Aldermore Group PLC

Report and Accounts

for the year ended
30 June 2022

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Company Information

Company Information

Non-Executive Directors

Pat Butler
Richard Banks
Desmond Crowley
Ruth Handcock – Appointed 1 October 2021
John Hitchins
Harry Kellan
Romy Murray - Appointed 1 August 2021
Alan Pullinger
Cathy Turner

Executive Directors

Steven Cooper
Claire Cordell – Resigned 30 April 2022
Ralph Coates – Appointed 1 May 2022

Secretary and Registered Office

Clive Parker-Wood
Aldermore Group PLC
4th Floor, Block D
Apex Plaza, Forbury Road
Reading
Berkshire
RG1 1AX

Independent Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Company number: 06764335

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Strategic Report

Strategic Report

Strategic Overview

About Aldermore

Aldermore Bank was founded in 2009, as a multi-product specialist lender, with a focus on providing straightforward lending and savings products to SMEs, homeowners, landlords and individuals. Following the financial crisis in 2007/8, Aldermore sought to challenge the high street banks by doing more to address the needs of people who were being overlooked and underserved by mainstream providers.

On integrating with MotoNovo Finance Limited in 2019, the Aldermore Group collectively expanded its offering to address a wider set of needs, by helping people buy their next car, van or motorcycle. Although a recent addition to the Aldermore family, MotoNovo has specialised in motor finance for over 40 years and is recognised as a market leader in the industry.

Aldermore Group is part of FirstRand Group, the largest financial services group in Africa by market capitalisation. Operating across South Africa, other markets in sub-Saharan Africa, the UK and India, FirstRand's commitment is to building a future of shared prosperity through enriching the lives of its customers, employees and the societies it serves.

Our blueprint and purpose

Our blueprint has evolved and sets out our enduring purpose, along with the strategic drivers and behaviours necessary to deliver against it. As a Group, Aldermore's enduring purpose supports FirstRand's commitment to enrich lives by backing more people to go for it, in life and business. Our purpose guides everything we do and extends beyond just the products and services we offer. Our aim is to seek out more undervalued and underserved people and do good by helping them take the action needed to move forward in life, ensuring we meet the needs other institutions do not.

To ensure our purpose remains central to our activity, it sits at the heart of our blueprint; reflecting our ambitions to differentiate our business and bringing together the 'what' and the 'how' to make it happen.

Our strategy

With the world around us changing rapidly and the pace of digitalisation increasing, we recognise the need to refresh and re-energise our business to ensure we are able to continue meeting the evolving needs of all our stakeholders. During the second half of 2021, we conducted a broad review to develop a new strategy and supporting plans, to help us reinvigorate our business, deliver on our purpose and significantly grow the business. This strategy was rolled-out across the business in early 2022.

Our strategy sets out our focus across four markets: Property Finance, Auto Finance, Structured & Specialist Finance and Savings. These focus areas are in operation from 1st July 2022. While we will continue to be an intermediary led business, across each core market we will have increased focus on developing long term relationships with customers and explore adjacent opportunities to back more people.

Property Finance	Auto Finance	Structured & Specialist Finance	Savings
Profitably growing in existing market segments and new sub-segments where we can back more people, including expansion into sustainable property financing	Strengthening our core auto finance offering to improve returns, while building propositions to support the transition to Electric Vehicles and expanding into adjacencies where we can offer relevant products and services throughout the customer lifecycle	Offering distinctive, specialist lending and building deep sub-sector expertise to move from broad participation in smaller deals to focused participation in more profitable segments, while realising growth opportunity in renewables and healthcare	Expanding our core capability in the retail/SME deposit market to back more people and businesses, while continuing to optimise cost of funds and liquidity

We have focused our long-term priorities on three core strategic drivers (shown below), defining what we will do to accelerate sustainable growth and back more people. Across each of these, we will maintain a consistent and rigorous approach to risk management and governance, ensuring we can safely grow and achieve our ambitions.

Stay-ahead propositions	Relationships that last	Progressive platform
Use insight and foresight to build products and services that help underserved and undervalued customers across Property Finance, Auto Finance, Structured & Specialist Finance and Savings	Build loyalty with customers, colleagues and partners, by anticipating and responding to, their changing needs and circumstances	Create systems, processes and capabilities that are easy and efficient, enabling us to live our purpose and grow our business

Our behaviours

Our colleagues are our biggest asset and are critical to delivering on our strategy and re-energising our business. As we navigate through a period of change, the behaviours set out in our blueprint will guide how we deliver on our ambitions and ensure each and every one of our people is unified in approach. Through providing a single-minded call to action, our four behaviours provide all colleagues with absolute clarity around what is expected of them as we collectively progress our strategy. Further information regarding our Culture and People Strategy, can be found on page 28.

Start with why	Try it out	Crack it together	Think next need
We think about outcomes before taking on tasks and we are always asking ourselves how what we do is aligned to our blueprint and how will it make things better for colleagues and customers	We are open to new ideas and ways of working and we are not afraid to give things a go	We collaborate with others purposefully, which means involving the right people on the right things at the right time, to avoid duplication of effort and to ensure a better result	As well as delivering on what we need to be successful now, wea re also looking ahead to the future and developing ourselves so we can sustain our success in the long term

Our stakeholders

Maintaining sight of how we will create greater value for each of our key stakeholder groups, will ensure we back people in the right ways to address their needs, while achieving our growth ambitions. Our stakeholders are further detailed in the S172 statement on pages 33 to 35.

Customers – we put them at the centre of decision-making to help them find the right solutions to get more out of life and business, with the confidence of being backed by a company that champions them where others would not.

People – we regard them as the foundation to success and have a clear value exchange, offering great benefits, working environments and development opportunities, while bringing clarity on what's expected in return.

Distribution Partners: Brokers – we work with them to understand and meet the needs of both them and their clients, making it easy for them to do business with us where other lenders do not.

Distribution Partners: Dealers – we deliver products and services to support their business and ensure dealer finance remains vibrant and sustainable in an evolving market.

Communities and Environment – we utilise our key strengths and capabilities to drive impactful change and make a sustainable difference to our communities, now and for the future.

Investors – we generate sustainable returns by focusing on long-term growth in the four most attractive markets in UK banking.

Regulators – we maintain regular, open, and transparent dialogue, ensuring alignment on evolving regulatory priorities.

Executing on our strategy

Our newly defined strategy drives our key activities and, since launching internally, we have made good progress in embedding our strategic drivers and demonstrating how we are beginning to deliver against them. Here are a few examples:

Relationships that last

Providing excellent service to our savings customers is integral to building relationships that last. With a TrustPilot rating of 4.7 out of 5 and customer Net Promoter Score (''NPS'') of +58, we know that we are backing our customers and supporting their savings needs.

With access to their funds being a priority for our customers, we have focused on ensuring we are easy to do business with. Our internal contact centre is open every day, except Bank Holidays, servicing the needs of our business savings customers. For personal savings, servicing is operated through our service provider, NSSL. Across both, our Service Level Agreement ("SLA") is for calls to be answered within 20 seconds, and it is this focus on providing the level of experience our customers expect that means ease of contact and professionalism of our staff are the main drivers of positive customer feedback.

Launching products with the needs of today's savers in mind further strengthens our ability to offer a stay ahead savings proposition. We want to provide customers with as much choice as possible, as we understand one size does not fit all and every person has their own unique and varied future plans and savings goals.

Last year we relaunched our double access and 120-day notice accounts, providing customers with greater choice and offering the flexibility of not locking away money for a set period. Both products are useful for savers who've had plans delayed or disrupted, or who are looking towards their 2023 goals, with the accounts ensuring their money is working hard until they're able to use it.

As a result of our focus on providing customers with straightforward savings solutions, we have been awarded Which? Recommended provider status and have won numerous savings awards over the past 12 months, including:

- Winner – Moneynet.co.uk Best Easy Access Savings Provider 2022
- Winner – Moneynet.co.uk Best Fixed Rate Business Savings Provider 2022
- Finalist – Savings Champion Best Business Easy Access Account Provider 2022

Having gained over 10,000 new savings customers in the past year, continuing to build on that number by enhancing our proposition remains central to our plans, as we seek to back more savings customers to go for it, in life and business.

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Progressive Platform

Developing a progressive platform, that also enables strong partnerships, is a core strategic driver for the Aldermore Group and our Auto business would not be where it is today without the support of MotoNovo's trusted dealer network.

Just Drive, winner of MotoNovo's Extra Mile Awards Partnership Award, was founded with the aim of providing a good quality experience for all customers. Just Drive have gained an impressive reputation for selling used cars and vans, specialising in sports and prestige cars.

MotoNovo's commitment to developing a progressive platform, and increasing ease and efficiency through digitised activities, has put motor finance at the forefront of the buying journey. Self-Serve offers customers the ease and convenience of an online finance application, while Quote & Propose was developed as a finance calculator that can be embedded directly onto dealers' websites. Just Drive have utilised MotoNovo's digital tools to enhance the car buying journey, and with the addition of MotoRate, offering customers a transparent finance journey which personalises the customers interest rate to their credit rating, Just Drive have been able to increase their finance penetration and be the 'go to' dealership in their area.

MotoNovo's finance calculator and their application system is a very slick system. The Self-Serve quotes we have found to be absolutely invaluable, they have certainly increased our finance penetration. Customer feedback has been very positive. Customers have found it to be a streamlined system, something that's easy for them to handle and use.

With the introduction of MotoRate, we have definitely seen a difference in the smoothness of the process and the trust that results from that to our customers as well - it has improved our figures. We are moving forward with it and we have to because times have changed. It is a very competitive rate and has been integrated into our website which we have found has worked very well. The customers find it easy to use, it is transparent and a very slick system."

Stay ahead propositions

With our aim to seek out more undervalued people and do good by helping them take the action needed to move forward in life, we are well placed to meet the customer needs that other lenders do not. Our Buy to Let solutions see us lend on all sorts of properties, including flats, houses and local housing authority properties, while our residential solutions help first time buyers onto the property ladder, back self-employed customers, and support people with less than perfect credit. We consider every application on its own merits, meaning we are not put off by quirks and complexities.

Like a lot of couples, Sarah and Tom were desperate to buy their first home together. But they had a few financial issues. So, after a bad experience with one lender they went to their mortgage broker for help, and found our stay ahead propositions were able to support them. Here's their story.

"We'd explored buying a house using the Government's Help to Buy scheme in October 2020 and went through a high street lender" Sarah shared with us. "I was excited to become a homeowner for the first time, and Tom was looking forward to a fresh start".

Rejected by their bank

"We had a rocky start with our original lender" Sarah said. "It took them 4 months to process our application, and when it came to completing our offer, I unfortunately had to explain I'd been furloughed. This was too much for them and they told us we couldn't have a mortgage with them anymore". "Sarah and I were extremely anxious after this experience. We didn't know if we'd be able to get a mortgage together"

Tom told us.

This calls for Aldermore

"Fortunately, we got in touch with a mortgage broker who assured us that we weren't a lost cause, despite our circumstances. She said that a specialist lender could help us".

