risks

Principal Risks

Principal Risks are categories of risk that are most significant given the Group's business model and operating environment. They are updated at least annually and provide the structure for the risk appetite reporting. Most Principal Risks map to a series of Supporting Risks, which are more granular categories. The Group defines Principal Risks as:

- Capital risk
- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Compliance, Conduct and Financial Crime risk
- Reputational risk

Emerging Risks

Emerging Risks are specific forward looking risks, the likelihood and impact of which cannot be readily quantified and have not yet crystallised. They are updated at least annually, with qualitative updates reported to BRC at least quarterly or on ad hoc basis in response to significant internal or external events. Each Emerging Risk is mapped out to one of the four categories set out below:

- Regulatory change or intervention
- Economic and political environment
- Competitive environment
- Technology risk

All of the current strategic and principal risks faced by the Group are detailed in full in the Risk Management Report on page 37 of the ARA, which also includes the Group's risk assessment of Brexit as well as the risks arising from Covid-19.

7.11 Stress testing

Stress testing is an important risk management tool, with specific approaches documented for the Group's key annual assessments including the ICAAP, Internal Liquidity Adequacy Assessment Process ("ILAAP"), the Recovery and Resolution Plan ("RRP") and Reverse Stress Testing ("RST"). Further details on the Group's Stress Testing Framework can be found in the capital risk section of this report and on page 53 of the ARA.

8 Capital risk

Capital risk, as defined in the Group's RMF, is the risk that the Group has insufficient capital to cover regulatory requirements and/or support growth plans.

8.1 Capital risk principles

The Group aims to maintain a strong capital position in line with the capital risk appetite established by the Board. The Group's capital risk appetite reflects the desire to maintain an appropriate internal capital buffer to protect against unexpected losses, to optimise the capital structure of the Group and efficiently utilise its capital resources in order to generate appropriate returns.

The Group's Capital Management Framework aims to ensure that the Group:

- Maintains robust controls for Pillar 1 reporting;
- Performs a comprehensive annual ICAAP assessment of all material capital risks;
- Plans to meet capital requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules; and
- Maintains an appropriate internal capital buffer over and above regulatory requirements to protect against unexpected losses.

8.2 Capital risk management

The Group's Capital Planning and Management framework and policy established a structure for maintaining the Group's current and prospective capital at an appropriate level relative to various scenarios. The policy describes the process for setting the Group's capital risk appetite which is approved by the Board and reviewed on an annual basis or more frequently if required.

Current and forecast levels of capital are monitored against the capital risk appetite approved by the Board and the capital position is reported to the Asset & Liability Committee ("ALCO"), the Executive Risk Committee, Board Risk Committee and the Board on a regular basis. The capital forecast forms an integral component of the annual budgeting process and is updated in line with changes to the business plan. The capital forecast incorporates the impact of known forthcoming regulatory changes to ensure that the Group is well positioned to meet them when implemented.

The capital forecast is supplemented by regular sensitivity analysis and scenario planning.

8.3 Stress testing

As part of the Group's ICAAP, capital stress testing is performed. Stress testing is used to identify and assess the impact of adverse scenarios on the Group's financial position which now also encompasses MotoNovo Finance. The Group has developed a range of stresses, including macro-economic scenarios, which are applied to both the asset and the liabilities side of the balance sheet. Additional stress scenarios are designed and applied in Aldermore's other assessments, including Reverse Stress Testing and maintaining Recovery Plans.

Stress scenarios are used to size and carry a stress loss buffer which ensures that the Group is able to withstand an adverse economic downturn over a three to five year planning horizon. In addition, management actions are identified which could be taken in order to mitigate the impact of the stress on the Group's capital position. These are aligned with the Recovery Plan, where appropriate, which describes actions that can be taken to preserve capital if the stress scenario is more extreme.

The results of the stress testing are also a key input into the calibration of the Group's capital risk appetite.

8.4 Pillar 1 capital requirement

As outlined in Section 6, the Group is subject to capital requirements under both Pillar 1 and Pillar 2. The following section provides further details of Pillar 1 requirements. The Group's overall capital requirement under Pillar 1 is calculated by adding together the capital requirements for credit risk, market risk, operational risk and Credit Valuation Adjustment ("CVA").

The following table shows the Group's capital requirement and capital surplus under Pillar 1 as at 30 June 2020 and 30 June 2019.

Table 2: Total minimum Pillar 1 capital requirement

	30 June 2020		30 June 2019	
	Risk weighted assets	Pillar 1 capital requirement	Risk weighted assets	Pillar 1 capital requirement
	£m	£m	£m	£m
Credit risk	7,271.2	581.7	5,949.8	476.0
Market risk	0.2	-	0.3	-
Operational risk	591.7	47.3	534.2	42.7
Credit valuation adjustment	0.9	0.1	1.3	0.1
Total	**7,864.0**	**629.1**	**6,485.6**	**518.8**
Capital resources (per table 3)		1,369.7		1,302.2
Capital resources surplus over Pillar 1 requirement		**740.6**		**783.4**

The Group's largest capital requirement continues to be for credit risk exposures arising on the Group's lending activities. The minimum Pillar 1 capital requirement for credit risk is considered in further detail in Section 9.

The CVA introduced under CRD IV refers to an adjustment made on the valuation of an over-the-counter derivative transaction in order to properly reflect the credit risk of the derivative counterparty.

The CVA can also be considered as the risk of mark-to-market losses in relation to counterparty credit risk. The Group's only exposure to market risk is in relation to foreign currency exposure. Both market risk and CVA are immaterial for the Group.

8.5 Total capital resources

The following table shows the composition of the Group's regulatory capital position as at 30 June 2020 and at 30 June 2019. The capital resources of the Bank are presented in Appendix 1.

Table 3: Capital composition

Regulatory capital	30 June 2020 £m	30 June 2019 £m
Common Equity Tier 1		
Share capital	243.9	243.9
Share premium account	74.4	74.4
Capital redemption reserve	0.1	0.2
Fair value through other comprehensive income (FVOCI)	1.5	0.4
Retained earnings	680.6	655.5
IFRS 9 Transitional adjustment	62.9	9.6
Less: Intangible assets	(13.7)	(14.8)
Total Common Equity Tier 1 capital (CET1)	**1,049.7**	**969.2**
Additional Tier 1		
Additional Tier 1 - Contingent convertible securities	108.0	121.0
Total Tier 1 capital	**1,157.7**	**1,090.2**
Tier 2 Capital		
Subordinated notes	212.0	212.0
Total Tier 2 capital	**212.0**	**212.0**
Total capital resources	**1,369.7**	**1,302.2**
Risk weighted assets - Pillar 1		
Credit risk	7,272.1	5,949.8
Market risk	0.2	0.3
Operational risk	591.7	534.2
Credit valuation adjustment	0.9	1.3
Total risk weighted assets	**7,864.0**	**6,485.6**
Capital ratios		
Common Equity Tier 1 capital ratio	13.3%	14.9%
Tier 1 capital ratio	14.7%	16.8%
Total capital ratio	17.4%	20.1%

During the year total capital resources have increased by £67.6 million (30 June 2019: £481 million) to £1,369.7 million (30 June 2019: £1,302.2 million) mainly as a result of the inclusion of the Group's profit after tax for the period (included within retained earnings), as well the issuance of £61m Additional Tier 1 Notes in April 2020, partially replacing the £75m Additional Tier 1 which were called in April 2020. The Total capital ratio has decreased to 17.4% (30 June 2019: 20.1%) as a result of growth in RWAs driven by growth in RWAs pertaining to MotoNovo Finance. The 30 June 2019 total capital resources are inclusive of capital raised (CET 1: £209.0 million; AT1: £47.0 million; Tier 2: £52.0 million) to support the growth in MotoNovo Finance business volumes from May 2019. 30 June 2020 RWAs include a full 14 months of these volumes. The capital was raised prior to 30 June 2019 and resulted in temporary excess capital at the Aldermore Group level, which led to the key capital ratios being materially higher than internal targets. As the MotoNovo Finance portfolio has grown over the past year, the excess capital is being utilised and Group ratios have decreased in line with projections.

The 2019 Aldermore Group capital ratios were high due to the excess created by the capital raised. Over the course of 2020, the Group's ratios have decreased in line with expectations as this capital was utilised to support MotoNovo Finance lending growth.

The table below shows movements in regulatory capital during the 12-month period to 30 June 2020.

Table 4: Flow statement for regulatory capital

	£m
Common Equity Tier 1 at 30 June 2019	**969.2**
Profit after tax for the year	32.0
Adjustment for adoption of IFRS 9	53.3
Decrease in FVOCI reserve	1.1
Coupon paid on contingent convertible securities, net of tax	(7.0)
Decrease in intangible assets deduction	1.1
Common Equity Tier 1 at 30 June 2020	**1,049.7**
Additional Tier 1 capital at 30 June 2020	**108.0**
Total Tier 1 capital at 30 June 2020	**1,157.7**
Tier 2 capital at 30 June 2019	**212.0**
Tier 2 capital at 30 June 2020	**212.0**
Total regulatory capital at 30 June 2020	**1,369.7**

8.6.1 Common Equity Tier 1 capital resources

During the period, the Group's total CET 1 capital resources have increased primarily as a result of profit after tax and the increase in the IFRS 9 transitional adjustment due to increases in non-credit impaired IFRS 9 ECL provisions.

8.6.2 Additional Tier 1 capital resources

The Group raised £61 million of Additional Tier 1 perpetual capital notes in April 2020, partially replacing the redemption of £75 million Additional Tier 1 perpetual loan notes in April 2020. Further details on the Additional Tier 1 securities are included in note 35 to the ARA and the key features can be found in Appendix 4 of this document.

8.6.3 Total Tier 2 capital resources

Subordinated notes are unsecured and rank after the claims of other creditors of the Group in the event of insolvency or liquidation. Further details of the subordinated notes are included in note 31 to the ARA. The key features of the subordinated notes issued by the Group are detailed in Appendix 4. There have been no movements in the year.

8.7 Reconciliation of statutory equity to regulatory capital resources

The table below reconciles the Group's statutory equity shown within the ARA to the total regulatory capital balance shown in Table 3.

Table 5: Reconciliation of statutory equity to total regulatory

	30 June 2020 £m	30 June 2019 £m
Equity per statement of financial position	1,108.5	1,095.4
Regulatory adjustments		
Add: IFRS 9 Transitional adjustment	62.9	9.6
Add: subordinated notes	212.0	212.0
Less: intangible assets	(13.7)	(14.8)
Total regulatory capital resources	**1,369.7**	**1,302.0**

8.8 Regulatory capital requirement buffers

8.8.1 CRD IV buffers

The Group is subject to a number of capital buffers that have to be met with CET 1, over and above the Total Capital Requirement. These capital buffers were implemented under CRD IV. The buffers applicable to the Group include the capital conservation buffer ("CcB"), set at 2.5%, and the counter-cyclical buffer ("CCyB"). The CCyB rate is reviewed on a quarterly basis by the Financial Policy Committee ("FPC") and increases become binding 12 months after they are announced. On 11 March 2020 the FPC reduced the CCyB rate from 1% to Nil with immediate effect. In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Group's aggregate risk weighted exposures, all exposures have been allocated to the UK.

8.9 Leverage ratio

The leverage ratio measures the relationship between the capital resources of the Group and its total assets. The leverage ratio is calculated by dividing Tier 1 capital resources by a defined leverage exposure measure which includes on and off-balance sheet items.

At present, given its deposit levels are less than £50 billion, the Group has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Framework Regime, With the introduction of CRR II, Aldermore Group will be bound by a 3% leverage ratio from June 2021. The Group maintains a prudent risk appetite limit above the minimum leverage ratio requirement. The Group's leverage ratio as at 30 June 2020 is 7.4% (30 June 2019: 8.6%). Common disclosure requirements for the leverage ratio were introduced by the European Banking Authority ("EBA") in Implementing Technical Standard 2014/04. The following tables are disclosed in accordance with this. Any blank cells in the templates have not been included in these disclosures.

Table 6: Summary reconciliation of accounting assets and leverage ratio exposures

	30 June 2020 £m	30 June 2019 £m
Total assets as per published financial statements	15,323.6	12,530.3
Adjustments for derivative financial instruments	3.8	3.1
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	140.3	204.5
Other adjustments	(13.7)	(14.8)
Leverage ratio exposure	**15,454.0**	**12,723.1**

Table 7: Leverage ratio common disclosure

		30 June 2020 £m	30 June 2019 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	15,314.3	12,521.2
2	Asset amounts deducted in determining Tier 1 capital	(13.7)	(14.8)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**15,300.6**	**12,506.4**
	Derivative disclosures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	0.7	1.1
5	Add-on amounts for PFE associated with all derivatives transactions (mark to market method)	12.4	11.1
11	**Total derivative exposures**	**13.1**	**12.2**
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	816.5	1,067.2
18	(Adjustments for conversion to credit equivalent amounts)	(676.2)	(862.7)
19	**Other off-balance sheet exposures**	**140.2**	**204.5**
	Capital and Total Exposures		
20	Tier 1 capital	**1,157.7**	**1,090.0**
21	Total leverage ratio exposures	**15,454.0**	**12,723.1**
22	**Leverage ratio**	**7.5%**	**8.6%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in

Table 8: Analysis of on-balance sheet exposures (excluding derivatives and SFTs)

		30 June 2020 £m	30 June 2019 £m
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs), of which:**	**15,300.6**	**12,506.4**
EU-3	**Banking book exposures, of which:**	**15,300.6**	**12,506.4**
EU-4	Covered bonds	529.7	418.8
EU-5	Exposures treated as sovereigns	1,841.2	1,252.9
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	9.5	7.1
EU-7	Institutions	59.3	145.2
EU-8	Secured by mortgages of immovable properties	8,182.3	7,630.9
EU-9	Retail exposures	3,226.7	1,945.7
EU-10	Corporate	615.0	784.1
EU-11	Exposures in default	81.2	24.7
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	755.6	297.0

Table 9: Free format text boxes for disclosure on qualitative items

1	Description of the processes used to manage the risk of excessive leverage	The management of excessive leverage is detailed within the Group's Capital Planning and Management Policy ("the Policy"). The Policy includes the governance framework for management, defined procedures for establishing and modifying limits and triggers and the framework for monitoring these. Limits and triggers have a set of notifications, decisions and/or action plan requirements in order to escalate to the appropriate levels of management and to ensure that appropriate steps are taken. ALCO evaluates and monitors the Group's compliance with the Policy on an ongoing basis. The Group also ensures that leverage is assessed under the stress scenarios run as part of the annual ICAAP assessment.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The Group's leverage ratio has decreased to 7.5% (30 June 2019: 8.6%) as growth in leverage exposures has exceeded Total Tier 1 capital growth. This is as a result of the growth in MotoNovo Finance business over the past 12 months. The 30 June 2019 position is inclusive of capital raised (CET 1: £209.0 million; AT1: £47.0 million) to support the growth in MotoNovo Finance business volumes from May 2019. The 30 June 2020 position includes a full 14 months of these volumes in the leverage exposure measure. See Table 3 and Table 4 for further details of the changes in the Group's capital composition.

9 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 such as a mortgage, lease or loan contract. Credit risk also arises from treasury investments and off-balance sheet activities, with the former typically sub-categorised as counterparty credit risk.

In addition to the disclosures within this section, Appendix 4 contains a number of further credit risk disclosures.

9.1 Credit risk principles

Credit risk appetite is set based on expected levels of loss, credit risk concentration, portfolio composition and performance characteristics and the following principles:

- Operate in selected sectors and products, where we have expertise;
- Consistently apply the approved credit policy, and price credit facilities for risk assured;
- Where appropriate, obtain physical or financial collateral; and
- Undertake robust in-life management of the credit portfolio, including providing, watch list and internal capital requirements; and perform strict daily management of customer credit risk, including adherence to explicit concentration and credit rating limits.

The Group's appetite for credit risk on treasury assets is minimal with cash and financial assets placed in investment grade rated entities or investment vehicles. No assets are held for speculative purposes or actively traded.

9.2 Minimum capital requirement: credit risk

The Group uses the Standardised Approach in determining the level of capital to be held for regulatory purposes. Under this approach, the Group must set aside total capital equal to eight per cent of its total risk weighted assets to cover its Pillar 1 capital requirements.

The following table shows the credit risk exposures and the composition of the minimum capital requirements for credit risk:

Table 10: Pillar 1 capital requirements: credit risk

30 June 2020

Exposures subject to the Standardised Approach	Credit risk exposure[1]	Average credit risk exposure[2]	Risk weighted assets[3]	Minimum capital requirement
	£m	£m	£m	£m
Central government and central banks	1,262.9	683.8	-	-
Regional governments or local authorities	0.9	1.1	0.2	-
Public sector entities	8.5	4.1	1.7	0.1
Multilateral development banks	586.8	266.0	-	-
Institutions	72.4	37.9	4.0	0.3
Corporates[4]	615.0	567.6	605.4	48.4
Retail[4]	3,226.7	1,657.7	2,222.6	177.8
Secured by mortgages on immovable property	8,213.7	6,623.6	3,536.7	282.9
Exposures at default	81.2	34.4	86.7	6.9
Items belonging to regulatory high-risk categories	276.3	266.9	414.4	33.2
Short-term claims on institutions or corporates	169.3	81.8	16.2	1.3
Securitisation positions	114.4	59.2	22.9	1.8
Covered bonds	529.7	277.7	53.0	4.2
Other items	271.9	57.4	307.4	24.6
Total	**15,429.8**	**10,619.2**	**7,271.2**	**581.7**

30 June 2019

Exposures subject to the Standardised Approach	Credit risk exposure[1]	Average credit risk exposure[2]	Risk Weighted Assets[3]	Minimum capital requirement
	£m	£m	£m	£m
Central government and central banks	869.2	611.4	-	-
Regional governments or local authorities	0.6	1.1	-	-
Public sector entities	6.6	3.5	1.4	0.1
Multilateral development banks	391.5	225.9	-	-
Institutions	79.3	33.6	4.0	0.3
Corporates[4]	784.1	561.6	768.4	61.5
Retail[4]	1,945.8	1,461.6	1,239.4	99.2
Secured by mortgages on immovable property	7,712.2	6,424.9	3,350.2	268.0
Exposures at default	24.7	28.6	28.0	2.2
Items belonging to regulatory high risk categories	271.4	265.7	407.2	32.6
Short-term claims on institutions or corporates	76.3	70.9	15.3	1.2
Securitisation positions	20.0	52.3	4.0	0.3
Covered bonds	418.8	246.2	41.9	3.4
Other items	73.0	30.6	90.0	7.1
Total	**12,673.5**	**10,017.9**	**5,949.8**	**475.9**

1 Exposures presented are after accounting offsets and without taking into account the effects of credit risk mitigation.
2 Average credit risk exposures calculated as the average of exposure data reported to the PRA on a quarterly basis.
3 RWA's are shown after the application of the SME factor.
4 Retail and Corporates include exposures to SME's.

The overall capital requirement for credit risk has increased by 22% during the period compared with 2019. This increase is primarily attributable to the continued growth across the Group's lending portfolios.

The exposures categorised within "Other items" predominantly relate to other balance sheet assets. These included fixed assets, cash, prepayments, sundry debtors and deferred tax assets. A breakdown of the total exposure values associated with each risk weighting is disclosed in Appendix 4.

9.3 Risk weighted assets: credit risk

The table below shows movements in the RWAs for credit risk for the 12-month period to 30 June 2020 (as shown in Table 3):

Table 11: Credit risk RWAs flow statement

	£m
Credit risk RWAs at 30 June 2019	**5,948.5**
Increase/(decrease) in Asset Finance RWAs	(95.9)
Increase/(decrease) in Invoice Finance RWAs	(99.9)
Increase/(decrease) in SME Commercial Mortgages RWAs	82.0
Increase/(decrease) in Buy-to-Let RWAs	52.1
Increase/(decrease) in Residential Mortgages RWAs	126.5
Increase/(decrease) in Motor Finance RWAs	1,028.5
Increase/(decrease) in investment in covered bonds	11.1
Increase/(decrease) in RWAs associated with other exposure types[1]	218.2
Credit risk RWAs at 30 June 2020	**7,271.1**

[1] Other change includes movements in Fixed Assets and Fair Value adj to portfolio hedged risk. Fair Value adj 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 and loss in order to match the gains and losses arising on the derivative financial contracts that qualify as hedging instruments.

9.4 Credit risk exposures

The credit risk exposures for the Group as at 30 June 2020 are summarised in the following section including analysis of concentration risk by geography, sector and contractual maturity.

9.4.1 Geographic distribution of credit risk exposures

The Group's credit risk exposures are almost all within the UK, except for £586.8 million at 30 June 2020 in respect of exposures to multilateral development banks outside of the UK (30 June 2019: £391.5 million), exposures to non-UK central governments and non-UK covered bonds of £64.5 million (30 June 2019: £44.5 million), and £428.2 million (30 June 2019: £327.6 million) of state guaranteed bonds from issuers outside of the UK. Credit risk exposures outside of the UK arise on bonds which are held as part of the Group's liquidity buffer.

An analysis of the Group's geographical concentration by UK region in respect of loans and advances to customers is shown on page 70 of the ARA.

9.4.2 Credit risk exposures by industry sector

The following tables shows the total amount of credit exposures, net of provisions, including pipeline commitments, analysed by sector at 30 June 2020 and 30 June 2019:

Table 12: Credit risk exposures analysed by sector

30 June 2020

	Construction	Financial	Government and public administration	Manufacturing	Personal	Real estate, professional services and support activities	Transport storage and comms.	Wholesale and retail trade	Other commercial	Non-customer assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Standardised Approach											
Central government and central banks	-	492.5	770.4	-	-	-	-	-	-	-	1,262.9
Regional governments or local authorities	-	-	0.9	-	-	-	-	-	-	-	0.9
Public sector entities	-	-	8.5	-	-	-	-	-	-	-	8.5
Multilateral development banks	-	586.8	-	-	-	-	-	-	-	-	586.8
Institutions	-	72.4	-	-	-	-	-	-	-	-	72.4
Lending[1]	642.1	298.4	16.4	341.8	7,612.0	2,309.2	423.4	336.7	433.0	-	12,413.0
Short-term claims on institutions or corporates	-	169.3	-	-	-	-	-	-	-	-	169.3
Securitisation positions	-	114.4	-	-	-	-	-	-	-	-	114.4
Covered bonds	-	529.7	-	-	-	-	-	-	-	-	529.7
Other items	-	-	-	-	-	-	-	-	-	271.9	271.9
Total	**642.1**	**2,263.5**	**796.2**	**341.8**	**7,612.0**	**2,309.2**	**423.4**	**336.7**	**433.0**	**271.9**	**15,429.8**

30 June 2019

	Construction	Financial	Government and public administration	Manufacturing	Personal	Real estate, professional services and support activities	Transport storage and comms.	Wholesale and retail trade	Other commercial	Non-customer assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Standardised Approach											
Central government and central banks	-	492.5	376.7	-	-	-	-	-	-	-	869.2
Regional governments or local authorities	-	-	0.6	-	-	-	-	-	-	-	0.6
Public sector entities	-	-	6.6	-	-	-	-	-	-	-	6.6
Multilateral development banks	-	391.5	-	-	-	-	-	-	-	-	391.5
Institutions	-	79.3	-	-	-	-	-	-	-	-	79.3
Lending[1]	555.4	258.1	14.1	295.7	6,585.0	1,997.7	366.3	291.3	374.6	-	10,738.2
Short-term claims on institutions or corporates	-	76.3	-	-	-	-	-	-	-	-	76.3
Securitisation positions	-	20.0	-	-	-	-	-	-	-	-	20.0
Covered bonds	-	418.8	-	-	-	-	-	-	-	-	418.8
Other items	-	-	-	-	-	-	-	-	-	73.0	73.0
Total	**555.4**	**1,736.5**	**398.0**	**295.7**	**6,585.0**	**1,997.7**	**366.3**	**291.3**	**374.6**	**73.0**	**12,673.5**

[1] Lending comprises exposures to Regional governments or local authorities, Public sector entities, Corporates, Retail, Secured by mortgages on immovable property, exposures at default, and items belonging to regulatory high risk category exposure classes.

The growth in the Group's lending during the period has resulted from an increase in exposures across all sectors and as at 30 June 2020, lending exposures to SMEs on a regulatory basis totalled £2.2 billion (30 June 2019: £2.4 billion).

9.4.3 Residual contractual maturity of credit risk exposures

The table below shows the Group's exposures at 30 June 2020, including off-balance sheet items, analysed by remaining contractual maturity.

Table 13: Residual maturity of credit risk exposures

30 June 2020	Within 1 year £m	After 1 year but within 5 years £m	More than 5 years £m	Undated £m	Total £m
Central government and central banks	537.2	414.6	281.2	29.9	1 262.9
Multilateral development banks	-	380.5	206.3	-	586.8
Institutions	-	13.1	-	59.3	72.4
Lending (1)	1,786.7	2,597.4	8,038.3	-	12,422.4
Short-term claims on institutions or corporates	169.3	-	-	-	169.3
Securitisation positions	-	95.9	18.5	-	114.4
Covered bonds	-	510.1	19.6	-	529.7
Other items	-	-	-	271.9	271.9
Total	**2,493.2**	**4,011.6**	**8,563.9**	**361.1**	**15,429.8**

30 June 2019	Within 1 year £m	After 1 year but within 5 years £m	More than 5 years £m	Undated £m	Total £m
Central government and central banks	479.3	288.7	80.8	20.4	869.2
Multilateral development banks	46.4	211.3	133.8	-	391.5
Institutions	-	39.9	-	39.4	79.3
Lending (1)	1,545.6	2,246.7	6,953.1	-	10,745.4
Short-term claims on institutions or corporates	76.3	-	-	-	76.3
Securitisation positions	-	13.5	6.5	-	20.0
Covered bonds	42.9	361.3	14.6	-	418.8
Other items	-	-	-	73.0	73.0
Total	**2,190.5**	**3,161.4**	**7,188.8**	**132.8**	**12,673.5**

1 Lending comprises exposures to Regional governments or local authorities, Public sector entities, Corporates, Retail, Secured by mortgages on immovable property, Exposures at default and items belonging to regulatory high risk category exposure classes.

The maturity of exposures is shown on a contractual basis rather than on a behavioural basis and therefore, does not include expected redemptions over the life of the exposure. As a consequence, actual maturity is likely to be materially shorter.

9.4.4 Past due and impaired assets

Assets held at amortised cost

The Group considers evidence of impairment of financial assets using the three-stage approach established by the IFRS 9 standard. This is based on an estimation of the expected credit losses ("ECL") for the asset over different time frames as below:

- 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 with 12 month expected credit losses to be recognised, representing potential 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 above, the asset is classified as stage 2 and lifetime expected credit losses are recognised; and
- Stage 3 - any credit impaired assets are classified as stage 3, with expected credit losses measured and recognised on a lifetime basis.

All assets are assessed for individual impairment using a range of risk criteria. Those found not to be individually impaired are then collectively assessed for any impairment that has not yet been identified but has incurred. The Group uses a bespoke credit engine to estimate the 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.

When impairments are calculated, each exposure is assigned unique impairment parameters (a PD, LGD and EAD) based on that exposure's individual characteristics.

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.