From application to offer in just 2 weeks

"Our broker approached Aldermore, initially looking to get us a 2-year deal. But, we wanted to borrow a bit more, so the goalposts changed a little. Our broker was brilliant and was able get us a 5-year deal instead" Sarah explained. "Our mortgage application was submitted, and we had an offer back within 2 weeks". "We couldn't believe it!"

Tom added.

"We were able to start a new chapter in our lives"

Sarah went on to say,

"Aldermore knew we'd been through a tough time in the past but they didn't solely focus on our past and understood that I was planning to go back to work soon, meaning there'd be more incoming coming in. "They could see that we have worked hard to sort our finances out and that we have had no credit problems since. It was great that Aldermore were able to help us out".

Business Model

Aldermore operates as a specialist player in attractive UK markets, with specific focus on underserved segments where we know customers well. Brokers are a vital element of our lending business model and we are committed to continuously improving the service we offer to both brokers and customers, as we back more of them to go for it in life and business.

Until 30 June 2022 the Group operated across three customer facing divisions:

Business Finance – supporting growing businesses with a range of products across Asset Finance, Invoice Finance and SME Commercial Mortgages.

Retail Finance (including Mortgages and Savings) – offering Residential Owner Occupied and Buy to Let mortgages, and award winning[1] Savings products, to back customers.

Motor Finance - working with over 2,500 dealerships across the UK, as well as operating a vehicle buying and financing website, findandfundmycar.com.

As noted in our Strategy section on page 6, having defined our new strategy, as of 1st July 2022 we have moved to four business divisions which will be known as:

- Property Finance;
- Auto Finance;
- Structured and Specialist Finance; and
- Savings.

Across these divisions we have refreshed our plans to back more people by targeting strong operational performance and refocusing on where and how we participate across attractive market segments.

Since inception Aldermore's success has been built upon continually offering high levels of customer service to our intermediary partners and direct customers, evidenced via our strong NPS. With our customers at the centre of all decisions made, we recognise that our long-term sustainable success as a Group is only possible with a customer-centric business model. Transforming our business means building upon the solid foundations we have in place, to further deepen our customer and intermediary relationships, increase efficiencies and deliver exceptional experience.

Our colleagues operate across eight sites: London, Reading, Cardiff, Manchester, Wilmslow, Banbury, Leeds and Peterborough. Having used the experiences gained during Covid-19, we have adopted blended working giving colleagues the best of both worlds, with a balance to work from home while benefitting from the opportunity to collaborate in an office setting.

[1] Including Moneynet.co.uk Best Easy Access Savings Provider 2022 and Which? recommended provider 2021 accolade

Market Overview

Macroeconomy

Today's consumers and businesses continue to be impacted by a perfect storm of pressures. Despite quick economic recovery from the pandemic, Russia's invasion of Ukraine has added to global challenges that are hampering the UK economy. The associated spike in energy and fuel costs is having a significant impact on household spending and presents a growing risk of the UK entering a consumer spending downturn. The recent rise in borrowing costs to 1.75% marks the biggest interest rate rise in 27 years and has been deemed to be an economic cost of the war in Ukraine, leaving consumers facing a significant drop in living standards and a tough trading environment for firms, with further interest rate increases still anticipated as a means to manage inflation.

With inflation reaching its highest rate in 40 years and being projected to outpace wage growth until Q2 2024, the current squeeze on household finances is expected to endure. In recent months the Monetary Policy Committee has monitored inflationary pressures in the UK and the rest of Europe as they have intensified significantly, citing the near doubling in wholesale gas prices since May as a major factor, linked to Russia's restriction of gas supplies. As higher energy costs continue to contribute to the cost of living crisis, demand will be vulnerable to any further Covid-19 variants, especially any that lead to the restrictions in the UK, as has been the case over the last two winters.

Businesses are continuing to be impacted by higher operating expenses and supply chain disruptions, hindering any broader recovery and holding back business investment. During the Spring Statement, the Chancellor warned that businesses should "prepare for the economic environment to worsen, potentially significantly", while signalling intention to provide further support for business later in the year.

Despite the level of challenge in the market, our ownership structure and strong capital base allow us to take a long-term perspective on how best to support consumers and businesses. Aldermore has delivered a robust performance in the financial year with a profit before tax ("PBT") of £204.7 million (30 June 2021: £157.8 million). The increase in PBT is primarily driven by an increase in our loan book and an improvement in net interest margin to 3.8% (2021: 3.4%). The Group's capital and liquidity position has remained strong, with a CET1 ratio at the end of June 2022 of 14.0% (30 June 2021: 13.9%) reflecting increased profit and the continued utilisation of the capital previously injected to pre-fund MotoNovo Finance lending growth and a liquidity coverage ratio of 324% (30 June 2021: 453%).

Having started out as a small business ourselves, we understand the challenges involved in growing a company and we have been able to apply that understanding during uncertain times. We have continued to nurture our intermediary relationships to ensure we are meeting the needs of our end customers and can find the right solution for them. This year we have enhanced our Asset Backer tool, enabling brokers to submit and track proposals in one place, ultimately making it easier to do business with us.

To support our Retail Mortgage customers we have focused on offering lower fixed-term rates on loyalty products and promoting the benefits of our switch portal, giving peace of mind and ensuring we are backing them to stay in and enjoy their homes.

Within our Motor Finance business line, we have recognised the importance of customer experience in supporting customers through challenging times. Our customer service has achieved market-leading recognition, with an 86.4% approval rating in the UK Customer Satisfaction Index ("UKCSI") - well above the Banks & Building Societies Average of 78.8%[2]. Our focus on maintaining this level of service will remain as we seek to build relationships that last, at a time when our customers need us most.

Our Savings products are designed to help our customers build a safety net and achieve their savings goals. Our awards for Best Easy Access Savings Provider and Best Fixed Rate Business Savings Provider, at the 2022 MoneyNet Personal Finance Awards, demonstrate our commitment to supporting both our retail and business savings customers.

[2] January 2022 UK Customer Satisfaction Index

As we utilise our position to support our customers, we also perform a series of formal risk management processes as set out in the Risk Management Framework, which includes assessing Emerging Risks. Unlike our Principal Risks, the suite of Emerging Risks is designed to change on a regular basis to reflect the Group's operating environment. We continue to monitor future impacts of existing and emerging risks, including impacts on customers, credit risk, operational risk and our people.

One particular area in which we know our people have been impacted is the cost of living. Rising energy and food bills continue to stretch household budgets and, in recognition of this, we have acted to support our hardest hit colleagues. This year all employees in lower salary bands across our organisation received a gross payment of £1,000 to help them through these challenging times.

Irrespective of the action we take to support our customers and colleagues, we recognise that against a volatile economic backdrop, consumer behaviour continues to change. Surveys cite a continuing shift to digital channels, declining brand loyalty and growing demand for sustainable businesses. All of which add greater pressure for companies to maintain awareness of how to improve agility, respond to the evolving needs of consumers and maintain relevance.

With sustainability a growing concern for consumers, and the UK parliament having passed legislation to commit the country to reducing net emissions of greenhouse gases by 100% by 2050, significant opportunity exists for UK companies to support the green economy. Progressing through 2022 and beyond, Aldermore will further develop and deploy activities and propositions to back more consumers and businesses across the fields of electric vehicles, retrofitting of buildings and homes and supporting the transition activity of businesses across the UK.

Although the unprecedented challenges being faced by consumers and businesses have the potential to intensify, our commitment to continued support is stronger than ever before. With our new strategy in place, we are far better positioned to weather the storm and support economic growth.

Outlook

The macroeconomic environment is expected to remain unstable, with consumer confidence faltering and growth slowing in the face of continuing inflation. Our role in building consumer confidence has never been more important. As costs for energy, food and fertilisers continue to rise, an increased possibility of a global recession endures, requiring businesses to maintain sight of how to respond and support both customers and colleagues alike. Our strategic aims include building relationships that last. The better we know our customers and colleagues, the better we understand their needs and have the ability to develop the solutions that address them.

The final quarter of 2022 presents the possibility of a temporary boost to retail and hospitality spending, linked to the World Cup and the potential for a Christmas unaffected by Covid-19, however such optimism may be hampered by consumer confidence having fallen to its lowest level since 1974. In 2022 through providing a distinct and targeted proposition, we have the opportunity to give consumers and businesses confidence in Aldermore to support them through challenging times.

Despite record low unemployment figures, the labour market is expected to remain tight, with workers facing the challenges borne from wages failing to keep pace with rising prices. These circumstances strengthen the need for financial providers who are willing to support people overlooked by the high street banks. With the UK expected to enter a bumpy, and unevenly distributed downturn over the next 12 months, outright recession risks are increasing. Additionally, inflation will likely stay above the Bank of England's 2% target for the whole of next year. While base rate is expected to peak early in 2023, concerns regarding the precarious state of both the global and UK economy remain; the higher the Bank of England takes interest rates, the greater the downside risk to activity and asset prices, which ultimately introduces the possible need to ease policy towards the end of next year to support the economy.

Aldermore is well positioned to navigate through these uncertain times given its strong stable capital, liquidity position, refreshed strategy, new leadership team bringing fresh perspectives along with a wealth of experience to our business and re-energised colleagues looking to enhance groupwide collaboration to produce better outcomes for all stakeholders.

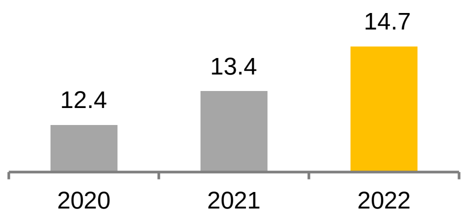
Financial Highlights

Loan book growth and NIM improvement supported strong uplift in profitability and Group return

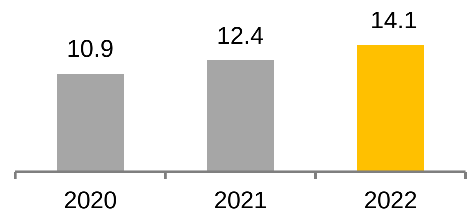
The KPIs presented on this page represent those by which the Group monitors and assesses its performance.