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

Movements between the stages

In assessing whether loans to customers and loan commitments have been subject to a significant increase in credit risk ("SICR") and needs to move to stage 2 the Group applies the following criteria in order:

- A presumption that an account which is more than 30 days past due or out of order 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 PD of individual credit exposures. Staging models using statistical techniques have been developed on a portfolio basis to determine the levels of changes in PDs since origination which correlate to a significant increase in the likelihood of delinquency among historic loans with similar characteristics; and
- Qualitative criteria, where an exposure is subject to temporary forbearance or has been placed on a watch list as a result of possessing certain qualitative features based on Basel Committee On Banking Supervision “Guidance on credit risk and accounting for expected credit losses”, including such matters as significant change in the operating results of the borrower or in the value of the collateral provided.

The staging models for applying the quantitative criteria use the change in 12-month PD as a proxy for lifetime PD, as permitted by IFRS 9.

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.

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

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

The Group has used the same definition of default as that for the purpose of calculating PDs used in its credit models. In addition, the definition has been aligned with those used for regulatory reporting purposes.

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.

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 and the application of additional Post Model Adjustments (“PMA”) to the portfolio as a result of the Covid-19 pandemic.

The Group sources its forward-looking economic scenarios and probability weightings from an external provider. The Group is able, by exception and with sufficient rationale, to reject scenarios or adjust scenario weightings.

Analysis of loans and advances to customers by impairment status

The tables below provide a split of the Group's £12,586.5 million (30 June 2019: £10,648.9 million) credit risk exposure to loans, gross of impairments, as per the above IFRS 9 criteria.

Table 14: Analysis of loans and advances to customers by impairment status

	Asset Finance	Invoice Finance	SME Commercial Mortgages	Buy-to-Let (1)	Residential Mortgages (1)	MotoNovo Finance	Total
30 June 2020	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Stage 1	1,549.6	245.8	919.4	4,654.5	1,879.6	1,743.4	10,992.3
Stage 2	319.6	32.2	207.8	535.4	139.1	122.1	1,356.2
Stage 3	38.2	6.4	28.4	79.2	72.0	13.8	238.0
Gross loans and advances to customers	**1,907.4**	**284.4**	**1,155.6**	**5,269.1**	**2,090.7**	**1,879.3**	**12,586.5**
Specific impairment allowance	(15.0)	(2.7)	(6.2)	(11.2)	(6.7)	(6.2)	(48.0)
General impairment allowance	(34.5)	(3.0)	(10.7)	(11.1)	(4.5)	(49.6)	(113.4)
Allowance for impairment losses	(49.5)	(5.7)	(16.9)	(22.3)	(11.2)	(55.8)	(161.4)
Net loans and advances to customers	**1,857.9**	**278.7**	**1,138.7**	**5,246.8**	**2,079.5**	**1,823.5**	**12,425.1**

1 The movement in stage 2 balances is primarily due to a reduction in the number of cases which are triggering the Significant Increase in Credit Risk ("SICR") threshold along with a significant amount of stage 2 accounts moving into stage 3. Accounts that have requested payment holidays in relation to Covid-19 that were not in arrears at the start of the payment holiday are not considered to be past due for the purpose of IFRS 9 Staging so therefore could not migrate through the stages due to arrears or forbearance, however all other staging and default triggers have been applied as standard.

	Asset Finance	Invoice Finance	SME Commercial Mortgages	Buy-to-Let	Residential Mortgages	MotoNovo Finance	Total
30 June 2019	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Stage 1	1,838.7	369.3	939.2	4,365.0	1,556.3	367.9	9,436.4
Stage 2	172.7	30.0	71.2	654.0	154.8	0.7	1,083.4
Stage 3	30.5	5.8	13.6	37.2	41.4	0.6	129.1
Gross loans and advances to customers	**2,041.9**	**405.1**	**1,024.0**	**5,056.2**	**1,752.5**	**369.2**	**10,648.9**
Specific impairment allowance	(11.3)	(1.9)	(1.2)	(6.3)	(3.1)	(0.4)	(24.2)
General impairment allowance	(12.9)	(2.8)	(2.7)	(6.4)	(1.6)	(4.0)	(30.4)
Allowance for impairment losses	(24.2)	(4.7)	(3.9)	(12.7)	(4.7)	(4.4)	(54.6)
Net loans and advances to customers	**2,017.7**	**400.4**	**1,020.1**	**5,043.5**	**1,747.8**	**364.8**	**10,594.3**

An analysis of the payment due status of gross loans and advances to customers by UK geographical region is disclosed in Appendix 4, in table 48.

The following table summarises the movement during the period in allowances for impairment losses.

Table 15: Movement in allowance for impairment losses

	Stage 1	Stage 2 £m	Stage 3 £m	Total £m
Balance as at 1 July 2019	21.5	8.9	24.2	54.6
Charge to the income statement	51.2	42.8	37.7	131.7
Write-offs net of recoveries			(13.7)	(13.7)
Modifications	(9.2)	(1.8)	(0.2)	(11.2)
Balance as at 30 June 2020	**63.5**	**49.9**	**48.0**	**161.4**

	Stage 1	Stage 2 £m	Stage 3 £m	Total £m
Balance as at 1 July 2018	17.4	-	21.5	38.9
IFRS 9 adjustments	(2.2)	7.3	5.0	10.1
Charge to the income statement	6.3	1.6	9.6	17.5
Write-offs net of recoveries	-	-	(11.9)	(11.9)
Balance as at 30 June 2019	**21.5**	**8.9**	**24.2**	**54.6**

As described in Section 9.4.1, the Group's lending is all within the UK; therefore, no analysis of past due and impaired assets on a geographical basis has been disclosed by exposure class.

Credit risk management: loans and advances to customers

The Group targets SMEs and retail mortgage customers. Credit risk is managed in accordance with lending policies, the risk appetite and the RMF. Lending policies and performance against risk appetites are reviewed regularly. The Group seeks to mitigate credit risk by focusing on business sectors where the Group has specific expertise and through limiting concentrated exposures on larger loans, certain sectors and other factors which can represent higher risk. The Group also seeks to obtain security cover and where appropriate, personal guarantees from borrowers. Affordability checks on income versus outgoings are also made in relation to mortgages to assess a borrower's capacity to meet interest payments.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Group maintains a dynamic approach to credit management and aims to take necessary steps if specific issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to borrower, economic or sector-specific weaknesses.

External credit reference agency ratings for borrowers are not typically available in the retail and SME markets in which the Group operates. However, credit risk is assessed through applying a combination of due diligence, reviewing credit reference agency reports, reviewing financial information, credit scores and the use of internal underwriters.

The following tables summarise the Group’s approach to mitigating credit risk for each business operating segment:

	Asset Finance	Invoice Finance
Business description	• Originates loan and lease contracts to diversified range of clients • Exposures range from public sector organisations to corporates, SMEs, partnerships, sole traders and directors / key staff of trading businesses	• Provides working capital for SMEs utilising accounts receivable as the primary asset • May include credit control and collection services for clients and also bad debt protection
Management of credit risk	• Expert manual underwriting supported by data driven from risk systems • Information on individuals behind the business carefully considered • Financial and credit information obtained from external credit reference agencies • Assets acting as security are carefully valued, future resale value considered • Audit and site visits used to track condition and location of certain assets	• Experienced underwriting undertaken manually and not automated • Ongoing review of management, financial and operational strength of client’s business • Credit information and financial crime checks in relation to Directors and Shareholders of clients carefully considered • Careful consideration of quality and contractual collectability of underlying receivables acting as assets • Risk factor system allows algorithmic early warning indication of asset deterioration and fraud • On-going in-life monitoring, client audit and reconciliations performed to manage risk of fraud and default risk associated with client failure • Significant diversification at invoice level heavily mitigates concentration risk

	SME Commercial Mortgages	Residential Mortgages
Business description	• Commercial mortgages to SME businesses either owning or acquiring business premises • Commercial mortgages to Commercial Real Estate (“CRE”) property investors, typically to non/partial recourse SPVs secured on mixed retail/residential investments or smaller value CRE property investments	• Residential mortgages for owner-occupied residential properties

Management of credit risk	• Independent credit underwriting of all new business origination (all origination focused on UK domiciled property assets only) • Loan-to-Value and Debt Service capacity matrices applied on a risk-based approach • All facilities supported by independent professional valuation by the Group's valuers • Collateral security by way of unsupported personal guarantees to tie in personal commitment, or corporate guarantees, are often taken • Financial covenant protection for CRE commercial loans >£1m secured by investment portfolio and/or multiple tenants • Enhanced in-life credit risk management and stewardship for commercial mortgages, on a risk-based approach, for all exposures >£1m • Early warning signs and back book surveillance, with individual counterparty cases exhibiting signs of stress/distressed escalated to Watch List for close and intensive monitoring and control	• Independent credit underwriting of all new business origination (all origination focused on UK domiciled residential property only) • Lending at origination restricted to max 85% LTV (except where additional scheme or insurance guarantee support is available to max 95% LTV), minor adverse credit history is acceptable and affordability criteria • In-life monitoring of borrower performance and credit profile to identify those borrowers who are evidencing some signs of financial stress

	Property Development	**Buy-to-Let**
Business description	• Funding for building and developing residential property	• Private rental sector residential investment mortgages to individual, partnership, LLP and Limited Company landlords
Management of credit risk	• Loan to Cost and Loan to Gross Development Value matrices applied on a risk-based approach, underpinned by independent Quantity Surveyor ("QS") verification of construction costs (including contingency) and independent professional valuation of completed units • All developments subject to independent QS monthly progress monitoring, supplemented by in-house engagement and site visits	• Independent credit underwriting of all new business origination (UK domiciled residential investment property only) • Loan-to-Value and Debt Service capacity matrices applied on a risk-based approach • For capital and interest repayments the underlying rental income must achieve minimum 1.0x on a stressed basis • Face to face interview and property visits for higher value aggregate Buy-to-let mortgages and more complex structures • Enhanced in-life credit risk management and stewardship for commercial mortgages, on a risk-based approach, for all exposures >£1m • Early warning signs and back book surveillance, with individual counterparty cases exhibiting signs of stress/distressed escalated to Watch List for close and intensive monitoring and control panel of qualified external valuers

MotoNovo Finance	
Business description	• Provision of a range of hire purchase products to facilitate the acquisition of a motor vehicle • Brokers insurance products ancillary to the underlying lease agreement • Also provides loan funding to its affiliated network of motor dealerships
Management of credit risk	• Operate in selected sectors and products, where we have expertise • Consistently apply the approved credit policy • Where appropriate, obtain physical collateral • Undertake robust in-life management of the credit portfolio

Forbearance

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 agreement with UK Government's alignment with finance sector to support businesses and customers during the Covid-19 crisis, the Group offered forbearance measures, the outcome of which can be found on pages 7 and 66 of the ARA.

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

In all cases, the above definitions are subject to no further concessions being made and the customer's compliance with the new terms.

The Group's total loan balances in forbearance increased to £2,001.0 million at 30 June 2020 (30 June 2019: £42.0 million). The significant increase was mainly due to payment holidays offered to customers in all of the Group's portfolios as a result of Covid-19. A more detailed analysis of forbearance measures in place at 30 June 2020 can be found on page 69 of the ARA.

Credit risk mitigation: loans and advances to customers

The Group uses a wide range of techniques to reduce the credit risk of its lending activities. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. However, the risk is further mitigated by obtaining collateral against the funds advanced.

Collateral held in respect of loans and advances to customers

The following table summarises collateral held by operating segment.

Table 16: Collateral held in respect of loans and advances to customers, neither past due nor individually impaired

	30 June 2020		30 June 2019	
	Loans and advances neither past due nor individually impaired £m	Fair value of collateral held £m	Loans and advances neither past due nor individually impaired £m	Fair value of collateral held £m
Asset Finance	1,549.6	1,027.0	1,838.7	1,201.7
Invoice Finance	245.8	245.8	369.3	369.3
SME Commercial Mortgages[1]	919.4	876.5	939.2	846.3
Buy-to-Let	4,654.5	4,654.5	4,365.0	4,356.0
Residential Mortgages	1,879.6	1,879.6	1,556.3	1,555.0
Motor Finance	1,743.4	1,743.4	367.9	367.9
	10,992.3	**10,426.8**	**9,436.4**	**8,696.2**

1 *Excludes Property Development*

9.4.5 Lending book analysis

SME Commercial, Buy-to-Let and Residential Mortgages

The principal indicators used to assess the credit security of performing loans are loan-to-value ratios for SME Commercial, Buy-to-Let, Residential Mortgages and MotoNovo Finance. Loan-to-value on indexed origination information on these portfolios is set out in the following tables. Due to the more bespoke nature of the Property Development business, the portfolio is excluded from a number of the following tables, as indicated by the footnotes. Gross Property Development exposure at 30 June 2020 was £245.0 million (30 June 2019: £211.0 million), and net exposure was £244.0 million (30 June 2019: £210.0 million).

Table 17: SME Commercial Mortgages - loan to value [1]

	30 June 2020 £m	30 June 2019 £m
100%+	4.0	0.1
95-100%	5.3	-
90-95%	18.2	0.1
85-90%	18.9	2.3
80-85%	29.3	4.1
75-80%	79.2	15.0
70-75%	116.3	61.6
60-70%	190.8	238.5
50-60%	205.6	195.9
0-50%	229.1	295.5
	896.7	**813.1**
Capital repayment	494.0	522.2
Interest only	402.7	290.9
	896.7	**813.1**
Average loan-to-value percentage	60.17%	53.90%

[1] *Excludes Property Development*

Table 18: Buy-to-Let mortgages - loan to value

	30 June 2020 £m	30 June 2019 £m
100%+	17.7	1.6
95-100%	9.9	0.3
90-95%	17.1	1.6
85-90%	54.6	19.5
80-85%	213.3	233.0
75-80%	722.3	1,172.7
70-75%	1,274.9	1,208.4
60-70%	1,594.6	1,290.0
50-60%	753.1	648.7
0-50%	589.4	480.4
	5,246.9	**5,056.2**
Capital repayment	310.7	301.6
Interest only	4,936.2	4,754.6
	5,246.9	**5,056.2**
Average loan-to-value percentage	65.82%	67.10%

Table 19: Residential mortgages - loan-to-value

	30 June 2020 £m	30 June 2019 £m
100%+	13.4	-
95-100%	38.6	19.1
90-95%	178.9	213.3
85-90%	207.9	186.8
80-85%	165.4	110.6
75-80%	207.0	144.5
70-75%	253.0	246.9
60-70%	372.9	317.7
50-60%	267.1	210.6
0-50%	375.4	302.9
	2,079.6	**1,752.4**
Capital repayment	1,885.0	1,553.8
Interest only	194.6	198.6
	2,079.6	**1,752.4**
Average loan-to-value percentage	67.70%	68.42%

Lending at higher LTV bandings continues to be largely as a result of the Group's participation in mortgage guarantee schemes. The Group 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, the Group introduced the Mortgage Indemnity Guarantee ("MIG") product to cover all new lending over 80% LTV (excluding fees).