- Net loans to customers up by 10% to £14.7 billion (2021: £13.4 billion), supported by 14% growth in customer deposits to £14.1 billion (2021: £12.4 billion)
- Profit before tax of £204.7 million (2021: £157.8 million) as loan balances and net interest margin (“NIM”) increased
- Cost/income ratio of 54% (2021: 56%) reflects 20% growth in operating income, partly offset by ongoing investment in the future growth of the business
- Cost of risk flat at 41bps (2021: 40bps) reflecting the benefit of Covid releases broadly offset by the worsening macroeconomic environment in the second half of year
- CET1 ratio remains strong at 14.0% (2021: 13.9%), reflecting increased profitability
- Return on equity improved to 12.5% (2021: 10.9%) reflecting the growth in profitability

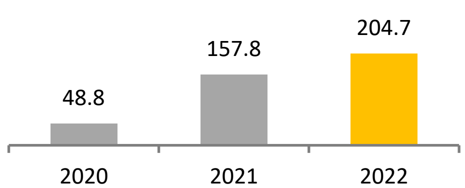
Net Loans (£bn)



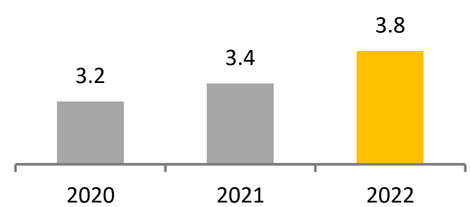
Customer Deposits (£bn)



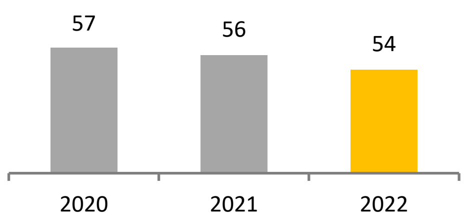
Profit before tax (£m)



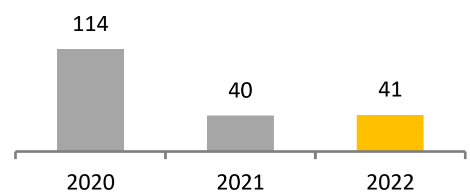
Net Interest Margin (%)



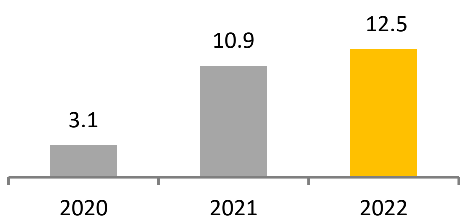
Cost/income ratio (%)



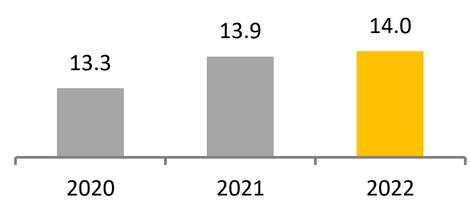
Cost of risk (bps)



Return on equity (“RoE”) (%)



CET1 ratio (%)



Business Overview

In the financial year ended 30 June 2022, Aldermore Group operated across three customer facing divisions: Business Finance, Retail (Including Mortgages and Savings) and Motor Finance. Business Finance consists of Asset Finance, Invoice Finance and SME Commercial Mortgages. Retail Mortgages offers Residential Owner Occupied mortgages and Buy to Let mortgages, and Motor Finance trades as MotoNovo Finance. The Group's Savings franchise offers deposit products to Personal, Business and Corporate Treasury customers.

Summary balance sheet	30 June 2022 £m	30 June 2021 £m	Change %
Net loans to customers	14 731	13 420	10
Cash and investments	3 404	2 911	17
Intangible assets	9	15	(41)
Fixed and other assets	205	143	44
Total assets	**18 349**	**16 489**	**11**
Customer deposits	14 105	12 427	14
Wholesale funding	2 665	2 626	1
Other liabilities	200	205	(2)
Total liabilities	**16 970**	**15 258**	**11**
Ordinary shareholders' equity	1 271	1 123	13
AT1	108	108	-
Equity	**1 379**	**1 231**	**12**
Total liabilities and equity	**18 349**	**16 489**	**11**

Net loans to customers of £14.7 billion

Net loans to customers have grown by £1.3 billion, or 10%, in the year largely driven by both Motor Finance and Business Finance. Motor Finance continues to grow towards maturity as part of the Aldermore Group as net loans increased £0.9 billion in the year to £3.9 billion (2021: £3.0 billion). Lending in Business Finance improved strongly as the Group supported SME customers returning to investment following the pandemic and strategically pivoted towards larger size deals; as a result net loans grew 15%, or £0.5 billion, to £3.6 billion. Within Retail Mortgages, a high volume of redemptions linked to the maturity of a 5 year fixed BTL portfolio, combined with the highly competitive market, resulted in net loans slightly reducing year on year to £7.2 billion (2021: £7.3 billion). However, this marks an improvement from our half year position as growth returned in Q4 of the financial year, and the pipeline is strong into the new financial year.

Total assets grew 11% to £18.3 billion (2021: £16.5 billion), driven by the loan book growth and increased cash and investments reflecting the Group's prudent liquidity position.

Funding strategy is deposit-led, with continued focus on diversification

Group funding continues to come primarily via the Savings business, complemented by wholesale funding to diversify the funding base and carefully manage the Group's requirements.

Customer deposits grew 14% to £14.1 billion (2021: £12.4 billion) with growth in all three deposit franchises: Personal Savings, Business Savings and Corporate Treasury. As a result of this growth, customer deposits now represent 83% of Group liabilities (2021: 81%), reducing the loan to deposit ratio to 106% (2021: 108%). Further information can be found in the Savings section on page 24.

Wholesale funding is 1% higher year on year at £2.7 billion (2021: £2.6 billion). The Group holds £1.3 billion of Term Funding Scheme for SME funding (''TFSME''); over the course of the year, the Group repaid its entire remaining Term Funding Scheme ("TFS") holding of £0.8 billion to the Bank of England. Secured funding increased 8% in the year to £1.2 billion, as the auto-loan backed Warehouse facility (MotoMore) was increased. The Group maintains a portfolio of both residential mortgage and auto loan backed securities. A £61 million Tier 2 debt security was redeemed in October 2021 and as such the Group's Tier 2 holdings reduced to £152.8 million (2021: £213.6 million).

There has been no change to the Group's Additional Tier 1 ("AT1") notes held in the year. Total liabilities and equity have increased 11% to £18.3 billion (2021: £16.5 billion), primarily reflecting the higher customer deposit balance.

	Year Ended 30 June 2022	Year Ended 30 June 2021	Change
Summary income statement	**£m**	**£m**	**%**
Interest income	688.7	592.5	16
Interest expense	(158.8)	(156.1)	(2)
Net interest income	**529.9**	**436.4**	**21**
Net fee and other operating income	25.3	34.3	(26)
Net derivatives expense and gains on disposal of debt securities	7.9	0.2	N/A
Operating income	**563.1**	**470.9**	**20**
Expenses, depreciation and amortisation	(302.0)	(261.7)	15
Share of Profit of Associate	1.0	0.7	43
Impairment losses on loans and advances to customers	(57.4)	(51.3)	(12)
Impairment losses on lease modifications	0.0	(0.8)	100
Profit before tax	**204.7**	**157.8**	**30**
Tax	(46.5)	(33.4)	39
Profit after tax	**158.2**	**124.4**	**27**

Key performance indicators	2022	2021	Change
Net interest margin %	3.8	3.4	0.4 pp
Cost/income ratio %	54	56	2.0 pp
Cost of risk (bps)	41	40	100 bps
Return on equity %	12.5	10.9	1.6 pp

Higher Net Interest Income primarily reflects lending growth and optimised funding costs

Interest income increased by 16% to £688.7m (2021: £592.5 million), primarily reflecting current and prior year growth in net loans. Retail Mortgages interest income was broadly stable year-on-year, reflecting a high volume of redemptions linked to the maturity of a 5 year fixed BTL portfolio and the highly competitive market. Motor Finance interest income increased reflecting its continued growth as part of Aldermore supported by the buoyant market for used vehicles, partly offset by modest remediation impacts. Higher interest income in Business Finance was supported by strong originations and new facilities, particularly within Asset Finance, and larger size deals in SME Commercial Mortgages. Additionally, new effective interest rate ("EIR") models were implemented during the year which provide a greater degree of granularity on the Group's EIR modelling and have provided a one-off benefit of £24.4m, primarily to Business Finance. As such, the Group gross interest margin increased to 4.9% (2021: 4.6%).

Interest expense increased 2% to £158.8 million (2021: £156.1 million) despite a 14% growth in customer deposits as the Group actively responded to market demand with carefully managed price and proposition offerings, in addition to the full year impact of lower rate accounts opened in the prior year. Further benefit was realised through the replacement of redeemed TFS with TFSME. The Group's cost of funds consequently reduced 8bps to 1.13% (2021: 1.21%).

As a result, net interest income grew by 21% to £529.9 million (2021: £436.4 million) and the net interest margin has improved to 3.8% (2021: 3.4%).

Other operating income

Net fee and other operating income of £25.3 million (2021: £34.3 million) includes £16.1 million (2021: £27.1 million) of income received from FirstRand London Branch ("FRLB") in relation to the cost incurred to support the MotoNovo back book operations plus an arm's length fee for this service. The net impact of this recharge (including the arm's length fee) was a £1.1m increase (2021: £2.0m) to Group profit. Excluding this impact, net fee and other operating income was £9.2m (2021: £7.2 million).

Net derivatives gain and gains on disposal of debt securities was £7.9 million as a result of mark to market movements on our loan portfolio hedging (2021: £0.2m).

Operating Expenses highlight increased investment and staff costs

Operating expenses of £302.0 million (2021: £261.7 million) include £15.0 million (2021: £25.1 million) of costs in MotoNovo incurred in servicing the back book that are recharged to FRLB. The value of the recharge to FRLB will continue to reduce over the coming years as the back book runs off. Excluding this, Group operating expenses rose 21% largely reflecting increased people costs as a result of higher headcount, mostly relating to significant investment to support the future growth ambitions of the Group, including a number of Executive Committee changes as the Group looked to bring in talent and expertise to upskill key teams. Material expenditure was also incurred in the year on change and project activity.

Growth in income offset the increase in expenses and as such, the Group's Cost/Income ratio improved to 54% (2021: 56%). Excluding the £15.0 million cost and £1.1 million fee income related to MotoNovo back book operations, the Cost/Income ratio was 52% (2021: 53%).

Cost of risk is broadly stable and below through-the-cycle levels

Impairment charges on loans and advances to customers were 12% higher than the prior year at £57.4 million (2021: £51.3 million). This reflected a combination of factors including a fall in underlying impairments, release of Covid-19 related provisions, growth in net loans and higher charges to reflect the worsening macroeconomic outlook in the second half of the financial year. As such, the Group's cost of risk remained broadly stable at 41bps (2021: 40bps) and below our through-the-cycle level. The Group's NPL ratio[3] reduced to 2.4% (2021: 2.9%) as customers migrated out of stage 3 following Covid-19 payment break probation periods. The NPL coverage ratio[4] increased to 28.3% (2021: 22.6%) reflecting a combination of customers migrating out of stage 3 and management maintaining a prudent level of coverage as a result of the uncertain economic outlook. Total coverage ratio[5] increased to 1.6% (2021: 1.4%).

Statutory profit before tax of £204.7 million

The increase in profit before tax of £46.9 million to £204.7 million primarily reflects strong growth in net loans and stronger NIM, partly offset by higher operating expenses. Consequently, return on equity has risen to 12.5% (2021: 10.9%).

[3] NPL ratio calculated as stage 3 gross loans divided by total gross loans
[4] NPL coverage ratio calculated as total stage 3 provisions divided by total stage 3 gross loans
[5] Total coverage ratio calculated as total provisions divided by total gross loans

03

Business Review

Business Review

Business Finance

Highlights

- Originations up 40% to £1.8 billion (2021: £1.3 billion)
- Strong growth in net loans to customers, up 15% to £3.6 billion (2021: £3.1 billion)
- Segmental profit of £158.9 million (2021: £109.2 million)
- Positive Cost of Risk at (25)bps (2021: 33bps) as certain Covid-19 related provisions were released

	Year ended 30 June 2022	Year ended 30 June 2021	Change
	£m	£m	%
Net loans to customers	3 573.3	3 097.9	15
Originations[1]	1 764.2	1 256.6	40
Operating income	180.0	151.8	19
Administrative expenses	(29.3)	(32.0)	(9)
Impairment losses	8.2	(10.6)	178
Segmental result	158.9	109.2	46
Net interest margin (%)	5.1	4.5	0.6
Cost of risk (bps)	(25)	33	

1. Originations for year-ended 30 June 2022 include the growth of facilities to existing customers within Invoice Finance, not included in the prior year.

Performance

Business Finance returned to growth in 2022, with net loans up £0.5 billion to £3.6 billion (2021: £3.1 billion) as all three business lines saw double digit growth. Originations were 40% higher at £1.8 billion (2021: £1.3 billion), led by Asset Finance where vehicles and transport saw the biggest uplift. As a result, Asset Finance net loans are 10% higher year on year at £1.7 billion (2021: £1.6 billion) albeit this is partly due to fewer redemptions reflecting the lower growth in the prior year. SME Commercial Mortgages continued to benefit from a strategic shift towards larger sized deals, with the average deal value increasing 9% to £1.9 million. As such net loans grew 22% in the year to £1.4 billion (2021: £1.1 billion). Growth in Core Invoice Finance products supported an increase in net lending to £0.5 billion (2021: £0.4 billion), as customer retention also improved.

The increase in net interest margin to 5.1% (2021: 4.5%) is partly driven by an EIR benefit resulting from the implementation of new models, however, it is also supported by the return to growth in Asset Finance and higher facility usage and turnover in Invoice Finance as businesses recovered from lockdown impacts. Administrative expenses are 9% lower at £29.3 million (2021: £32.0 million) with small savings across a number of lines. The positive cost of risk for the year at (25)bps (2021: 33bps) is the result of the release of certain Covid-19 provisions and accounts curing from stage 3 following payment holiday probation periods, combined with a positive impact of model changes on the portfolio, which more than offset the impact of macroeconomic outlook scenario weighting changes towards the end of the financial year.

Looking ahead, there continues to be good opportunities for growth in Business Finance despite the uncertain economic backdrop, which is driven by persistent supply chain issues, rising energy costs and the tapering of government support schemes. Shortages of equipment and vehicles to finance is increasing appetite for the refinancing of assets, with elevated lead times expected to continue supporting asset values, particularly in vehicles. Within SME Commercial Mortgages, Aldermore's relationship-based model and specialist underwriting advantage will allow for targeted growth, particularly as larger competitors look set to focus on managing existing relationships. In invoice and specialist finance, increasing back book limits and larger deals being refinanced are expected to support growth. Further opportunities may arise from utilising our expertise to help SMEs continue to recover post-pandemic and also invest in Green assets, with sustainability remaining a key focus. In the rising interest rate environment, which is leading to higher funding costs, focus will continue to be on balancing competitive positioning and margins.

Retail Mortgages

Highlights

- Originations up 36% to £1.1 billion (2021: £0.8 billion)
- Net loans to customers slightly down at £7.2 billion (2021: £7.3 billion)
- Going into the new financial year, the pipeline is 122% higher than at the same point last year
- Segmental profit of £130.3 million (2021: £138.3 million)

	Year ended 30 June 2022	Year ended 30 June 2021	Change
	£m	£m	%
Net loans to customers	7 204.2	7 295.7	(1.3)
Organic origination	1 107.5	815.7	36
Operating income	166.0	173.6	(4)
Administrative expenses	(22.4)	(19.1)	17
Impairment losses	(13.3)	(16.2)	(18)
Segmental result	130.3	138.3	(6)
Net interest margin (%)	2.3	2.4	(0.1)
Cost of risk (bps)	18	22	(4)

Performance

Retail Mortgages loan balances are £0.1 billion lower than the prior year at £7.2 billion (2021: £7.3 billion) reflecting elevated levels of redemptions, including the maturity of a large portfolio of Buy to Let Loans. However, growth returned in the second half of the year, with net lending increasing £0.1 billion as levels of redemptions reduced. There was 7% growth in Owner Occupied net loans to £2.3 billion (2021: £2.1 billion), with originations increasing to £0.6 billion (2021: £0.5 billion) as products temporarily withdrawn to manage risk appetite and operational capacity during the pandemic were re-launched to market. The majority of growth was in the higher LTV products, offered to customers through enhanced underwriting and risk-based pricing. Growth in Owner Occupied was offset by a reduction in the Buy to Let book, which reduced 5% in the year to £4.9 billion (2021: £5.2 billion) largely reflecting the expected maturity of a 5-year fixed portfolio combined with high levels of competition in the market. However, originations were 43% higher at £0.5 billion (2021: £0.3 billion) as the Group launched a number of limited edition products over the year and loyalty product switches reached the highest ever level at £0.8 billion (2021: £0.3 billion), following investment in the loyalty team and proposition in 2021.

The reduction in net interest income to £166.3 million (2021: £173.2 million) is largely reflective of the lower net loan balance year on year. Competitive pressures led to a small reduction in net interest margin to 2.3% (2021: 2.4%). Higher headcount and increased marketing spend following a return to normal levels of activity post-Covid, plus project related spend, has driven administrative expenses up £3.3 million to £22.4 million (2021: £19.1 million). The release of most Covid-19 provisions and accounts curing from stage 3 following payment holiday probation periods more than offset the impact of changes to the macroeconomic outlook and scenario weights, and as such cost of risk improved 4bps to 18bps (2021: 22bps).

The housing market is expected to slow this financial year as rising interest rates and high inflation squeeze household incomes. House prices have remained resilient to date supported by limited supply and supportive fiscal policy however, we now expect a modest decline in house prices over the next 12 months. For Aldermore, development of new owner-occupied propositions and higher levels of activity in Buy to Let may offset this pressure, particularly as landlords look to take advantage of strong tenant demand and higher rental prices. In the rising interest environment, mortgage rates are expected to continue increasing, as lenders adjust product pricing to protect margins against rising funding costs. Improved operational capacity, supported by both tactical and strategic activity and a more agile approach to products and propositions, positions the Group well for growth.

MotoNovo Finance

Highlights

- Originations increased 17% to £2.3 billion (2021: £2.0 billion), marking a new lending record for MotoNovo Finance
- Net loans customers up 31% to £4.0 billion (2021: £3.0 billion)
- Segmental profit of £35.2 million (2021: £38.5 million)

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m	Change %
Net loans to customers	3954.0	3026.8	31
Organic origination	2344.7	1991.3	18
Operating income	155.4	120.2	29
Administrative expenses	(67.9)	(56.3)	21
Impairment losses	(52.3)	(25.3)	107
Segmental profit / (loss)	35.2	38.5	(9)
Net interest margin (%)	4.2	4.9	(0.7)
Cost of risk (bps)	150	105	45

Performance

As a result of the larger loan book and high levels of origination activity, operating income increased 29% to £155.4 million (2021: £120.2 million). The movement in net interest margin to 4.2% (2021: 4.9%) is primarily driven by a change in mix due to the implementation of risk-based pricing and a cleaner credit quality, which traditionally has a lower margin, as well as remediation impacts. Administrative expenses of £67.9 million (2021: £56.3 million) exclude £15.0 million (2021: £25.1 million) of cost incurred in servicing the MotoNovo Finance backbook business which is recharged to FRLB. Operating Income presented above excludes the corresponding income received from FRLB but includes the 8% arm's length mark-up of £1.1 million (2021: £2.0 million). The increase in administrative expenses largely reflects the ongoing growth of the loan book as the amount recharged to FRLB rapidly decreases with the backbook run-off. The 45bps increase in cost of risk to 150bps (2021: 105bps) reflects a significant rise in the MotoNovo Finance impairment charge to £52.3 million (2021: £25.3 million). This is partly expected as the portfolio matures. The current financial year has also been impacted by model changes, including adjustments made to Significant Increases in Credit Risk (''SICR'') thresholds, remediation activity and updated macroeconomic scenario weightings.

Demand for used cars was elevated in this financial year as persistent supply chain issues impacted new car registrations. New car supply issues are expected to continue, however the pressures on car prices are likely to ease in 2022 due to slowing of demand with the squeeze on household incomes from higher inflation and rising interest rates. Despite this backdrop, momentum has continued into the new financial year due to increases in the number dealer and broker partnerships. Volumes will be managed to prioritise margin in a competitive environment to support the Group's strategic growth priorities. MotoNovo remains heavily focused on investing in digital journeys for dealers and customers, looking to further enhance credit decisioning and self-serve capability. Sustainability is also an opportunity, with competitors adapting strategies to take account of the trend towards electric vehicles and plug-in hybrids.

Central Functions

Segmental result	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m	Change %
Operating profit/(loss)	46.7	(0.3)	N/A
Underlying administrative expenses	(166.4)	(127.9)	(30)
Segmental loss	(119.7)	(128.2)	6.6

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

The operating profit in the year includes net interest income and net fees and other income that is not recharged to the business segments. The increase year on year is largely driven by market movements on asset and liability hedging portfolios reflecting the structure of the Group's hedging portfolio, and profits resulting from active management of the Group's HQLA portfolio. It also includes the interest expense relating to the Tier 2 notes and a fair value gain of £2.2 million as a result of mark to market movements on the Group's hedged loan portfolio (2021: £0.5 million loss).

Central administrative expenses increased 30% to £166.4 million (2021: £127.9 million) primarily reflecting higher people costs. This primarily reflects higher headcount following significant investment to support the future growth ambitions of the Group, including a number of Executive Committee changes as the Group looked to bring in talent and expertise to upskill key teams. Central expenses also include Group-wide project activity and change spend.

The segmental loss of £119.7 million (2021: £128.2 million loss) also includes £1.0 million share of profit of associate (2021: £0.7 million).

Savings

Savings Balances	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m	Change %
Personal Savings	9 662.0	9 009.3	7
Business Savings	2 499.1	2 263.0	10
Corporate Treasury	1 944.3	1 155.1	68

Performance

Personal Savings remains the Group's largest deposit portfolio, with 7% growth year on year to £9.7 billion (2021: £9.0 billion) as product offerings and rates were actively managed to meet market demand. Strategic action to diversify and optimise the portfolio has resulted in a change in mix, with ISAs now representing 23% of balances, up from 20% in the prior year as the Group positioned itself well in this market during 'ISA season'. Non-maturing deposits ("NMDs") continue to be popular with customers with the proportion growing from 38% to 39%, whilst fixed rate bonds fell to 38% (2021: 42%) reflecting market sentiment for much of the year.

Following relatively subdued growth in the previous financial year, Business Savings increased 10% to £2.5 billion, with particularly strong momentum in the second half of the year. A combination of price changes and new partnerships with Cashplus and the Federation of Small Businesses supported this, as SMEs took a prudent approach to savings given the economic uncertainty. The majority of the Group's Business Savings balance remains in Easy Access accounts.