As at 30 June 2020, 97% of the exposures with an LTV in excess of 85% relate to either HTB or MIG (30 June 2019: 99%). The average indexed LTV for mortgages with a guarantee was 84.9% (30 June 2019: 87.0%). As at 30 June 2020, the average indexed LTV of the non-mortgage guarantee owner occupied book is 58% (30 June 2019: 59%).

Property Development

The Group uses "loan-to-gross-development-value" as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan-to-gross-development-value is a measure used to monitor the loan balance compared with the expected gross development value once the development is complete. Average loan-to-gross-development-value at origination for Property Development loans at 30 June 2020 was 59.7% (30 June 2019: 61.0%).

Asset Finance

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

Asset Finance also undertakes unsecured lending where the Group has obtained an understanding of the ability of the borrower's business to generate cash flows to service and repay the facilities provided. As at 30 June 2020, the total amount of such unsecured lending was £37.0 million (30 June 2019: £40.1 million).

Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices).

As at 30 June 2020, the average advance rate against the fair value of sales ledger balances which have been assigned to the Group, net of amounts considered to be irrecoverable, is 61.8% (30 June 2019: 70.0%).

In addition to the value of the underlying sales ledger balances, the Group 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.

Table 20: MotoNovo Finance - loan-to-value value

	30 June 2020 £m	30 June 2019 £m
100%+	642.9	107.9
95-100%	237.6	39.9
90-95%	214.5	35.3
85-90%	170.4	29.3
80-85%	126.8	21.8
75-80%	97.6	17.8
70-75%	71.9	14.2
60-70%	96.5	18.7
50-60%	57.5	11.7
0-50%	51.2	9.4
	1,766.9	**306.0**

MotoNovo Finance

In respect of MotoNovo 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. 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. MotoNovo Finance started trading in the Aldermore Group from May 2019 and therefore June 2019 is a relatively immature position however as at June 2020 £642.0m of exposures were at LTV 100%+ representing 36% of the portfolio.

9.4.6 Lending book credit risk concentration

Concentration risk exists through having high or excessive exposures to a concentration of certain counterparties, regions or sectors.

Concentration risks from lending activities are managed and controlled through the adoption of concentration limits tailored to each business area. Concentration of credit risk by product type, size of asset, geographic location and sector is also monitored.

Although there is diversification within the Group's portfolios and operations, there are certain features of the Group's activity which contain an element of concentration:

- The Group operates across the whole of the UK and has a regionally diversified lending portfolio with a larger proportion of balances in the more significant regional economies such as London, the South East and the North West. As at 30 June 2020, approximately 36.2% (30 June 2019: 35.6%) of the Group's lending was to the South East and Greater London, reflecting a concentration of the market in that region and historically higher asset value growth trends. For further details on geographical concentration, see the Risk Report of the ARA (page 45).
- Notwithstanding the range of products offered, a significant proportion of the Group's mortgage loans are buy-to-let mortgages. As at 30 June 2020, 41.0% (30 June 2019: 49.0%) of total loans were buy-to-let mortgages with an average LTV of 65.8% (30 June 2019 67.1%)..
- Notwithstanding the range of customer types, a significant proportion of the Group's loans are within the "Personal", "Financial" and "Real-estate, professional services and support activities" industry sectors. As at 30 June 2020, approximately 78.9% (30 June 2019: 81.4%) of the Group's loans and advances were to customers within these three sectors (see Table 12).
- Of less materiality for the Group but notable within the Invoice Finance portfolio is our Football Finance product introduced November 2017 with a current exposure of £147.7 million which represents 50.5% of the portfolio (30 June 2019: £148.8 million).

9.4.7 Credit risk management: treasury

Credit risk exists where the Group has acquired securities or placed cash deposits with other financial institutions as part of its treasury portfolio of assets. The Group considers the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Liquid assets are held as part of the Group's liquidity buffer (see Section 10).

Treasury credit risk is mitigated via counterparty limit setting and monitoring, as well as derivative collateralisation where appropriate. Over 90% of derivatives are now Centrally Cleared through London Clearing House (''LCH'').

The table below sets out information about the credit quality of treasury financial assets. As at 30 June 2020, no treasury assets were past due or impaired (30 June 2019: £nil). The analysis presented below is derived using ratings provided by Standard and Poor's, Moody's and Fitch. The lowest rating from the credit agencies for each of the counterparties is used as the basis for assessing the credit risk of treasury financial assets.

Table 21: Credit quality of Treasury

30 June 2020	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ £m	BBB £m	Total £m
		Exposure value by external rating				
Cash and balances at central banks and Loans & advances to banks	-	552.6	15.3	203.1		**771.0**
Debt securities:						
- High quality liquid assets included in the liquidity buffer	1,230.5	165.5	5.3	425.4	-	**1,826.7**
- Asset backed securities	114.4	-	-	-	-	**114.4**
Derivatives held for risk management purposes	-	-	9.1	0.2	-	**9.3**
	1,344.9	**718.1**	**29.7**	**628.7**	**-**	**2,721.4**

30 June 2019	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ £m	BBB £m	Total £m
		Exposure value by external rating				
Cash and balances at central banks and Loans & advances to banks	-	517.7	68.7	41.7		**628.1**
Debt securities:						
- UK Government gilts, Treasury bills, Supranational and Corporate bonds	959.9	227.9	-	-	-	**1,187.8**
- Asset backed securities	20.0	-	-	-	-	**20.0**
Derivatives held for risk management purposes	-	-	9.1	-	-	**9.1**
	979.9	**745.6**	**77.8**	**41.7**	**-**	**1,845.0**

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

Counterparty credit limits are established for authorised counterparties and are updated on a regular basis to take account of any ratings migration and the Group’s assessment of the credit risk for the institution. The total credit exposure limits set for each counterparty or group of connected counterparties shall not exceed 25% of the Group’s eligible capital resources, made up of Tier 1 and Tier 2 regulatory capital resources, with Tier 2 capital not exceeding one third of Tier 1. However, each counterparty is assessed on individual merit and against concentration limits. Any exposure to central banks, multilateral development banks, other public sector institutions and other entities which carry zero per cent risk weighting as per the Standardised Approach, are exempt from the counterparty and exposure limits. The exposure limit for each institution is maintained in an Authorised Counterparties List which is reviewed at least annually or more frequently should a change in ratings occur.

A description of the main credit risk management techniques in place for each of the key treasury asset types is detailed below:

Treasury asset type	**Description of credit risk management techniques**
Cash placements	Credit risk of Group and treasury counterparties is controlled through the treasury credit risk policy which limits the maximum exposure by entity with which the Group can place cash deposits. All institutions need to be rated at investment grade at the time of placement.
High quality liquid assets included in the liquidity buffer	As part of the liquidity buffer, the Group holds a portfolio of gilts and Supranational bonds. These instruments are AAA or AA+ to AA- rated, and typically represent sovereign risk.
Asset backed securities (“ABS”)	The majority of these investments are in AAA or AA+ to AA- rated bonds secured on UK originated assets. All investments are in Sterling; no foreign currency bonds have been bought. The portfolio has credit enhancement, providing principal protection against losses.
Derivatives	Credit risk on derivatives is controlled through a policy of only entering into contracts with a central clearing house with an investment grade credit rating. Most derivative contracts are collateralised through the receipt/payment of daily cash margin calls to cover the mark to market value of the asset/liability. 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 are aggregated into a single net amount being payable by one party to the other.

The table below provides details of the exposures to counterparty credit risk for derivative contracts at 30 June 2020.

Table 22: Net exposures to counterparty credit risk for derivative contracts

	30 June 2020 £m	30 June 2019 £m
Interest rate contracts	9.0	8.6
Equity index contracts	0.1	0.5
Gross positive fair value of contracts	**9.1**	**9.1**
Netting of negative FV contracts	(8.4)	(8.0)
Potential future credit exposure (net)	12.4	11.1
Less: netting benefits[1]	4.0	3.1
Netted current credit exposure	**13.1**	**12.2**
Net derivative credit exposure	**13.1**	**12.2**

[1] Netting benefits shown after the inclusion of potential future credit exposures.

Aldermore clears all eligible derivative exposures through the London Clearing House via an intermediary.

At 30 June 2020, the Group had no public credit rating and no exposure to credit derivatives (30 June 2019: nil).

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty (i.e. the size of the exposure increases at the same time as the risk of the counterparty being unable to meet that obligation increases). As the Group primarily enters into interest rate basis and foreign exchange swap contracts, it had very limited exposure to wrong way risk as at 30 June 2020. Consequently, wrong way risk is considered immaterial to the Group and no further disclosures have been made in respect of this risk.

Impairment of financial assets classified as fair value through other comprehensive income (“FVOCI”)

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. Changes in impairment provisions attributable to the effective interest rate method are reflected as a component of interest income.

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

As at 30 June 20120, no FVOCI debt securities were past due or impaired (30 June 2019: £nil).

10 Liquidity risk

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

10.1 Liquidity risk principles

- 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.

To protect the Group and its depositors against liquidity risk, the Group maintains a liquidity buffer which is based on its 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 the Group to meet all financial obligations and to support anticipated asset growth.

10.2 Liquidity risk management

The management of liquidity is centralised within the Group Treasury function and controlled through adherence to the Liquidity Risk Management Framework and underlying policies. Liquidity risks are specifically considered by the Asset and Liability Committee ("ALCO") each month. ALCO is the primary Executive committee to oversee the management of liquidity risks under delegated authority from the Board, with additional oversight provided by the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC").

The Group maintains a stable and diverse funding structure in order to hold sufficient and adequate liquidity resources to support the business for at least 91 days under a range of severe stress scenarios (including regulatory requirements).

Through the ILAAP process, the Group assesses the level of liquidity necessary to prudently cover systemic and idiosyncratic risks. The ILAAP process determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base and other liquidity risk drivers. The ILAAP requires the Group to consider all material liquidity risks in detail and to document an analysis of each key liquidity risk driver and to set a liquidity risk appetite against each of these drivers. The 2020 ILAAP was approved by Board in March 2020 and was implemented in July 2020. The below exposures and metrics are based on previous ILAAP as at June 2020 month end.

The Group holds a liquidity buffer, which was analysed as at 30 June 2020 and at 30 June 2019 as follows:

Table 23: Liquidity portfolio

	30 June 2020 £m	30 June 2019 £m
Bank of England reserve account and unencumbered cash and bank balances	512.6	462.4
UK Gilts and Treasury bills, Supranational bonds and Covered bonds (level 1 eligible)	1,314.9	1,124.4
Covered Bonds (Level 2 eligible)	73.4	63.4
Asset Backed Securities	114.4	20.0
Total liquidity buffer	**2,015.3**	**1,670.2**
As a percentage of funding liabilities	14.30%	14.51%

The Group has no exposure to foreign currency in respect of the liquidity buffer.

The Group's assets are primarily funded by customer (personal/business) deposits. As per the Group's Liquidity Risk Management Framework there are a number of product and maturity concentration limits in place to ensure funding sources are diversified. The Group maintains a high-quality asset portfolio as shown in Table 23 above.

The Group uses hedges primarily to mitigate against interest rate risks in its assets and liability portfolios. The derivatives are typically between one and five years. Collateral calls are managed by Treasury on a daily basis. For the purpose of the Liquidity Coverage Ratio the "historic lookback" approach has been used to set the required level of liquidity against future calls.

Further details on the Group's approach to mitigating and monitoring liquidity risk can be found on page 55 of the ARA.

10.1 Measurement

A series of key performance indicators are used to monitor both short and long-term liquidity requirements including risk appetite and Board approved metrics, liquidity ratios, cashflow forecasting with wholesale and retail funding profiles, early warning indicators based on regulatory requirements and stress test survival periods. Criteria and limits are in place to ensure high quality securities are available as part of the liquid asset buffer.

10.2 Monitoring

Liquidity is actively monitored on a daily basis and reported on a monthly basis through the ALCO and ERC. A range of market and internal warning indicators are monitored for early signs of liquidity risk. There are a range of qualitative and quantitative measures including the close monitoring of the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

The Group's LCR aims to improve the resilience of the bank to liquidity risk over a 30-day period. As at 30 June 2020 the LCR was 397.1% (30 June 2019: 401.0%). This is well in excess of the minimum standard of 100% mandated by the PRA.

Table 24: Quantitative LCR information

	Total adjusted value			
	30 Jun 2020 £m	31 Mar 2020 £m	31 Dec 2019 £m	30 Sep 2019 £m
21 Liquidity Buffer	**1,946.5**	**1,616.8**	**1,815.8**	**1,492.1**
22 Total Net Cash Outflows	**490.2**	**517.5**	**454.3**	**427.8**
23 Liquidity Coverage Ratio %	**397%**	**312%** *(1)*	**400%**	**349%**

1 The excess liquidity held in December 2019 to accommodate expected high maturities were reduced in Q1 2020. They were no longer required and when we entered the Covid-19 period an additional buffer was identified to account for any volatilities.