Significant growth of 68% was achieved in Corporate Treasury to £1.9 billion (2021: £1.2 billion) highlighting the importance of this channel in diversifying the Group's funding base. A significant amount of this growth was driven by the launch of a new 95 day notice product in December 2021, allowing for deeper engagement with clients and further optimisation of funding.

The outlook for the savings market will be impacted by the uncertain economic environment, rising interest rates and competitive trends. Household disposable incomes are being squeezed by increased cost of living pressures, whilst the rising rate environment is leading to industry-wide upward pressure on cost of funding, the extent of which is determined by the level and timing of passing rate increases through to customers. With the expectation of higher interest rates, customers are likely to continue targeting shorter duration deposits, and as such, we expect Aldermore to continue trending towards a higher mix of NMDs and lower mix of fixed rate bonds. Competition in the savings market is also increasing, largely driven by an increased demand for retail funding following the closure of TFSME, and recent market volatility impacting levels and timing of wholesale issuance.

Sustainability

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

Aldermore's Approach to Sustainability

In the past 12 months, Aldermore Group has actively mobilised to put resource and focus into its sustainability activities. We are in the process of resetting our operating and governance model in this space with the intention of best aligning our activities, data, and reporting for maximum impact in our material areas. This process began with the role creation and recruitment of a Head of Environment, Social and Governance ("ESG") and Sustainability in March 2022 and will involve third parties to help set our targets and ambition later in 2022.

We aim to release more details on our Sustainability activities and how we back more people to go for it, in our first impact report – Aldermore's Report to Society, due to be published later in 2022.

For this Annual Report, we have listed some of our material focus areas along with activities within our People team and Community Engagement.

Environment and Climate Change

Aldermore recognises climate change as a defining issue, with potentially far-reaching impacts for our customers, colleagues and communities. This is a challenge that requires action in this decade, and we consider this a strategic risk that cuts across other risk types – such as credit risk and operational risk.

To address this, we have made significant progress over the financial year in developing climate risk capabilities. This enables us to better understand:

- Impacts of our business on the climate
- Impacts of climate change on our customers and portfolios; and
- Our own business resilience.

The Group's Energy and Carbon reporting which starts on page 36 outlines progress made in this regard across:

- Governance
- Strategy
- Risk Management; and
- Metrics and Targets.

Levelling Up

We recognise our existing and potential customers financial wellbeing as material to our responsibilities as a bank. As part of our desire to help drive equality of opportunity and break the cycle of poor social mobility here in the UK, Aldermore is playing a central role in the Purpose Coalition. This is a cross-party initiative that is supported by a mix of private and public sector organisations committed to delivering 'levelling up' on the ground in the UK.

We are sponsoring goal seven, which aims to widen access to savings and credit, as being trapped in debt or being unable to access capital significantly hinders access to opportunity. Our work involves developing benchmark metrics for government, business and other organisations to make 'levelling up' a reality and define what improvement looks like in an empirical way.

We are also co-chairing the Equality of Opportunity Coalition, which aims to tackle the UK's lack of socio-economic diversity in workplaces by encouraging organisations to adopt a new set of measurement and reporting standards and share best practice.

These important initiatives build on Aldermore's history to date and represent a powerful shift away from traditional corporate social responsibility towards being a purpose-led business, focused on making genuine impact for our colleagues, customers and the communities we serve.

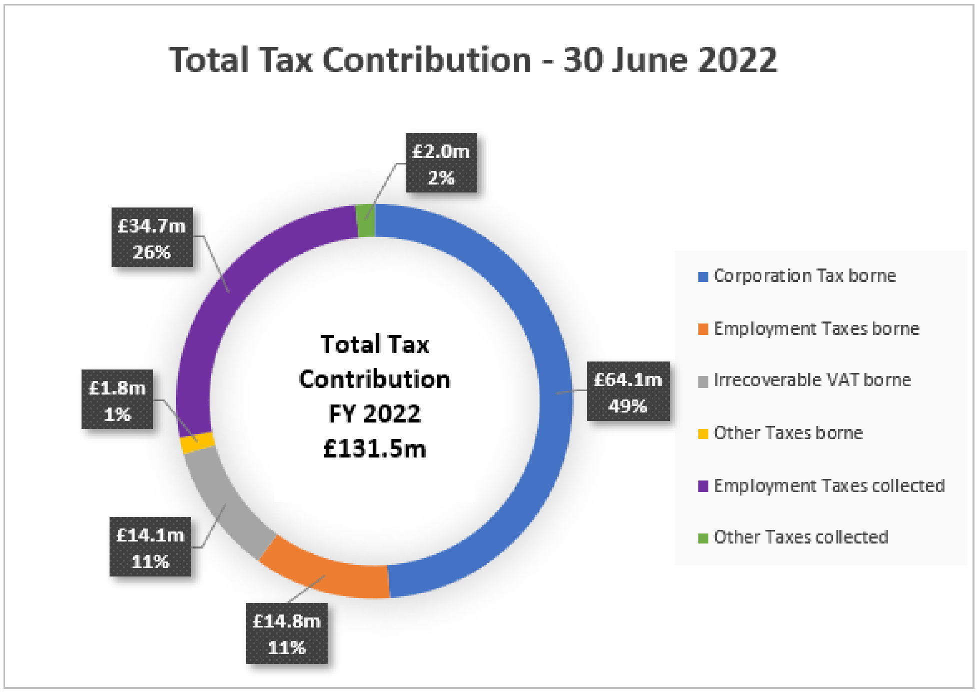
Tax

Our business is located in the UK where our customers and operations are largely established. As a public interest entity, we have a duty to act with honesty and integrity with our approach to taxation and recognise that through the payment of tax, we contribute towards our stakeholders and towards wider society.

Appropriate, prudent, and transparent tax behaviour is a key component of corporate responsibility. Through good governance, controls and procedures, the Group seeks to pay the right amount of tax at the right time and to maintain the Group's reputation as a fair contributor to the UK economy. We comply with the HMRC Code of Practice on Taxation for Banks and aim to maintain constructive and professional relationships with the tax authorities. We actively support and work with tax authorities to combat tax evasion. We do not interpret tax laws in a way that we believe is contrary to the intention of Parliament. We apply tax rules in good faith and in the spirit they are intended. We aim to ensure that our tax returns are filed on time. Our overall tax objectives reflect our honest and transparent approach to our tax obligations and are also reflected in the products and services we offer to our customers.

Our annual tax strategy (https://www.investors.aldermore.co.uk/about-us/corporate-governance/introduction/tax-strategy) aligns with the principles set out in our tax risk management framework implemented through our tax risk management policy. The tax strategy and risk management objectives are approved by the Board and the Audit Committee who are regularly updated on matters relating to tax. Regular meetings with HM Revenue and Customs provide a platform to discuss our business activities and enable open two-way communication.

The Group has a responsibility to the communities we serve and our tax contributions are used to support the society in which we operate. All taxes contributed by the Group are to the UK tax authorities and used for public spending. We measure our Total Tax Contribution for a financial year by reference to the tax payments we have made in that year. Our Total Tax Contribution for 2022 was £131.5m (2021: £82.5m) comprising taxes borne and collected. Taxes borne represent the direct cost to the Group of taxes which impact the financial results of the business and for 2022 were £94.7m. In addition to taxes borne, we also collect and administer taxes on behalf of the UK tax authority. For 2022 the Group collected a further £36.7 million of taxes. The chart below shows the proportion of the Group's Total Tax Contribution in the financial year ended 30 June 2022, of which the most significant is corporation tax (49%).



Our people

As a responsible employer, we want to create and nurture the right environment so our people feel backed to go for it in life and business. We recognise that our people are our key strength and over the past year, Aldermore Group has listened to the feedback from colleagues, customers and brokers. As referenced in our strategic report, in early 2022 we launched a refreshed purpose and set of behaviours designed to drive clarity and set cultural expectations. The feedback was also fundamental in supporting us to shape our new people strategy which is aligned to the overall Group strategy. Our focus is to improve our colleague offering and to allow all of our people to feel valued and purpose led. In the past year, the Company has:

- Increased annual leave allowance to 30 days;
- Awarded a one-off cost of living payment of £1,000 for our colleagues in lower salary bands;
- Trialled a new blended working approach which is flexible and empowers colleagues to find the right balance;
- Enhanced internal learning and development programmes to build capabilities and launched our leadership development programme to support the continued growth; and
- Introduced an apprenticeship programme to further invest in the development of our people.

Workplace diversity and inclusion

Creating a diverse and inclusive place to work really matters to Aldermore Group. It is better for business and it is better for society. For that to happen, we need a diverse colleague base and an inclusive culture that attracts and retains great people and reflects the society in which we operate.

- Our work on the Women in Finance charter has seen us set a target of increasing the number of women represented in senior management roles to 40% by the end of the next financial year; and 50% representation by 2025. In our last formal submission in December 2021, we reported women represent 21% of senior management roles against a target of 30%. Other activities in support of our aim include:
    - Introducing specific diversity targets for all leaders within the organisation;
    - Committing to gender balanced shortlists for management roles within the organisation;
    - Regularly challenging succession plans and talent maps with an inclusion lens; and
    - Building a strong talent pipeline of women from grass roots to senior leaders, through initiatives such as apprenticeships, mentoring, sponsorship and development programmes.

At the core of our purpose to back people to go for it in life is the need to promote and support inclusive workplaces. By championing what makes us different we ensure every Aldermore Group employee feels empowered to bring their full selves to work.

Through our colleague network, Inclusion@Aldermore and our 'Value our Differences' agenda, we discuss and work on plans to ensure our approach is understood and developed. We cover all aspects including age, gender, ethnicity, religion and belief, sexual orientation, disability, mental health awareness, social mobility and more. Key workstreams are accountable to an ExCo sponsor, and are committed to the delivery of practical and implementable solutions:

- EmbRace (Embracing race equality network) - providing a voice for our ethnic minority colleagues, and to empower them to embrace their full talent potential across the Aldermore Group. This network is open to all colleagues interested in engaging and wanting to make a difference by raising awareness, celebrating and promoting a truly inclusive culture throughout the organisation.

  We have made progress in capturing ethnicity data and publicising progress through several employee focused campaigns to encourage completion. Our latest #CountMeIn campaign saw the diversity data disclosure rate increase to 70% from 30% at the beginning of 2022.

- Balance (Gender and equality network) - supporting the Group in developing and nurturing a gender-balanced team and building a culture that supports equality in all its forms. We do this by inspiring colleagues, providing networking and development opportunities and recognising female talent and success at all levels of the organisation.

  We participate in the world-leading, cross-company, cross-sector mentoring programme led by the 30% Club | Moving Ahead. The programme focusses on gender diversity in order to build and strengthen necessary pipelines and achieve parity of women in leadership and board roles, with a second programme aligned to all other underrepresented strands, and we align with our EmBrace network above. During the year, we supported 60 mentoring partnerships, an increase of 20 partnerships since last year.

  To help support our Balance network in 2022, we launched our Menopause in the Workplace programme, which has involved the following progress to date:

  - We signed the Wellbeing of Women 'Menopause Workplace Pledge';
  - We joined Henpicked: Menopause in the Workplace membership which means we are committed to being a 'menopause friendly employer' with a view to achieving full accreditation in the future; and
  - We have implemented Menopause Awareness Workshops for both colleagues and managers every quarter.