The Group's NSFR aims to ensure that the bank has an acceptable amount of stable funding to support assets over a one-year period of extended stress. As at 30 June 2020 the NSFR was 123.6% (30 June 2019: 144.7%) which is in excess of the minimum level of 100% as proposed in the Basel 295 publication and finalised within the EC Net Stable Funding Requirement delegated legislation, effective 1 January 2018.

10.5 Asset encumbrance

An asset is currently defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged against an existing liability. The Group monitors and manages total balance sheet encumbrance via a Board-approved risk appetite framework.

At 30 June 2020, the Group has £4,397.9 million (30 June 2019: £3,669.1 million) of encumbered assets, and £10,925.7 million (30 June 2019: £8,861.2 million) of unencumbered assets. The tables in Appendix 5 disclose the Group's encumbered and unencumbered assets in the templates specified by the EBA.

11 Market risk

The risk arising from adverse movements in market prices given long or short positions in impacted assets and/ or liabilities.

11.1 Market risk principles

- 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 Internal Capital Adequacy Assessment Process ("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.

11.2 Management of interest rate risk

Interest rate risk is controlled through the Market Risk Framework with daily monitoring by the Asset and Liability Management function and reported to the Asset and Liability Committee (“ALCO”), Executive Risk Committee (“ERC”) and Board Risk Committee (“BRC”) on a monthly basis.

11.2.1 Asset-liability gap risk

Where possible the Group seeks to match the interest rate structure of assets with liabilities, creating a natural hedge. Where this is not possible, it will enter into interest rate swap transactions to convert the fixed rate exposures on loans and advances, customer deposits and available-for-sale securities into variable Sterling Overnight Index Average (“SONIA”) exposures.

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. Internally 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 one basis point shift in the interest yield curve. As defined in CRD IV, the economic value is also monitored using a 200 basis points parallel up and down shift. For effective management of Interest Rate Risk in the Banking Book (“IRRBB”), the Group also assesses the impact of rate shocks to net interest income, the impact of non-parallel shocks and changes to prepayment profiles of customers.

The economic value impact of a two per cent shift in the interest yield curve for each period is as follows (note: potential losses are shown as negative numbers):

Table 25: Reported risk measures

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

N.B.: At the June 2020 ALCO meeting, the decision was taken to remove the 0% interest rate floor assumption for the economic value calculation to reflect the market environment following the Covid-19 pandemic. This has been replaced by the floor utilised in the EBA Supervisory Test which starts at -1.0% at the overnight tenor and increases linearly to 0.0% at the 20-year tenor. The impact of this change is reflected in the period end calculation, but prior months were not recalculated.

11.2.2 Basis risk

Basis risk is where there is a mismatch in the interest rate reference base for assets and liabilities. When the Group enters into derivative contracts to swap fixed rate assets and liabilities into variable rate exposures, the reference base is usually SONIA.

Basis risk is measured using historical Value at Risk analysis. It measures the 12 months Net Interest Income impact of the worst three months shock at 99% confidence using five years of historical data, As at 30 June 2020, the amount of the basis risk sensitivity measure was £6.2 million (30 June 2019: £3.4 million).

11.2.3 Hedge accounting and hedge effectiveness

Where possible, the Group seeks to account for the derivatives used within hedges which meet the qualification requirements of IAS 39 as fair value portfolio hedges (see accounting policy note 2(j) and note 19 of the 2020 ARA). All hedges are included in the interest rate risk reports and are reviewed on a monthly basis by ALCO. The effectiveness of hedging relationships is reviewed and reported on a monthly basis by the Finance function.

11.3 Other market risks

The Group does not carry out proprietary trading or hold any positions in assets or equity which are actively traded. However, the Group does hold a portfolio of highly rated asset backed securities and a portfolio of liquid assets (primarily gilts, Treasury bills, Covered, Agency and Supranational bonds) which are used for liquidity buffer purposes. Further information on the Group's liquidity buffer is provided in Section 10.

The interest rate risk on these liquid assets is considered as part of the asset-liability gap risk assessment described above. The instruments are also exposed to other forms of market risk e.g. credit spread risk. Prices are monitored on a day-to-day basis to ensure that the Group is aware of any material change in value. Formal monthly prices are subject to independent review and are reported to ALCO, with escalation to ERC and BRC as required. The Group has repurchase facilities in place, which can be used in the first instance to obtain liquidity when necessary, which avoids the need to sell the liquidity buffer assets and so crystallise any price gain or loss due to market price movements.

12 Compliance, Conduct and Financial Crime Risk

Compliance risk, as defined in the Group's RMF, is 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, regulations, codes of conduct and standards of good practice.

Conduct risk, as defined in the Group's RMF, is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of causing unfair outcomes or detriment to customers and/or undermining market integrity as a result of the Group's behaviour, decision making, activities or processes.

Financial Crime risk, as defined in the Group's RMF, is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation 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.

12.1 Compliance, Conduct and Financial Crime Risk Principles

The Group aims to ensure that Compliance, Conduct and Financial Crime are managed by:

- Maintaining a well-defined and embedded process for regulatory and legislative horizon scanning and preparation for confirmed and potential changes;
- Maintaining processes that focus on fair customer outcomes, including the use of metrics on staff performance, training, customer feedback, complaints and product cancellation;
- Ensuring that recruitment and training processes have a clear customer focus, including the use of mandatory training modules;
- Ensuring the approach to remuneration incentivises fair customer outcomes and prudent decision-making within risk appetite;

- Performing the requisite financial crime checks on all customers – including money laundering, sanctions and fraud at origination – and where appropriate, on an ongoing basis. Tightly monitoring remedial actions relating to financial crime breaches; and
- Providing risk appetite data and commentary, assessed against triggers and limits, as part of the monthly risk appetite report, driving management actions where appropriate.

13 Operational Risk

Operational risk, as defined in the Group's RMF, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Within Aldermore Group, this risk includes business continuity and resilience, information technology, information security, change management, third party, tax, legal, people, payments and financial control and reporting risks.

13.1 Operational risk principles

The Group's Operational Risk Management Framework ("ORMF") aims to ensure that the Group:

- Maintains a comprehensive Risk and Control Self-Assessment ("RCSA") process. Assesses the efficacy of these controls by maintaining a robust approach to Key Control testing;
- Maintains the risk event reporting process;
- Systematically monitors operational losses on both a net (overall financial impact) and gross (excluding recoveries) basis to understand risk profile and identify trends;
- Ensures a significant emphasis on IT resilience given the pace of evolution of the business and continued exposure to the risk of cyber-crime;
- Maintains appropriate insurance arrangements;
- Mandates detailed and coherent Committee reporting that brings together a diverse range of supporting risks; and
- Ensures appropriate risk appetite metrics are identified and tracked on a monthly basis against a set of triggers and limits, driving management actions where appropriate.

13.2 Operational risk management

The management of operational risk remains a key area of management focus. Operational risks are managed on a day to day basis across the Group using a Risk and Control Self-Assessment ("RCSA") process, which includes testing of key controls, and is supported by a Six Monthly Senior Management attestation. Monthly reporting is produced to aggregate information from all tools in the ORMF to provide a comprehensive view of the operational risk profile along with tracking adherence to the ORMF standards. The key operational risks are developed into scenarios for capital modelling as part of the Group's Pillar 2 assessment.

The Group regularly reviews its operational risk management framework to ensure its alignment with FirstRand and the Basel Committee on Banking Supervision criteria for the sound management of operational risk.

At the time of writing the ICAAP was still in production and Covid-19 was an ongoing event with a number of restrictions in operation across the UK. The Aldermore Group responded to the unfolding pandemic by invoking business continuity arrangements, including regular levels of incident calls, rapidly mobilising homeworking for over 99% of colleagues within the first 2 weeks and opening additional virtual private network lines to support the increased customer demand. Plans are underway to ensure completion of risk assessments followed by implementation of identified control measures and confirmation that offices are Covid19 secure. At the time of writing the Bank had opened the Reading, Cardiff and Manchester offices to small groups of colleagues who met certain criteria. A number of additional measures have been identified to enable regular tracking of increases in exposure during the pandemic and regular processes, such as Early Warning Indicators, are being reviewed to incorporate the benefits of these into ongoing business as usual.

13.3 Operational risk capital calculation approach

The operational risk requirement for the Group under Pillar 1 is calculated using the Basic Indicator Approach, whereby a 15% multiplier is applied to the historical average net interest and fee income of the last three years based on audited financial statements. The capital requirement calculated under this approach at 30 June 2020 was £47.3 million (30 June 2019: £42.7 million). The table below shows movements in RWAs for operational risk (as shown in Table 3) during the period.

Table 26: Operational risk RWAs flow statement and minimum Pillar 1 capital

	£m
RWAs at 1 July 2019	534.2
Revenue generation	57.4
RWAs at 30 June 2020	**591.6**
Operational risk Pillar 1 capital requirement at 30 June 2020	**47.3**

	£m
RWAs at 1 July 2018	501.9
Revenue generation	32.3
RWAs at 30 June 2019	**534.2**
Operational risk Pillar 1 capital requirement at 30 June 2019	**42.7**

14 Reputational Risk

The Group defines reputational risk as the potential for negative consequences arising from a failure to meet the expectations and standards of customers, investors, regulators or other counterparties during the conduct of any of its business activities. This includes the conduct of all employees and other agents acting for, or otherwise associated with, the Group.

Reputational risk typically arises from failures in our controls of other Principal Risks such as operational, conduct or credit risk. However, the Group also recognises that it is exposed to reputational risks that can arise from a range of sources including those of its customers, the markets they operate in and their business models. In addition, reputational risk may also arise due to the Group's association with elements of the external environment, either in the course of its own activities or from events impacting the wider financial services industry.

14.1 Reputational risk principles

The Group's reputational risk appetite, exposure, and approach aim to ensure that the Group:

- Maintains a clear and explicit set of reputational risk policy requirements to which all colleagues must confirm their understanding and adherence;
- Ensures that the reputational impact of changes to products, pricing, systems and processes is formally considered at the relevant Committee; and
- Ensures that the Corporate Affairs function assesses material risk events for reputational impact and initiate mitigating actions as appropriate.

15 Securitisation

15.1 Objectives in relation to securitisation

The Group engages in securitisation activities to raise funding from the capital markets and support liquidity requirements in the purchase of highly rated third party securitisation issues.

15.2 Issued and retained securitisation positions

During the year, the Group has securitised a portion of mortgage loans by transferring the loans to special purpose entities ("SPE") controlled but not owned by the Group. Only prime residential mortgages have been included within originated securitisations.

The Group continues to recognise the mortgage loans on its own balance sheet after the transfer because the risks relating to the underlying mortgage pools, and rewards through the receipt of substantially all of the profits or losses on the securitised loans, remain with the Group. These assets are held at amortised cost.

There are no specific capital requirements for the SPE and due to the fact that there has not been a transfer of assets, there are no risk weighted asset amounts for any positions it holds in the securitisations. These continue to be calculated in line with capital requirements applied to the underlying mortgage assets.

The Group administers the SPE and receives fees as it continues to service the loans. The Group also acts as the cash manager for the transactions and remains as servicer to the portfolios.

Notes issued as part of a securitisation are divided into separate classes with the Class Z notes being retained by the Group for risk retention purposes.

This means that any shortfall in income would firstly be borne by any reserve funds within the structure and would then transfer as losses to the Group as Z noteholders. This means there is effectively no significant risk transfer of credit risk away from the Group. As a result, the Group does not benefit from lower regulatory capital requirements in respect of these securitised assets.

15.3 Warehouse Facility

Aldermore Group entered into a new private warehouse facility in September 2019 using auto loans, originated by MotoNovo Finance called MotoMore. The facility provides funding flexibility on both a committed and uncommitted basis to complement other securitisation activity.

Table 27: Retained securitisation positions

Issuer	Notes	30 June 2020 £m	30 June 2019 £m	Moody's	Standard & Poor's	Fitch
Oak No. 2 PLC	Class Z VFN	39.5	39.5	Not rated	n/a	Not rated
Oak No. 3 PLC	Class Z VFN	37.6	n/a	Not rated	n/a	Not rated
MotoMore	Sub Note	43.4	n/a	n/a	n/a	n/a

15.4 External Credit Assessment Institutions used for securitisations

The Group utilised the services of the recognised External Credit Assessment Institutions ("ECAIs") Moody's, and Fitch to rate the securitisation transactions in issue. The ratings assigned are based on the ability of the structure to allow for the timely payment of interest and the ultimate payment of principal of each of the rated Notes. As part of the ratings process, each of the agencies is committed to ongoing transaction monitoring to ensure that, in their view, the assigned ratings remain an appropriate reflection of the issued Notes' credit risk.

15.5 Risks inherent in issued and retained securitisation positions

The principal risks that are inherent in securitised mortgage assets are:

- Credit risk;
- Liquidity risk; and
- Market risk.

The Group retains some of its exposure to credit risk and interest rate risk for the securitised mortgage and auto loan assets. The processes undertaken by the Group to monitor changes in the credit risk of securitised assets are consistent with those described for non-securitised assets in Section 9.

Table 28: Impaired status of exposures securitised

	30 June 2020 £m	30 June 2019 £m
Carrying value per statement of financial position	795.4	277.4
Impaired and past due	8.1	0.6

The balances in the table above are in relation to both residential mortgages and auto loans. As at 30 June 2020, the total outstanding externally issued securitisation debt was £514.3 million (30 June 2019: £264.1 million).

At 30 June 2020, the total value of outstanding retained securities was £120.5 million (30 June 2019: £39.5 million), as detailed in Table 27. The SPE's are subject to the risk of insufficiency of funds on any interest payment date as a result of payments being made late by the borrowers of the underlying loans after the end of the relevant collection period. This risk is addressed in respect of the Notes by the provision of liquidity from the General Reserve Fund.

In order to mitigate the interest rate risk to which the securitised assets are exposed, the SPE's, Oak No. 2 PLC Oak No.3 PLC and MotoMore entered into an interest rate swap agreement to receive a rate of interest based on the securitised mortgages and auto loans and paying a rate inherent in the debt issuances.