- Rainbow (LGBTQ+ network) - raising awareness and the profile of LGBTQ+ issues across Aldermore Group and provide support for LGBTQ+ colleagues. We do this through events throughout the year, policy making and driving visible role models at different levels of the organisation. We recently received a Bronze Award in the Stonewall Workplace Index for our work in this area.

- GreatMinds (Supporting colleagues' wellbeing network) – As signatories of the Mindful Business Charter, we believe passionately in supporting good mental health and wellbeing at work. GreatMinds is an open colleague network supporting just that. It raises awareness across the Group by delivering events and communications with the aim of reducing the stigma surrounding mental health. We provide a safe space to share experiences and embed health and wellbeing into our culture.

Our Culture

We recognise how important culture is to create the right working environment and this is a key focus area for the new People strategy. To help us monitor how we are doing, we have introduced more frequent engagement 'pulse' surveys and support our managers in turning that feedback into action with specialist workshops.

Our cultural champions continue to support our cultural initiatives across the Group including bringing our Colleague Value Proposition ("CVP") to life, embedding it and helping to shift our culture.

We support the professional development and recognition of our people

Our Colleague Value Proposition, known across the Group as 'The Deal', sets out the benefits and rewards we offer our colleagues in return for the skills, capabilities and performance they bring to Aldermore. It focuses on backing colleagues through a concept of 'give and get':

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

'The Deal' includes several key offerings with more to come in the next financial year. So far we have:

- Developed our cultural vision and identified the cultural shifts that we need to make;
- Started to build a manager development programme to raise awareness and improve capability; and
- Introduced a new employee recognition scheme, allowing managers to reward those who are going above and beyond with a dedicated budget of £50 per employee, as well as a quarterly and annual awards event hosted by the Executive Committee with prizes up to the value of £500 for winners.

Our employee statistics for June 2022 and June 2021:

	June 2022	June 2021
Number of Group employees	2,198	2,029
Number of Group female employees	989	944
% of Group female employees	45%	46%

It has been a year of change within Aldermore, with a new senior leadership team being formed after Steven Cooper's appointment as Group CEO in May 2021. While these changes are all positive for the business, we recognise that they created some short-term challenges and that has been reflected in our employee trends for 2022. Our Group Employee Net Promotor Score ("eNPS") is currently +16 compared to +39 in 2021 for recommending Aldermore as place to work. We are not where we want to be and have work to do but are confident in the new People strategy to lay the foundations for improved trends for 2023 and beyond.

Community Impact

Aldermore plays an important role amongst many of the communities it serves, and we are always looking for new ways to best support those and the stakeholders within them. We provide positive Community Impact through two channels: Community Giving and Community Engagement.

Community Giving

Charitable Giving
2022 Charitable Giving amount: £60,858 (2021: £56,000)

Aldermore decided to localise charitable giving in 2022, backing our people to make a difference to causes that matter most to them, £ for £ match funding up to £1,000 of the money raised. Charitable donations of this manner were made to a wide range of activities that make a genuine impact to the communities we serve. Below are examples of the activities which took place:

- National major charity events such as Macmillan's Coffee Morning and Games Hero's;
- Teams deciding to forego the usual client gifts and cards at Christmas and use the funds to donate to charity;
- Teams climbing the National and Yorkshire 3 Peaks; and
- A corporate donation to a charity in memory of a colleague who sadly passed away.

Some examples of charities supported from these events are Young Minds (tackling mental health and wellbeing in youth) and Fareshare (tackling hunger and food waste). Total corporate contributions from the Group in support of the team activities is £51,364. 2021's contribution via match-funding was £22,000. In addition to these match funding activities, the Group also provided Macmillan Cancer Support with a payment of £9,494 as part of our previous charitable partnership.

Volunteering

As an organisation who believes passionately in social mobility, we have built relationships in 2022 with education providers in the communities our major offices operate from and given our colleagues time to provide skills-based volunteering. These education providers create a platform for our colleagues to share their career insights and financial industry knowledge to provide a foundation for those wishing to start a career in financial services or improve their financial wellbeing, particularly those from under-served communities. We look forward to continuing and expanding these relationships in 2023.

Highlights in 2022:

- Skills based volunteering at 18 events;
- Events shared between 7 locations in the Manchester area and 4 in the Cardiff area; and
- Event topics included prefect interviewing, talking about careers in finance, financial education, panel participation for a careers fair, women in business and online based work experience.

Community Engagement

Industry Communities

The SMEs, landlords, homeowners, savers and vehicle owners that work with Aldermore, in turn support the communities in which they live and work. We understand that we have a responsibility to be part of these communities. Playing our part as a responsible member of the banking community, we are:

- Actively involved with industry bodies including UK Finance, the FLA, and IMLA;
- A member of the Banking Standards Board;
- A member of Bankers for Net Zero;
- A signatory of the Women in Finance Charter;
- A signatory of the Race to Work Charter; and
- A signatory of the Mindful Business Charter.

Aspire Programme

To expand our reach into these communities and deepen our support we have supported the introduction of a new mobile-first, financial education resource to help young people build their financial confidence. It will be accessible to up to 305 schools in Cardiff and Greater Manchester and there will be a particular focus on those that are from more deprived areas. The Aspire programme resource is made available, free of charge, through Aldermore's relationship with digital education innovator, EVERFI, Inc.

83% of young people aged 15-18 want to learn more about money and finance in school[6]. Aspire offers a library of learning topics around important personal finance education concepts to help students develop the essential knowledge they need to make smart decisions about how to make, save, and invest money. Aspire helps 14 -18-year-olds learn about the economy holistically through different perspectives: as a consumer, an employee, an entrepreneur, or an employer while understanding its relevance to their lives.

Through Aspire, users are guided through interactive exercises that allow them to practice making financial decisions most relevant to them in a fail-safe environment. Each topic area offers a 3-6 minute module designed to enable users to apply what they have learnt to their personal financial goals. The subject areas cover a wide range of topics including current and savings accounts, creating a budget, and planning for retirement.

The mobile-first design is available on all internet-enabled devices so that learners can access it anytime, anywhere.

6 The London Institute of Banking and Finance, 2021

Chartered Bankers Institute Smart Futures Programme

Aldermore is a primary partner of the CBI’s Smart Futures Programme. This is a career development initiative that supports year 12 pupils (16-17 years old) to gain exposure to Financial Services through an internship placement followed by a 10-month mentoring programme with a senior leader within our business. Interns are only eligible to apply if in receipt of free school meals, meaning we are prioritising access to opportunity to those pupils who traditionally face barriers to our industry. We have supported two cycles of the programme in the year to date and have made an ongoing commitment to participate in Easter, Summer and Autumn programmes over the next year.

Apprenticeship Levy Transfer

As an apprenticeship levy payer, Aldermore has used current funding rules to transfer a balance of £60,000 to Sandcastle Care Limited, an organisation that provides therapeutic care to children throughout the North of England. In line with ‘Backing people to go for it in life and business’, Aldermore recognises the post-pandemic skills shortage in this sector and has sought to contribute to this development gap. Through this funding ten colleagues will be supported in completing their Level 5 Children and Young Families Manager apprenticeship, growing their capability and being able to offer a great level of support and care to children who have suffered prior trauma.

Human Rights and Modern Slavery Act

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

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

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

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

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

Anti-Bribery

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

Section 172 Statement

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

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

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

The Directors recognise that effective stakeholder engagement is crucial to deliver long-term sustainable success. The Board balances competing stakeholder priorities by considering the long-term implications of its decisions, including considering the policies and decisions by the Shareholder. The Board engages with stakeholders directly and indirectly through management reporting, further details are set out below. Where matters are of Group-wide significance, decisions are made by the Board on behalf of the Company and its subsidiaries.

Customers

The Group serves UK-based consumers and SMEs, seeking specialist mortgages, savings accounts, motor finance and business finance solutions, and its business model puts the customer at the centre of product design and delivery. The Group continues to improve its capability and efficiency under the guidance of the Board, where the Board has reviewed customer satisfaction metrics, to improve the products and services provided to its customers.

Throughout the year, the Board, the Executive and Risk Committees regularly discussed, reviewed and challenged the Group's support to its customers, in particular reviewing customer satisfaction metrics and support to any affected vulnerable customers. Specific improvements to the Collections process identified in the review undertaken following the PRA's request to a sample of non-systemic deposit-takers in 2019, continue under the oversight of the Board. These include changes to processes, upskilling teams and automation, and are focused on promoting good customer outcomes. As described in the annual report and accounts, a number of adverse customer impacts resulting from actions overlooked during the height of the Covid-19 pandemic are being remediated and the Board continues to monitor progress.

The consumer is also a key area of focus for the FCA. The Group has continued to prepare for the implementation of the FCA's new Consumer Duty rules, which were released in July 2022 and will come into effect from 2023.

People

The wellbeing of colleagues continues to be one of the Board's key priorities. To help ease the rising cost of living, the Group this year made a payment of £1,000 to 1,465 colleagues. It also adopted new working practices and modified the organisation structures to support hybrid working, which has emerged as a more permanent feature.

Regular colleague surveys and workshops are conducted to help the leadership and the Board to identify and address any issues. The Board ensured that engagement was maintained during lockdown through means such as intranet communications, blog entries, internal networks, and newsletters. As Covid-19 restrictions were relaxed, the Board returned to holding meetings at regional offices where they met with individual business teams and the Executive team has held a number of Town Halls as part of the culture initiatives, which support colleague engagement and building team ethos.

Culture has been a key focus area for the Board and a review was commissioned to learn more about the behaviours and mindsets throughout the organisation, with areas identified as requiring development being actively addressed through the strategic review and implementation of a longer-term strategy.

The Board acknowledges its role in promoting, embracing and encouraging diversity and inclusiveness, and it is committed through its governance processes and priorities to removing barriers to diversity, inclusivity and fairness where they might exist. The Board has reviewed the Group's Gender Pay Gap and Women in Finance data, noting that the gender diversity in Senior Management is 21% which is below the target of 30% female representation. The Board supports Management's initiatives to improve the career progression of women in Financial Services, including initiatives to identify and nurture female talent through the Inspiring Future Female Leaders programme, internal and external mentoring programmes and an internal female network group. The Group aims to achieve 50% female representation in senior management by 2025.

The Board supports and endorses the initiatives and workstreams within the "Value our Differences" agenda, details of which are set out in the Sustainability section on page 26.

Suppliers and Distribution Partners

The Board receives regular management updates on supplier and distribution partners' performance. The Group's operating subsidiaries (MotoNovo Finance and Aldermore Bank) twice a year report their payment metrics, including the average time taken to pay supplier invoices.

During the six months ended June 2022, 77% of suppliers were paid within the pre-agreed period (88% in the six months ended December 2021). The reduction was because the Group moved to a new accounting general ledger system during which payments were held back for approximately a month so that the Group could safely transition to the new system in a controlled manner, after which payments were recommenced on normal terms. The Group continues to settle 91% of all invoices within 60 days.