15.6 Purchased securitisation positions

The purchase of securities provides the Group with a diversified source of investment income from the assets held for liquidity management purposes. Purchased securities (also called Asset-Backed-Securities) are those whose income payments and hence value are derived from and collateralised by a specified pool of underlying assets.

Investment in purchased securitisation positions is undertaken within a clearly defined credit risk policy. Market risk is monitored in accordance with the Group's Market Risk policy. Liquidity risk is managed on a Groupwide basis, in accordance with the Liquidity Policy and ILAAP.

15.6.1 Accounting policies for purchased securitisation positions

The Group's investments in securitisation positions originated by non-Group entities are held as "Debt securities" and are classified as fair value through other comprehensive income (''FVOCI''). These are initially measured at fair value plus transaction costs which are directly attributable to the 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. For those securities 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. Impairment losses are recognised in the income statement. Other fair value changes are recognised in other comprehensive income and presented in the FVOCI reserve in equity.

15.6.2 Exposures to purchased securitisation positions

The Group employs a ratings-based approach for calculating risk weighted exposures on its securitisation portfolio. The Group's total exposure to purchased securitisation positions at 30 June 2020 was £114.4 million by market value (30 June 2019: £20.0 million), with mortgage backed securities accounting for the entirety of this exposure. The Group has increased its investment in purchased securitisation positions during the year. The following table shows the breakdown of these exposures split by credit quality steps with associated external credit assessment ratings.

Table 29: Aggregate exposure to purchased securitisation positions

Credit quality step	Risk weights %	S&P	Ratings Moody's	Fitch	Exposure values 30 June 2020 £m	Exposure values 30 June 2019 £m
1	20	AAA to AA-	Aaa to Aa3	AAA to AA-	114.4	20.0
2	50	A+ to A-	A1 to A3	A+ to A-	-	-
3	100	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	-	-
4	350	BB+ to BB-	Ba1 to Ba 3	BB+ to BB-	-	-
5	1250	B+ and below	B1 and below	B+ and below	-	-
					114.4	**20.0**

No purchased re-securitisation positions were held by the Group at 30 June 2020 (30 June 2019: Nil).

The following table shows the breakdown of purchased positions by exposure type.

Table 30: Aggregate amount of purchased securitisation positions by exposure type

	30 June 2020 £m	30 June 2019 £m
Residential mortgages	114.4	20.0
Total	**114.4**	**20.0**

16 Participation in Bank of England funding schemes – Term Funding Scheme ("TFS&TFSME")

The TFS was introduced during 2016 by the Bank of England to provide term funding to banks at rates close to Bank of England Base Rate. The aim of the scheme is to reinforce the transmission of Base Rate cuts to households and businesses. The TFS allows the Group to borrow up to 5% of their existing loan book, as well as extra funds equal to the increase in net lending in the coming months, from the Bank of England at a cost of Base Rate plus a TFS Fee. The scheme ended on 28 February 2018 and the term of each transaction is four years, pushing the final repayment date out to February 2022.

As at 30 June 2020, the Group had pre-positioned £2,990.2 million (30 June 2019: £3,303.0) of mortgages with the Bank of England under the TFS, which are available for use as collateral for participation in the scheme. Under the terms of the TFS, the Group had drawn down cash of £1,671.0 million from the Bank of England as at 30 June 2019, with no repayments made during the year to 30 June 2020.

The TFSME was introduced following the COVID-19 outbreak in Q1 2020 and is designed similarly to the original Term Funding Scheme but with additional incentives for Small and Medium-sized Enterprises and complements other schemes announced by the BoE in order to support households and businesses during a period of economic disruption. The scheme opened for drawings on 15 April 2020 and provides four-year funding at rates very close to bank rate and entitles eligible participants to borrow at least 10% of their stock of real economic lending.

As at 30 June 2020 Aldermore had no outstanding TFSME drawings and had applied for access to the new scheme. On 20 August 2020 the Aldermore Group successfully made an initial £300 million drawing on the Bank of England's TFSME scheme which provides funding for four years.

16.1 Accounting for Bank of England Schemes

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the lending schemes 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 corresponding obligation is recognised as a liability at amortised cost within "Amounts due to banks". Interest is accrued over the life of the agreement on an Effective Interest Rate basis.

17 Governance

Full details of the Group's corporate governance structure, including details of the Group's Directors can be found on page 33 in the Group's Annual Report and Accounts. Additional disclosures required under CRD IV in relation to governance arrangements are presented in this section.

17.1 Directorships held by members of the Board

In addition to their roles within the Group, the number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 30 June 2020 are detailed below.

Table 31: Directorships held by members of the Board

Name	Position	Directorships (1)
Pat Butler	Chairman	2
Phillip Monks	Executive Director	1
Claire Cordell (2)	Executive Director	-
Christine Palmer (3)	Executive Director	-
Danuta Gray	Senior Independent Director	2
Hetash Kellan	Non-Executive Shareholder Director	1
Alan Pullinger	Non-Executive Shareholder Director	-
Desmond Crowley (4)	Independent Non-Executive Director	2
John Hitchins	Independent Non-Executive Director	1
Peter Shaw (5)	Independent Non-Executive Director	2
Cathy Turner	Independent Non-Executive Director	3

1 The number of directorships shown excludes the Company and other companies within the same group, and also counts external directorships held within the same group of companies as a single directorship in line with CRD IV. Directorships of non-commercial organisations are not included.

2 Claire Cordell was appointed as Chief Financial Officer, subject to regulatory approval, on 1 November 2019, with regulatory approval effective 24 February 2020, and as an Executive Director effective 24 February 2020.

3 Christine Palmer resigned as Chief Risk Officer and as an Executive Director effective 31 July 2020.

4 Desmond Crowley was appointed as an Independent Non-Executive Director effective 1 May 2020.

5 Peter Shaw resigned as an Independent Non-Executive Director effective 30 September 2020.

Note: James Mack resigned as Chief Financial Officer and as an Executive Director effective 31 January 2020. Richard Banks was appointed as an Independent Non-Executive Director effective 1 September 2020.

17.2 Board recruitment

The Board has delegated specific powers and authority to the Corporate Governance and Nomination Committee (the "Nomination Committee") to lead the appointments process for nominations to fill Board vacancies. It is also responsible for keeping the size, structure and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The Nomination Committee also formulates succession plans for the Chair, Non-Executive Directors and the senior Executives.

All Board appointments are subject to a formal, rigorous and transparent procedure. Before an appointment is made to the Board, the Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nomination Committee will:

- Use open advertising or the services of external advisers to facilitate the search;
- Have regard to the balance of skills, experience and knowledge on the Board appropriate for the business and the cognitive skills, personal strengths and, where relevant, the independence of the candidate;
- Consider candidates on merit and against defined job specifications and criteria, taking care that appointees have enough time to devote to the position; and
- Have due regard to regulatory approval criteria.

The Board has delegated specific powers and authority to the Remuneration Committee for determining the total individual remuneration package of each of the Group's Executive Directors and the Chairman. The remuneration of Non-Executive Directors is set by the Board. No Director or senior manager is involved in any decisions as to their own remuneration.

17.3 Board diversity

The Company seeks to ensure that at least half the Board, excluding the Chair, is made up of independent Non-Executive Directors, and is diverse in terms of gender, social background and ethnicity. The Board currently includes three female members, 27% of its total composition.

18 Remuneration

18.1 Overview of remuneration for Code staff

The PRA has defined certain requirements relating to remuneration, referred to as the Remuneration Code ("the Code"). Firms that fall within the scope of the Code (which includes banks) must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management.

A firm must maintain a record of its Code Staff (being those staff whose professional activities have a material impact on the firm's risk profile) and take reasonable steps to ensure Code Staff understand the implications of their status.

During the year the Group employed a total of 64 individuals who were classed as Code Staff (30 June 2019: 57 individuals). Of these, 19 individuals (30 June 2019: 17 individuals) were categorised as senior management (being the Executive and Non-Executive Directors and members of the Executive Committee), as well as 45 individuals (30 June 2019: 40 individuals) categorised as other Code Staff. The remuneration for these colleagues is governed under the Group's Remuneration Policies.

18.2 Approach to remuneration

The Group's Remuneration Policies are designed to comply with the Code and the Group is committed to adherence to its practices and guidelines in respect of Code Staff. They are based on key principles which reflect the Group's values and recognise the need to be competitive within the UK banking market.

The policy is to set remuneration levels which are aligned within the overall Group stated risk appetite and ICAAP measures, and to ensure that the Executive Directors, senior management and employees are fairly and responsibly rewarded in return for high levels of individual and business performance.

The overall aim of the Group's Remuneration Policies is to attract, motivate and retain individuals of high calibre who can deliver sustained performance consistent with strategic goals, appropriate risk management and to reward them for enhancing value.

The following key principles underpin these themes:

- Attract and retain high calibre individuals;
- Remuneration will not be excessive;
- Remuneration is aligned to the long-term success of the Group;
- Proportion of variable pay is appropriate and balanced and has due regard to any impact of risk;
- No reward for poor performance;
- No conflict of interest in decision making processes; and
- It is fair and equitable, reflecting the Group's commitment to diversity and equality of opportunity.

18.3 Decision-making process for determining Remuneration Policy

In line with regulatory guidance, remuneration is overseen by the Remuneration Committee ("the Committee") of the Board of Directors. The Committee's terms of reference were last reviewed and updated in June 2020. The Committee meets at least twice a year, although it can meet more frequently as required. During the year ended 30 June 2020, the Committee met five times.

Only members of the Committee have the right to attend and vote at Committee meetings. However, other individuals (such as the CEO and Group HR Director) are invited to attend meetings when appropriate or necessary but are excluded from discussions relating to their own remuneration arrangements. The Committee is also supported by the Risk Committee on risk-related matters including design of performance-related pay structures, assessment of specific performance measures and wider discussions related to risk management.

The Committee may take external professional advice as appropriate and during the year FIT Remuneration Consultants LLP continued to provide external remuneration advice. The Committee also continued to measure and benchmark against comparative remuneration packages within the financial sector.

18.4 Link between pay and performance

Performance-based remuneration is awarded by the Committee in a manner which promotes sound risk management (within the Group's stated risk appetite and ICAAP measures) and does not induce excessive risk taking. The Group's Remuneration Policies focus on ensuring sound and effective risk management through:

- A stringent governance structure for setting goals and communicating these to employees;

- Performance assessment metrics for Executive Directors and other Code Staff are reviewed by the Chief Risk Officer and include both financial and non-financial goals; and
- Making all variable remuneration awards at the discretion of the Committee and subject to individual, business unit, overall Group performance, stated risk appetite and ICAAP measures.

In practice, all key remuneration decisions are approved by relevant senior leaders and the relevant HR Business Partners before implementation. For Code Staff the remuneration decisions are reviewed and approved by the Remuneration Committee, but the Group's Risk function will also play a role in providing input around risk measurement and performance.

18.5 Design and structure of remuneration for Code staff

There are three main elements of remuneration available to Code Staff:

- Fixed pay;
- Variable awards (made under the Annual Incentive Plan ("AIP") and Long-Term Incentive Plan ("LTIP")); and
- Benefits (such as car allowance, pension and insurance).

The Remuneration Committee assesses progress against a number of key financial and operational drivers including profit before tax; return on assets; return on equity; cost/income ratio; net lending growth; risk management; performance against People and Customer metrics and compliance with internal business procedures.

Where individual KPIs are achieved but the underlying performance of the Group is unsatisfactory, annual performance-based payments may be reduced in part or withheld altogether at the Remuneration Committee's discretion.

Performance of individuals within control functions is assessed independently of the financial performance of the business area that the individual controls. These measures are all set to provide challenging objectives that are aligned with the Group's strategy.

All share schemes are reviewed and overseen by the Share Committee.

18.5.1 Variable awards

The LTIP and AIP

The LTIPs are three-year performance-based remuneration schemes settled in cash, but equity linked to the FirstRand share price, except the schemes awarded to Senior management, which are settled with FirstRand shares to the value of the awards at vesting date. There are different LTIP schemes with performance and service conditions depending upon the scheme and its purpose.

The AIP is a one-year scheme to motivate Executive Directors and most other code staff during the period to which the performance relates. A portion of the AIP is deferred with payments subject to floor and ceiling rules. There are service conditions attached to the deferred portion of the AIP. For Code Staff who are ineligible for the AIP they will have a General Bonus opportunity. No AIP was awarded for the year (further details in the Remunerations Committee report on page 41 of the ARA).

Transition award

Following the takeover by FirstRand the lapsed shares under the Performance Share Plan and Restricted Share Plan were rolled into cash settled Transition Awards. These are accounted for as cash settled share-based payments. The final element of the transition awards was settled during the year.

Conditional award

Conditional awards were granted within MotoNovo Finance that vest after three years and are based on certain performance conditions. The awards are cash-settled.

18.6 Remuneration awarded and paid to Code Staff

The following tables show the remuneration for the Group's Code Staff.

Table 32: Total remuneration to code Staff by business area

	30 June 2020 £m	30 June 2019 £m
Mortgages (1)	1.2	1.4
Business finance (2)	1.6	3
Motor finance (3)	0.4	0.1
Central functions	11.6	12.1
Total	**14.8**	**16.6**

[1] Mortgages include the Group's Buy-to-Let and Residential Mortgages divisions.

[2] Business finance includes the Group's Asset Finance, Invoice Finance and SME Commercial Mortgage divisions.

[3] Motor finance includes the Group's MotoNovo Finance division.

Table 33: Total remuneration to Code staff

	Senior management £'000	Other code staff £'000	Total £'000
Total remuneration	6,715.5	8,044.6	**14,760.1**
Variable remuneration as % of total remuneration	27%	17%	**21%**
Number of Code Staff	19	45	**64**

Appendices

Appendix 1: Disclosures for Aldermore Bank PLC

The following tables present the disclosures required for Aldermore Bank PLC. The difference between the Group and the Bank relates primarily to reserves held by entities other than the Bank, including MotoNovo Finance, that are included in the Group consolidation and the RWAs of these entities.

The Group consolidated disclosures apply to the standalone Bank as well as the consolidated Group.

The following disclosures in respect of the Bank cover:

- Capital requirements and resources;
- Credit risk;
- Treasury; and

- Remuneration.

Pillar 1 capital requirement

The following table shows the Bank's requirements, capital resources requirement and capital surplus over Pillar 1 as at 30 June 2020 and 30 June 2019:

Table 34: Total minimum Pillar 1 capital requirement (Bank only)

	30 June 2020		30 June 2019	
	Risk weighted assets	Pillar 1 Capital requirement	Risk weighted assets	Pillar 1 Capital requirement
	£m	£m	£m	£m
Credit risk	5,818.3	465.5	5,643.3	451.5
Market risk	0.2	-	0.3	0.0
Operational risk	586.7	46.9	533.3	42.7
Credit valuation adjustment	1.1	0.1	2.1	0.2
Capital resources requirement under Pillar 1	**6,406.3**	**512.5**	**6,179.0**	**494.3**
Capital resources (per Table 35)		1,081.9		1,015.9
Capital resources surplus over Pillar 1		**569.4**		**521.6**

The overall capital requirement for the Bank is £47.8 million higher compared with 2019. The Bank's largest capital requirement continues to be credit risk arising on lending to borrowers. Pillar 1 capital requirements for credit risk are considered in further detail at a Group level in Section 9.

The Bank's capital requirement in respect of market risk, Credit Valuation Adjustment is materially the same as that of the Group because the Bank manages market and counterparty risk centrally on behalf of all Group entities.

Capital resources

The capital resources of the Bank are managed according to the same principles as the Group, which have been described in this document above. The table below shows the composition of the Bank's regulatory capital resources and requirements as at 30 June 2020 and as at 30 June 2019.

Table 35: Capital composition (Bank only)

Regulatory capital	30 June 2020 £m	30 June 2019 £m
Common Equity Tier 1 (CET 1)		
Share capital	3.3	3.3
Share premium account	307.5	307.6
FVOCI	1.5	0.4
Retained earnings	522.9	467.6
IFRS 9 transitional add back	33.4	9.7
Regulatory adjustments to CET1		
Less: Intangible assets	(7.7)	(7.0)
Total Common Equity Tier 1 (CET1) capital	**860.9**	**781.6**
Additional Tier 1 (AT1)		
Additional Tier 1 (AT1) - perpetual loan	61	74.3
Total Tier 1 capital	**921.9**	**855.9**
Tier 2		
Subordinated debt	160.0	160.0
Total Tier 2 capital	**160.0**	**160.0**
Total regulatory capital resources	**1,081.9**	**1,015.9**
Risk weighted assets - Pillar 1		
Credit risk	5,818.3	5,643.3
Market risk	0.2	0.3
Operational risk	586.7	533.3
Credit valuation adjustment (CVA)	1.1	2.1
Total risk weighted assets	**6,406.3**	**6,179.0**
Capital ratios		
Common Equity Tier 1 capital ratio	13.4%	12.6%
Tier 1 capital ratio	14.4%	13.9%
Total capital ratio	16.9%	16.4%

Total regulatory capital resources have increased by £66 million to £1,081.9 million as at 30 June 2020 (30 June 2019: £1,015.9 million) primarily as a result of the inclusion of the Bank's profit after tax for the period in retained earnings (see table 36).

RWAs increased by £227.3 million reflecting the continued growth of the Bank's lending.

The table below shows movements in the Bank's capital during the period.

Table 36: Flow statement for regulatory capital (Bank only)

	£m
Common Equity Tier 1 at 1 July 2019	**781.5**
Profit after tax for the year	64.2
Movement in IFRS9 transitional addbacks	23.9
Increase in FVOCI reserve	1.0
Coupon paid on contingent convertible securities, net of tax	(8.9)
Increase in intangible assets adjustment	(0.7)
Common Equity Tier 1 at 30 June 2020	**860.9**
Additional Tier 1 capital at 1 July 2019 and 30 June 2020	**61.0**
Total Tier 1 capital at 30 June 2020	**921.9**
Tier 2 capital at 1 July 2019	160.0
Tier 2 capital at 30 June 2020	**160.0**
Total regulatory capital at 30 June 2020	**1,081.9**

Tier 1 capital resources

The Bank's Tier 1 capital comprises shareholders' equity and an AT1 perpetual loan. During the period, the existing Tier 1 capital (£74.3m) was redeemed and replaced with a new AT1 instrument of £61m which along with a reduction in profit from the previous year resulted in a small decrease in Tier 1 capital resources.

Shareholders' equity comprises issued share capital and associated premiums, accumulated accounting profits and other reserves balances.

A regulatory adjustment is required to be made to the Bank's CET1 capital in respect of intangible assets, as set out in CRD IV. For accounting purposes, items including computer software are capitalised as intangible fixed assets subject to certain criteria. Intangible assets are deducted from capital under the regulatory rules.

Tier 2 capital resources

Tier 2 capital at Bank level comprises a subordinated loan from Aldermore Group which is consistent in terms and amount to relevant Tier 2 capital instruments at the Group level. Please refer to Section 8.5.4 for further information on Tier 2 capital.

Reconciliation of statutory equity to regulatory capital

The table below reconciles the Bank's statutory equity shown within the Bank's 2020 ARA to the total regulatory capital resources balance shown in Table 35.

Table 37: Reconciliation of statutory equity to total regulatory

	30 June 2020 £m	30 June 2019 £m
Total equity per statement of financial position	896.2	853.2
Regulatory adjustments:		
Add: subordinated debt	160.0	160
Add: IFRS 9 transitional adjustment	33.4	9.7
Less: Intangible assets	(7.7)	(7.0)
Total regulatory capital resources	**1,081.9**	**1,015.9**

Leverage ratio

The Bank's leverage ratio is calculated on a basis consistent with that of the Group, as set out in Section 8. The following tables presents the disclosures of the leverage ratio for the Bank as at 30 June 2020 based on the requirement in Part Eight of the CRR and in the related Implementing Technical Standards issued by the EBA on 5 June 2014. Any blank cells have been removed from these disclosures.

Table 38: Summary reconciliation of accounting assets and leverage ratio exposures

		30 June 2020 £m	30 June 2019 £m
1	Total assets as per published financial statements	15,000.7	12,471.9
4	Adjustments for derivative financial instruments	6.3	(26.0)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	133.2	143.8
7	Other adjustments	(7.7)	(7.0)
8	**Leverage ratio exposure**	**15,132.5**	**12,582.7**

Table 39: Leverage ratio common disclosure (Bank only)

		30 June 2020 £m	30 June 2019 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	14,991.6	12,462.8
2	Asset amounts deducted in determining Tier 1 capital	(7.7)	(7.0)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**14,983.9**	**12,455.8**
	Derivative disclosures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1.2	(27.5)
5	Add-on amounts for PFE associated with all derivatives transactions (mark to market method)	12.9	10.6
11	**Total derivative exposures**	**15.4**	**(16.9)**
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,332.1	1,438.2
18	(Adjustments for conversion to credit equivalent amounts)	(1,198.8)	(1,294.3)
19	**Other off-balance sheet exposures**	**133.3**	**143.9**
	Capital and Total Exposures		
20	**Tier 1 capital**	**921.9**	**855.9**
21	**Total leverage ratio exposures**	**15,132.5**	**12,582.8**
22	**Leverage ratio**	6.1%	6.8%
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in

Table 40: Analysis of on balance sheet exposures (excluding derivatives and SFTs)

		30 June 2020 £m	30 June 2019 £m
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs), of which:**	**14,983.9**	**12,455.8**
EU-3	**Banking book exposures, of which:**	14,983.9	12,455.8
EU-4	Covered bonds	529.7	418.8
EU-5	Exposures treated as sovereigns	1,841.2	1,252.9
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	9.5	6.6
EU-7	Institutions	1,652.6	145.2
EU-8	Secured by mortgages of immovable properties	8,182.3	7,630.9
EU-9	Retail exposures	1,518.4	1,945.8
EU-10	Corporate	618.9	784.1
EU-11	Exposures in default	74.3	24.7

EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	557.0	246.8

1	Description of the processes used to manage the risk of excessive leverage	The management process for Aldermore Bank PLC is the same as for the Group – see table 9 for details
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The Bank's leverage ratio has decreased to 6.1% (30 June 2019 6.8%) as growth in leverage exposures has exceeded Total Tier 1 capital growth.

Table 41: Free format text boxes for disclosure on qualitative items

Credit risk

Credit risk in respect of the Bank is managed in the same way as per the Group as described in Section 9. With the inclusion of the Group's securitisation vehicle in the Group consolidation, there are additional exposures including those for A Note holders in respect of Oak No.2 PLC and consolidation elimination of transactions between Bank and Oak. The following table shows the credit risk exposures and the composition of the minimum capital requirements for credit risk at 30 June 2020 in respect of the Bank.

Table 42: Pillar 1 capital requirements: credit risk (Bank only)

30 June 2020

Exposures subject to the Standardised Approach	Credit risk exposure[1]	Average credit risk exposure[2]	Risk weighted Assets	Minimum capital requirement
Central government and central banks	1,262.9	683.8	-	-
Regional governments or local authorities	0.9	1.1	0.2	-
Public sector entities	8.5	4.1	1.7	0.1
Multilateral development banks	586.8	266.0	-	-
Institutions	1,668.0	256.5	5.1	0.4
Corporates[3]	819.7	598.4	609.2	48.7
Retail[3]	1,797.7	1,458.6	941.4	75.3
Secured by mortgages on immovable property	8,339.1	6,637.6	3,536.7	282.9
Exposures at default	74.3	33.6	77.8	6.2
Items belonging to regulatory high-risk categories	455.0	286.7	414.4	33.2
Short-term claims on institutions or corporates	118.2	58.0	6.0	0.5
Securitisation positions	114.4	59.2	22.9	1.8
Covered bonds	529.7	277.7	53.0	4.2
Other items	137.2	38.1	149.8	12.0
Total	**15,912.4**	**10,659.4**	**5,818.2**	**465.5**

1 Exposures presented are after accounting offsets and without taking into account the effects of credit risk mitigation.

2 Average credit risk exposures calculated as the average of the exposure data reported to the PRA on a quarterly basis.

3 RWA's are shown after the application of the SME factor.

4 Retail and Corporates include exposures to SME's.

Treasury

The disclosures in respect of treasury risks and treasury risk management in respect of the Group in this document also apply to the Bank. One notable difference in the exposure of the Bank compared with the Group is the net exposure to counterparty credit risk for derivative contracts due to the intra-group derivative arrangements in place in respect of the Group's securitisation. The following table summarises the total net exposure to counterparty credit risk in respect of derivative contracts of the Bank.

Table 43: Net exposures to counterparty credit risk for derivative contracts (Bank solo)

	30 June 2020 £m	30 June 2019 £m
Interest rate contracts	9.0	8.6
Equity index contracts	0.1	0.5
Gross positive fair value of contracts	**9.1**	**9.1**
Netting of negative FV contracts	(6.6)	(7.9)
Potential future credit exposure (net)	12.9	10.1
Less: netting benefits[1]	6.3	2.2
Netted current credit exposure	15.4	11.3
Net derivative credit exposure	**15.4**	**11.3**

[1] *Netting benefits shown after the inclusion of potential future credit exposures.*

Remuneration

All staff of the consolidated Group are employed by the Bank and MotoNovo Finance. The Bank also incurs the cost of employing the Executive and Non-Executive Directors. As such, the disclosures in respect of remuneration (Article 450) for the Group in Section 18 of this document are also applicable to the Bank.

Appendix 2: EBA transitional own funds disclosure template

Table 44: Transitional Own Funds

The following table shows the make-up of the own funds of the Group and Bank in the format prescribed in Regulation (EU) 1423/2013. Any blank cells have been removed from this disclosure.