In addition, the Board considered the annual statement setting out the steps taken to prevent modern slavery in the business and its supply chains. Further details are set out in the Group's Modern Slavery Statement, which is set out on page 32.

Community and Environment

The Group aims to back people who have been underserved by the bigger banks and give back to the communities it is part of. Details of how the Group supports the communities in which its customers and employees live and work are set out in the Sustainability section on page 26.

Climate change is a key focus for the Board. Supported by the Board Risk Committee, it has reviewed and approved a new climate change framework for the Group, setting out the Group's strategy, ambitions, and approach to reporting, together with a new climate dashboard. Further climate disclosures can be found in the Energy and Carbon Report on page 36.

Regulators

The Board strives for regular, open and transparent dialogue with the regulators, ensuring alignment on evolving regulatory priorities. Throughout the year, the Chair and Executive Directors have met with the PRA whilst Executive Directors, including the Chief Executive Officer, have met with the FCA. Additionally, the PRA held routine meetings with the Chair of the Board Risk Committee and the CRO, and other Non-Executive Directors. Executive Directors also met with the South African Reserve Bank, the Shareholder's regulator.

The regulatory engagement has focused on customer support and on the Group's response to the outcome of the PRA's 2021 Periodic Summary Meeting ("PSM") with the Board. The Group provided the PRA with a comprehensive action plan to promptly address the matters raised in the review. All points raised by the PRA have been addressed satisfactorily.

The Board regularly discusses regulatory developments and receives briefings and progress updates from Management on implementation. During the year, the Board received a briefing session on the PRA's priorities for 2022, including a training session on Supervisory Review and Evaluation Process ("SREP"), focusing on the Group's ICAAP and ongoing risk and capital management. The Group is currently working on a number of regulatory change initiatives, including the FCA's Consumer Duty, the Bank of England's Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") and BCBS 239 (the Basel Committee on Banking Supervision's principles for risk data aggregations and reporting).

Investors

The Shareholder is represented on the Board by two Shareholder Directors, Alan Pullinger and Harry Kellan, both of whom are members of the Board Risk Committee. Harry Kellan is a member of the Remuneration Committee. Shareholder representatives are also invited to attend Audit Committee meetings, and the Chair meets quarterly with the Chair of the shareholder.

The Group is represented on the First Rand Board and Board Committees by Executive Directors. The CRO represents the Group at the First Rand Risk, Capital Management and Compliance Committee. Our CEO represents the Group at the First Rand Board, the First Rand Remuneration Committee and the First Rand Strategic Executive Committee. Additionally, a number of committees and fora are attended by both First Rand and Group Executive Directors on a reciprocal basis, for example the Audit Committee, Credit Committee and the Sustainability and Governance Executive Committee.

The Senior Management team maintain regular dialogue with debt investors.

Energy and Carbon Reporting

Managing the financial risks from climate change

Climate change presents a serious threat to the wellbeing of people and societies. Aldermore has a long-term ambition to support the UK's transition to a net zero economy and recognises the importance of effective disclosures of climate-related risks and opportunities.

Although the requirements of the Taskforce on Climate-related Financial Disclosures ("TCFD") becomes binding on the Group for the next reporting year, our current year disclosures are enhanced and are aligned to the TCFD key thematic areas. We continue to work on developing our disclosures in line with the detailed TCFD guidance. This report reflects progress across:

- **Governance:** with clear board and management oversight established, supported by a Climate Risk Steering Group;
- **Strategy:** informed through qualitative and quantitative scenario analysis undertaken to better identify climate-related risks and opportunities;
- **Risk management:** including establishment of a Climate Change framework which sets out Aldermore's approach to: ambitions & commitments; climate risk appetite; climate governance (including roles & responsibilities); risk management and disclosure; and
- **Metrics & Targets:** climate-related metrics are now reported to Executive Risk Committee ("ERC") and Board Risk Committee ("BRC").

This report aims to transparently disclose the steps that Aldermore is taking to:

- Understand, measure, and manage climate-related risks to the business;
- Measure Aldermore's impact on climate change; and
- Develop products and solutions to support clients in their climate change mitigation and adaptation process.

Moving forward – developing our approach

Although there has been good progress, there is more to do. Aldermore has joined the 'Bankers for Net Zero' initiative and is committed to developing its net zero strategy with clearly defined targets over the next financial year. In line with our strategic refresh, the Group will develop stay ahead propositions which support greenhouse gas emissions reduction; understand the impact of Aldermore's lending on climate change and help customers to mitigate and adapt to a low carbon economy.

The table below outlines our progress across the TCFD's 11 recommended disclosures.

2021/22 progress
Governance
1. The board's oversight of climate-related risks and opportunities
• BRC is responsible for monitoring and reviewing the approach by which risks arising from climate change are managed, mitigated and included in risk management frameworks. This responsibility is codified in the BRC terms of reference. • BRC received two substantive climate risk updates during the financial year which included: ➢ Approval of the Climate Change Framework; ➢ Review of a climate risk dashboard, which includes metrics on climate risk management and portfolio alignment; and ➢ Review of a qualitative scenario walkthrough based on the Bank of England's Climate Biennial Exploratory Scenario ("CBES") 'Late Action' scenario. • Separately, a climate risk training session for the Board was held in October 2021. A Board skills matrix is maintained, which includes details on Board members' skills regarding environmental sustainability.

2. Management's role in assessing and managing climate-related risks and opportunities
• The Group CRO holds the Senior Management Function ("SMF") responsibilities for identifying and managing the financial risks from climate change. • The Group CRO chairs a monthly Climate Risk Steering Group to monitor progression of the climate risk programme. Matters are escalated to ERC as required, which has responsibility for reviewing how the financial risks from climate change are managed. • A Head of ESG & Sustainability has been appointed, with responsibility for defining the Group's Corporate Sustainability Approach. • Responsibilities across the 3 lines of defence in relation to climate risk are codified in the Climate Change Framework. • Aldermore engages with its parent, FirstRand on climate change, with management representation at the FirstRand Climate Steering Committee.
Strategy
3. Climate-related risks and opportunities identified over the short, medium and long term
• Aldermore has focused its scenario analysis on its Residential Mortgages and Motor Finance portfolios, reflecting their relative materiality. Specifically this has included: ➢ A qualitative scenario walkthrough, utilising the Bank of England's CBES late action scenario. This identified: potential climate-related business opportunities; the need for specific climate data and areas for future investigation. ➢ Quantitative scenario analysis aligned to the CBES early action, late action and no additional action scenarios. This included transitional risk analysis (Residential Mortgages and Motor Finance) and physical risk analysis (Residential Mortgages) aligned with Representative Concentration Pathways 2.6 (set against early action and late action) and 8.5 (set against no additional action). The scenario analysis and its implications are being worked through internally.
4. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
• A key component of the climate risk programme focuses on strategic solutions, and all three asset lines are developing proposals in this space. ➢ Residential Mortgages: The Group is reviewing the potential for offering green products and carrying out research on how to best support its customers. So far this has included: (1) educational communications to brokers on proposed Energy Performance Certificate ("EPC") changes and their impacts; and (2) initial research with landlord clients to understand their current readiness and awareness. The Group is considering criteria changes / underwriter guidance to manage transitional risk, and an EPC working group is developing a strategy around the energy efficiency of properties that Aldermore finances. ➢ Business Finance: The Group funds a variety of sustainable solutions for SMEs to help their green transition including: alternative fuelled vehicles; solar panels; and ground source heat pumps. From a Commercial Real Estate perspective, Aldermore has undertaken funding of Modern Methods of Construction and low carbon homes with a number of development deals. Research has been undertaken across SMEs to better understand trends and product requirements. Moving forward, a pillar of the Asset Finance business line will be focused on sustainable energy solutions. This will enable increased lending to green assets. ➢ Motor Finance: Aldermore has a full suite of products to write Electric Vehicles ("EV") including residual value PCP. The Group is beginning to monitor the CO2 levels emitted in its financed book where the data is available and exists, with a view to developing policies and procedures to limit and reduce levels of CO2 financed in the future. As part of this work Aldermore will also be looking at how it as a business can better serve the growing used EV market.

5. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario
• Aldermore substantially increased its climate scenario analysis capabilities during the financial year, which is facilitating an understanding of the impacts of different climate pathways on Aldermore's strategy. The 2021 ICAAP assessed climate risk impacts on the Group's capital base, and the 2022 ICAAP will consider quantitative transition and physical risk analysis leveraging CBES scenarios.
Risk management
6. Describe the organisation's processes for identifying and assessing climate-related risks
• Scenario analysis is an important mechanism by which climate-related risks are identified and understood. Quantitative and qualitative scenario analysis has been undertaken in the financial year. • A climate risk dashboard was developed and presented to the BRC in November 2021. This now forms an important component of climate reporting and is outlined further within the Metrics & Targets section (see below). • The Group is integrated into industry working groups, e.g. UNEP-FI via FirstRand and UK Finance workstreams. This has been valuable in leveraging industry experience to develop its own internal identification / assessment capabilities. • Customer engagement (e.g. through research carried out amongst landlord clients) enables an understanding of preparedness for future changes.
7. Describe the organisation's processes for managing climate-related risks.
• The Climate Change Framework outlines Aldermore's approach to identifying, managing, mitigating and disclosing climate-related risks and opportunities. This includes leveraging MI to enable a consistent and improved understanding at management and board level of our exposure to transition risk. The specific metrics are explored further in the Metrics & Targets section below. • Throughout the financial year Aldermore has invested in capabilities to map, measure and monitor climate risk. Data specialists have undertaken analysis of the Group's EPC and flood risk profiles; and scenario analysis has been supported by an external party. Such investment will continue to support the Group's climate risk programme. • Aldermore has undertaken an exercise to understand how climate impacts its principal risks. This has resulted in: reviewing controls; updating policies / frameworks and agreeing future work across risk types as appropriate. The Group has also undertaken a Risk and Control Self-Assessment review and issued refreshed guidance to relevant business owners around climate risk impacts.
8. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
• Key policies and frameworks have been updated to reflect climate risk, including the: Risk Management Framework; Risk Appetite Framework; Credit Risk Management Framework; Stress Testing Framework; Operational Risk Framework; Reputational Risk Policy; Operational Resilience Framework and Group Product Management Policy.

Metrics and targets
9. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
• A variety of metrics are incorporated into the climate risk dashboard. The dashboard reflects industry guidance and includes metrics across: ➢ Climate Risk Management: measures that relate to balance sheet impacts. This covers transitional risks (e.g. Property EPC ratings); and physical risk (e.g. exposure to flood risk); ➢ Portfolio alignment: The impact that Aldermore has on the climate. This currently monitors financed emissions across Residential Mortgages and Motor Finance; ➢ Regulatory: Progress against meeting regulatory expectations on climate risk; ➢ Disclosures: Alignment of Aldermore's disclosures with TCFD recommendations; ➢ Audit findings: Group Internal Audit findings related to climate risk; and ➢ Operations: Greenhouse Gas emissions of business operations, and operational resilience.
10. Disclose scope 1, scope 2 and, if appropriate, scope 3 GHG emissions, and the related risks
• In the current financial year Aldermore has developed its approach to reporting Scope 3 emissions. The Group is intending to disclose the financed emissions associated with its Residential Mortgages and Motor Finance portfolios within its next TCFD aligned report. • Disclosures have been included for the Group's operational emissions, covering Scopes 1, 2 and 3 (business travel only).
11. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.
• Aldermore agreed a qualitative climate risk appetite statement that was codified in the Climate Change Framework. • Aldermore is developing targets to manage climate-related risks and opportunities. These are being worked through, and in June 2022 Aldermore joined the Bankers for Net Zero industry group.