		Group £m	Bank £m
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts		
	of which: ordinary shares	243.9	3.3
	of which: share premium	74.4	307.6
2	Retained earnings	680.6	522.9
	IFRS 9 Transitional adjustment	62.9	33.4
3	Accumulated other comprehensive income (and other reserves)	1.6	1.5
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,063.4**	**868.6**
8	Intangible assets (net of related tax liability) (negative amount)	(13.7)	(7.7)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(13.7)**	**(7.7)**
29	**Common Equity Tier 1 (CET1) capital**	**1,049.7**	**860.9**

		Group £m	Bank £m
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts		
31	*of which: classified as equity under applicable accounting standards*	108.0	61.0
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**108.0**	**61.0**
44	**Additional Tier 1 (AT1) capital**	**108.0**	**61.0**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,157.7**	**921.9**

		Group £m	Bank £m
	Tier 2 (T2) capital: instruments and provisions		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments) issued by subsidiaries and held by third parties	212.0	160.0
49	*of which: instruments issued by subsidiaries subject to phase out*		
51	**Tier 2 (T2) capital before regulatory adjustments**	**212.0**	**160.0**
58	**Tier 2 (T2) capital**	**212.0**	**160.0**

59	**Total capital (TC = T1 + T2)**	**1,369.7**	**1,081.9**

60	**Total risk weighted assets**	**7,864.0**	**6,406.3**

		Group £m	**Bank £m**
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.3%	13.4%
62	Tier 1 (as a percentage of total risk exposure amount)	14.7%	14.4%
63	Total capital (as a percentage of total risk exposure amount)	17.4%	16.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	8.8%	8.9%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.8%	8.9%
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	4.5	3.4

Appendix 3: Main features of regulatory capital instruments

Table 45: Main features of capital instruments (Aldermore Group PLC)

1	Issuer	Aldermore Group PLC	Aldermore Group PLC	Aldermore Group PLC	Aldermore Group PLC	Aldermore Group PLC	Aldermore Group PLC	Aldermore Group PLC
2	ISIN	n/a – not listed	n/a – not listed	n/a – not listed	n/a – not listed	XS1507529144	n/a – not listed	n/a – not listed
3	Governing law	English	English	English	English	English	English	English
	Regulatory treatment							
4	Transitional CRR rules	CET1	CET1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	CET1	CET1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
6	Eligible at Group or Bank	Group	Group	Group	Group	Group	Group	Group
7	Instrument type (type to be specified by each jurisdiction)	Share Capital	Share Capital	Additional Tier 1 – Perpetual Subordinated Capital Notes	Additional Tier 1 – Perpetual Subordinated Capital Notes	Tier 2 – Subordinated Debt	Tier 2 – Subordinated Debt	Tier 2 – Subordinated Debt
8	Regulatory capital value (£m)	34.9	209.0	47.0	61.0	60.0	100.0	52.0
9	Nominal value (£m)	34.9	209.0	47.0	61.0	60.0	100.0	52.0
10	Accounting classification	Equity	Equity	Equity	Equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Date of issue		3 May 2019	27 June 2019	29 April 2020	28 October 2016	22 November 2018	22 May 2019
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	n/a	n/a	n/a	n/a	28 October 2026	22 November 2028	22 May 2029
14	Issuer call	No	No	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	n/a	27 June 2024	29 April 2025	28 October 2021	22 November 2023	22 May 2024
16	Subsequent call dates	n/a	n/a	Aligned to the interest repayment	Aligned to the interest repayment	None	Anytime thereafter the initial call date	Anytime thereafter the initial call date
	Coupons / dividends							
17	Fixed or floating dividend/coupon	Floating	Floating	Fixed-to-floating[1]	Fixed-to-fixed	Fixed-to-fixed	Fixed-to-floating[1]	Fixed-to-floating[1]
18	Coupon rate and any related index	n/a	n/a	7.27%	8.50%	8.50%	4.85%	5.06%
19	Existence of a dividend stopper	No	No	No	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a

26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down feature	No	No	Yes	Yes	No	No	No
31 - 34	If write-down, trigger(s), full/partial, permanent/temporary	n/a	n/a	Permanent write-down if CET1 ratio falls below 7%	Permanent write-down if CET1 ratio falls below 7%	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Senior Unsecured	Senior Unsecured	Senior Unsecured
36	Non-compliant transitioned features	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a

[1]*The floating rate will be based on 6-month LIBOR. Once LIBOR ceases the issuer will determine the alternative reference rate.*

Table 46: Main features of capital instruments (Aldermore Bank PLC)

1	Issuer	Aldermore Bank PLC	Aldermore Bank PLC	Aldermore Bank PLC	Aldermore Bank PLC
2	ISIN	n/a – not listed	n/a – not listed	n/a – not listed	n/a – not listed
3	Governing law	English	English	English	English
	Regulatory treatment				
4	Transitional CRR rules	CET1	Additional Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	CET1	Additional Tier 1	Tier 2	Tier 2
6	Eligible at Group or Bank	Bank	Bank	Bank	Bank
7	Instrument type (type to be specified by each jurisdiction)	Share Capital	Additional Tier 1 – Perpetual Loan	Subordinated Intercompany Loan	Subordinated Intercompany Loan
8	Regulatory capital value (£m)	3.3	61.0	60.0	100.0
9	Nominal value (£m)	3.3	61.0	60.0	100.0
10	Accounting classification	Equity	Equity	Liability – amortised cost	Liability – amortised cost
11	Date of issue		29 April 2020	28 October 2016	22 November 2018
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	n/a	n/a	28 October 2026	22 November 2028
14	Issuer call	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	29 April 2025	28 October 2021	22 November 2023
16	Subsequent call dates	n/a	Aligned to the interest repayment	None	Anytime thereafter the initial call date
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Fixed-to-fixed	Fixed-to-fixed	Fixed-to-floating
18	Coupon rate and any related index	n/a	8.50%	8.50%	4.85%
19	Existence of a dividend stopper	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a

Appendix 4: Additional Group credit risk disclosures

The following table shows the total Group exposure values associated with each risk weighting. The application of risk weights is based on the exposure class to which the exposure is assigned and, to an extent, its credit quality.

Table 47: Breakdown of total exposures by risk weighting

At 30 June 2020	0%	4%	10%	20%	35%	50%	75%	100%	150%	250%	Other risk weights	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Central government and central banks	1,262.9	-	-	-	-	-	-	-	-	-	-	1,262.9
Regional governments or local authorities	-	-	-	0.9	-	-	-	-	-	-	-	0.9
Public sector entities	-	-	-	8.5	-	-	-	-	-	-	-	8.5
Multilateral development banks	586.8	-	-	-	-	-	-	-	-	-	-	586.8
Institutions	-	70.1	-	-	-	2.3	-	-	-	-	-	72.4
Corporates	-	-	-	-	-	-	-	615.0	-	-	-	615.0
Retail	-	-	-	-	-	-	3,192.8	33.9	-	-	-	3,226.7
Secured by mortgages on immovable property	-	-	-	-	7,023.1	-	78.2	1,112.4	-	-	-	8,213.7
Exposures at default	-	-	-	-	-	-	-	70.4	10.9	-	-	81.2
Items belonging to regulatory high risk categories	-	-	-	-	-	-	-	-	276.3	-	-	276.3
Short-term claims on institutions or corporates	88.1	-	-	81.2	-	-	-	-	-	-	-	169.3
Securitisation positions	-	-	-	114.4	-	-	-	-	-	-	-	114.4
Covered bonds	-	-	529.7	-	-	-	-	-	-	-	-	529.7
Other items	-	-	-	-	-	-	-	261.9	-	10.0	-	271.9
Total	**1,937.7**	**70.1**	**529.7**	**205.1**	**7,023.1**	**2.3**	**3,271.0**	**2,093.5**	**287.1**	**10.0**	**-**	**15,429.8**

At 30 June 2019	0%	4%	10%	20%	35%	50%	75%	100%	150%	250%	Other risk weights	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Central government and central banks	869.2	-	-	-	-	-	-	-	-	-	-	869.2
Regional governments or local authorities	-	-	-	0.6	-	-	-	-	-	-	-	0.6
Public sector entities	-	-	-	6.6	-	-	-	-	-	-	-	6.6
Multilateral development banks	391.5	-	-	-	-	-	-	-	-	-	-	391.5
Institutions	-	77.4	-	-	-	1.9	-	-	-	-	-	79.3
Corporates	-	-	-	-	-	-	-	784.1	-	-	-	784.1
Retail	-	-	-	-	-	-	1,945.8	-	-	-	-	1,945.8
Secured by mortgages on immovable property	-	-	-	-	6,567.2	-	60.7	1,084.3	-	-	-	7,712.2
Exposures at default	-	-	-	-	-	-	-	18.1	6.6	-	-	24.7
Items belonging to regulatory high risk categories	-	-	-	-	-	-	-	-	271.4	-	-	271.4
Short-term claims on institutions or corporates	-	-	-	76.3	-	-	-	-	-	-	-	76.3
Securitisation positions	-	-	-	20.0	-	-	-	-	-	-	-	20.0
Covered bonds	-	-	418.8	-	-	-	-	-	-	-	-	418.8
Other items	-	-	-	-	-	-	-	62.8	-	10.2	-	73.0
Total	**1,260.7**	**77.4**	**418.8**	**103.5**	**6,567.2**	**1.9**	**2,006.5**	**1,949.3**	**278.0**	**10.2**	**-**	**12,673.5**

The following table provides an analysis of the payment due status of gross loans and advances to customers by significant UK region. Past due loans analysed by business segment are disclosed in Table 14 within Section 9.

Table 48: Payment status of gross loans and advances to customers by UK region

30 June 2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total gross loans and advances to customers £m
East Anglia	1,178.4	154.7	28.4	1,361.5
East Midlands	688.0	81.2	12.1	781.3
Greater London	1,887.7	226.0	37.9	2,151.6
North East	327.8	36.0	9.0	372.8
North West	1,132.0	143.2	44.6	1,319.8
Northern Ireland	105.3	9.8	1.4	116.5
Scotland	705.0	98.4	20.9	824.3
South East	2,117.6	260.2	31.5	2,409.3
South West	982.1	119.2	16.8	1,118.1
Wales	379.2	37.9	5.6	422.8
West Midlands	743.5	87.6	15.1	846.3
Yorkshire and Humberside	745.5	101.9	14.8	862.3
Total	**10,992.3**	**1,356.2**	**238.0**	**12,586.5**

30 June 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total gross loans and advances to customers £m
East Anglia	970.8	77.9	5.5	1,054.2
East Midlands	593.1	28.2	7.0	628.3
Greater London	1,669.2	144.7	38.4	1,852.3
North East	396.1	40.9	4.9	441.9
North West	867.5	128.2	43.2	1,038.9
Northern Ireland	166.6	2.8	1.0	170.4
Scotland	533.7	139.3	8.5	681.5
South East	1,749.6	173.2	4.7	1,927.5
South West	862.9	91.6	3.9	958.4
Wales	430.9	25.7	1.3	457.9
West Midlands	554.3	140.7	7.8	702.8
Yorkshire and Humberside	641.7	90.2	2.9	734.8
Total	**9,436.4**	**1,083.4**	**129.1**	**10,648.9**

Appendix 5: Group asset encumbrance

The following tables present the disclosure of the Group's encumbered and unencumbered assets as at 30 June 2020 based on the requirement in CRD IV and the related guidance issued by the European Banking Authority in June 2014, and subsequently updated in 2017 to amend the basis of disclosure to reflect median values of the items disclosed. Annual reports are to be based on the last four quarterly observations. The below reflects the 12-month period covering 1 July 2019 to 30 June 2020.

The Group has taken advantage of the waiver provided by the PRA in Supervisory Statement SS11/14 and has therefore not included the disclosure in respect of collateral received as set out in Template B of the EBA guidance.

Table 49: Template A - Assets

At 30 June 2020

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
		£m	£m	£m	£m
010	Assets of the reporting institution	4,397.9	n/a	10,925.7	n/a
040	Debt securities	438.7	438.7	1,502.4	1,502.4
120	Other assets	-	n/a	185.8	n/a

At 30 June 2019

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
		£m	£m	£m	£m
010	Assets of the reporting institution	3,669.1	n/a	8,861.2	n/a
040	Debt securities	-	-	1,207.8	1,207.8
120	Other assets	-	n/a	99.4	n/a

Table 50: Template C - Encumbered assets/collateral received and associated liabilities

At 30 June 2020

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
		£m	£m
010	Carrying amount of selected financial liabilities	2,975.5	4,397.9

At 30 June 2019

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
		£m	£m
010	Carrying amount of selected financial liabilities	2,103.0	3,669.1

Table 51: Template D – Information on importance of encumbrance

The Group reviews all assets against the criteria of being able finance them in a secured form (encumbrance) but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are an ability ro pledge those assets to another counterparty or entity through operation of law with necessarily requiring prior notification, Homogeneity, predictable and measurable cash flows and a consistent and uniform underwriting and collection process. Retail assets, including residential mortgages, display many of these features.

From time-to-time, the Group encumbers assts to serve as collateral to support certain wholesale funding initiatives. The principal forms of encumbrance used by the Group are own asset securitisations and securities repurchase agreements. The Group holds encumbered assets in the form of a reserve bank account with the Bank of England, loans and advances to customers secured within the Group's securitisation vehicle and pre-positioned under the TFS and cash collateral received in relation to derivative transactions.

Appendix 6: Counter-cyclical buffer

The counter-cyclical buffer forms part of the CRD combined buffer introduced by CRD IV, and is calculated by applying a weighted average of country counter-cyclical buffer rates (based on the geographical distribution of relevant exposures) to the total RWAs of the Group. Credit exposures relevant to the calculation of the counter-cyclical buffer consist of exposures to retail lending, covered bonds, securitisation exposures and other assets. All other exposures are excluded.

In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Group's aggregate risk weighted exposures, all exposures have been allocated to the UK.

The UK CCyB rate is set by the Financial Policy Committee ("FPC") and is currently zero. The CCyB rate is reviewed on a quarterly basis by the FPC and increases apply 12 months after it is set.

The following tables disclose information relevant for the calculation of the counter-cyclical buffer as at 30 June 2020 and 2019 in accordance with Regulation (EU) 2015/1555.

Level of application: Consolidated

Table 52: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (Group consolidated)

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirement					
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Sec'n exposures	Total	Own funds req'ts weights	Counter-cyclical buffer rate
		10	20	30	40	50	60	70	80	90	100	110	120
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
10	Breakdown by country:												
	UK	11,306.4	-	-	-	20.0	-	577.8	-	1.8	579.6	100%	0.0%
20	**Total**	**11,306.4**	**-**	**-**	**-**	**20.0**	**-**	**577.8**	**-**	**1.8**	**579.6**	**100%**	**0.0%**

Table 53: Amount of institution specific countercyclical capital buffer

Row		Column 10 £m
10	Total risk exposure amount	581.2
20	Institution specific countercyclical buffer rate	0.0%
30	Institution specific countercyclical buffer requirement	-

Level of application: Solo

Table 54: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer - Aldermore Bank PLC

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirement					
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Sec'n exposures	Total	Own funds req'ts weights	Counter-cyclical buffer rate
		10	20	30	40	50	60	70	80	90	100	110	120
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
10	Breakdown by country:												
	UK	12,270.9	-	-	-	114.4	-	463.1	-	1.8	464.9	100%	0.0%
20	**Total**	**12,270.9**	**-**	**-**	**-**	**114.4**	**-**	**463.1**	**-**	**1.8**	**464.9**	**100%**	**0.0%**

Table 55: Amount of institution specific countercyclical capital buffer - Aldermore Bank PLC

Row		Column 10 £m
10	Total risk exposure amount	464.9
20	Institution specific countercyclical buffer rate	0.0%
30	Institution specific countercyclical buffer requirement	-

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