Energy consumption and Greenhouse Gases ("GHG") emissions

Aldermore measures emissions arising from its own operations to understand the Group's direct impact on climate change. It also allows future changes in these emissions to be monitored, whether because of initiatives to reduce its environmental impact or from the realisation of any transitional or physical climate risks.

Scope 1, Scope 2 and Scope 3 emissions are calculated annually as part of the Group's Streamlined Energy and Carbon Reporting ("SECR") obligations, specifically:

Buildings:

- Electricity and invoices or meter readings; and
- Natural gas invoices or meter readings (where applicable).

Business Travel:

- Company owned vehicle fuel use or mileage; and
- Employee-owned vehicle business miles.

As Aldermore has premises in eight multi-tenanted buildings, all managed by different organisations, the Group is reliant in most cases on building management to provide details of energy use. Wherever possible, the Group calculates its emissions based on known actual energy use. Where only full building data is not available, logic is applied based on floor space occupied to apportion this accordingly. In the absence of metered consumption or cost data the Group uses industry benchmarks to assess energy use of a per square meter basis. The Group saw a significant increase in its consumption during financial year 2022 mainly reflecting the partial closure of office and floor space in 2020/21 due to Covid-19. All office space has now re-opened.

Breakdown of energy consumption used to calculate emissions (kWh):	**Year ended 30 June 2022**	**Year ended 30 June 2021**
Company owned vehicles	162 763	159 935
Electricity	901 310	702 041
Natural Gas	1 162 244	160 209
Employee owned vehicles where the Group purchases the fuel	266 323	29 986
Total gross energy consumed	**2 492 640**	**1 052 171**

Breakdown of emissions associated with the reported energy use (tCO_2e)	**Year ended 30 June 2022**	**Year ended 30 June 2021**
Scope 1		
Company owned vehicles	212.9	39.8
Natural Gas	40.0	29.5
Total Scope 1	**252.9**	**69.3**
Scope 2		
Electricity	191.4	163.7
Total Scope 2	**191.4**	**163.7**
Scope 3		
Employee owned vehicles where the Group purchases the fuel	65.7	7.7
Total Scope 3	**65.7**	**7.7**
Total gross emissions	**510.0**	**240.7**

Measuring our scope 3 emissions is a work in progress. The Group is now collating data on:

- Waste generated;
- Water use; and
- Air travel for business purposes.

Future iterations of reporting will include these emissions. As with energy usage, waste and water data will be logically apportioned where only available for the whole building.

Intensity Ratio

The Group has chosen to use gross tonnes of carbon dioxide equivalent emissions per employee. This metric is chosen as it is the most readily available and complete data over the period and helps 'normalise' the data.

	Year ended 30 June 2022	Year ended 30 June 2021	Change %
Tonnes of CO_2e per employee[1]	0.23	0.12	92%

[1] Average number of employees within the reporting period was 2,198 (2021: 2,029).

Own emissions actions during the financial year

The management of resources is an important issue for the Group. Some of the actions implemented follow recommendations that were identified in the latest Energy Savings Opportunity Scheme ("ESOS") audits. In the period 1 July 2021 to 30 June 2022, the following actions have been taken to improve energy efficiency decrease operational emissions:

- Review of company car offering to promote use of hybrid or electric vehicles; and
- Regular reporting to the ESG Steering Group.

Reviewed and implemented office-based initiative as highlighted in the ESOS audit, including:

- Use of Zip Taps in Eco mode for supply of boiling water and removal of kettles;
- Timer switches on coffee machines;
- Review of more environmentally friendly office supplies;
- Contacted Landlords to request regular information regarding building led green initiatives;
- Surplus office furniture donated to charity for resale rather than disposal; and
- Review of Aldermore-held energy contracts to maximise renewable energy use.

Focus areas for next financial year – operational emissions

As Aldermore prepares for ESOS reporting in 2023, the Group is looking beyond the requirements for this reporting to incorporate a wider environmental audit and understanding of its current carbon footprint with the support of a specialist supplier. Fleet vehicles continue to be an area of focus, looking to transition as many drivers over to hybrid or electric vehicles as possible, including a number of those who are currently in receipt of a car allowance while driving their own vehicle. The Group's property strategy will be reviewed in line with its people strategy and once any impact on footprint is clarified, it will be able to understand the impact and opportunities to improve energy efficiencies across its estate.

This Strategic Report on pages 6 to 19 and the principal risks and uncertainties on pages 71 to 77, were approved by the Board and signed on its behalf by:

Ralph Coates

Director

6 September 2022

04

Corporate Governance

Corporate Governance Structure

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

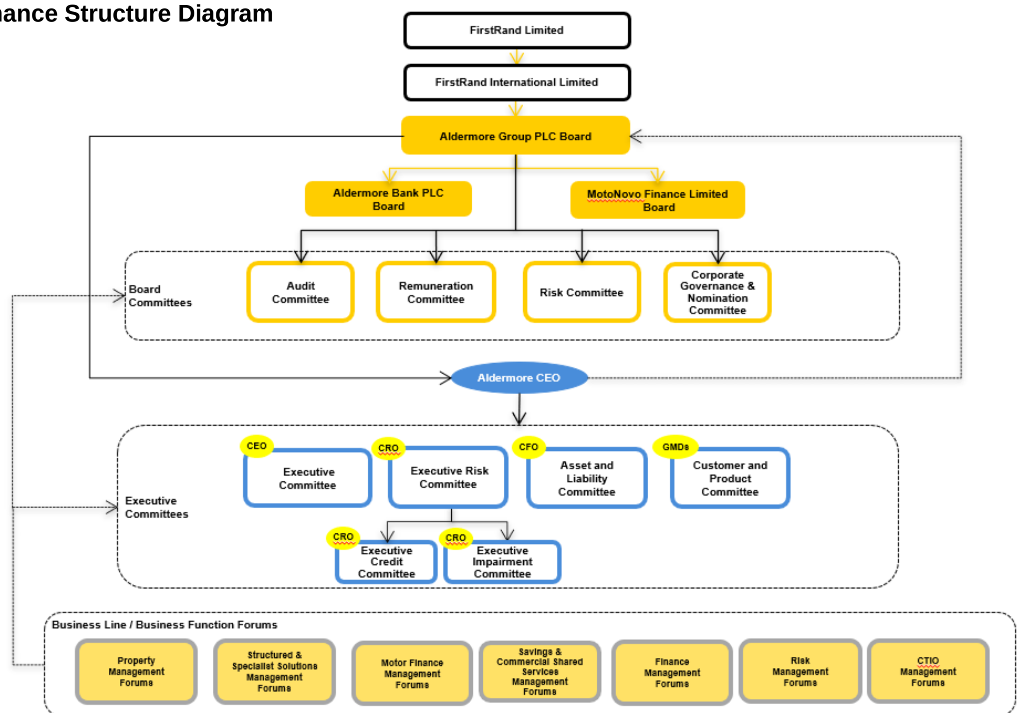
The Boards of Aldermore Group and its subsidiary undertakings are committed to implementing a well-defined and well-structured corporate governance framework to achieve long-term sustainable success.

Aldermore Bank and MotoNovo Finance are wholly owned operating subsidiaries of the Aldermore Group. The Boards of the Group, the Bank and MotoNovo Finance generally meet concurrently. The Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. MotoNovo Finance is authorised and regulated by the FCA.

The Board is committed to the highest standards of corporate governance and best practice. The Board recognises that effective governance is key to the implementation of our strategy for our shareholder and wider stakeholders. Aldermore Group has applied the Wates Corporate Governance Principles for Large Private Companies for its financial year ended 30 June 2022.

During the winter of 2021, the Risk department undertook a governance review of the Credit Risk function, with the objective of defining a better governance framework with clearly defined roles and responsibilities to manage the Group's Risk Appetite and govern the Risk Management Framework more effectively. The review of Credit Risk governance specifically, was prioritised as a part of enhancements to our Risk capability and frameworks (Risk Framework 2.0) in order to stand up an enhanced governance approach for impairments ahead of the half-year financial reporting period. The new Credit Risk Governance Structure requires increased focus on Credit Risk at the executive level, and therefore a Credit Committee and Impairment Committee were implemented as sub-committees to the Executive Risk Committee, addressing issues raised head on and promoting effective and efficient use of management and resources. The new structure was approved by the Board Risk Committee ("BRC") and implemented in December 2021.

Governance Structure Diagram



The Wates Corporate Governance Principles

As per the prior year, the Group has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles" or the "Principles"), published by the Financial Reporting Council ("FRC") in December 2018.

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

The table below summarises the six Wates Principles and explains how each one has been applied by the Board and indicates where more information can be found in the strategic and governance reports. Throughout 2022/23, the Board will continue to review opportunities to strengthen corporate governance.

Principle	Summary	Page
Purpose and leadership	The Board is responsible for the overall leadership of the Group, and for promoting the Group's culture and values, while at the same time considering how to implement policies and decisions made by the shareholder. It is responsible for approval of the Group's strategic plans, which aim to generate long-term sustainable value. Our Purpose – *"Back more people to go for it, in life and business"* – is why we exist. Our cultural values drive us forward and together we embrace challenge and identify opportunities to help those that others turn their backs on, looking for ways to say yes, rather than no, and focusing on people's future potential. We are committed to good customer outcomes, being fairer, more inclusive and making finance work for good, getting money to where it is needed and helping our economy prosper. We have supported small and medium sized businesses ("SMEs") and served society for over 13 years. SMEs drive growth and provide employment opportunities and by supporting these businesses and helping them get access to finance, we contribute to a more prosperous society. For example, we are committed to playing a key role in levelling up the UK by leading on widening access to responsible credit and closing the savings gap (goal 7). Our commitment is part of our approach to providing shared value so we are building our business around social good. It is about setting us apart from our peers, boosting our success and ultimately making a meaningful impact on the UK economy and society overall. We have also supported 22 events across 39 term-time weeks, ranging from large-scale initiatives such as careers fairs and region-wide workshops to more localised requests from individual schools, colleges and universities. We are really proud to have introduced a new, mobile-first financial education resource to help young people build their financial confidence. It'll be rolled out to up to 305 schools in Cardiff and Greater Manchester and will have a particular focus on those schools from more deprived socio-economic areas.	6 26 31

Board composition	The Board comprises eleven directors – the Chair, two executive directors, six independent non-executive directors, and two shareholder non-executive directors. The non-executive directors bring outside experience across a range of areas, including finance, banking, strategy, risk, communications, brand, and technology, and provide constructive challenge and influence. In addition, in August 2021, we appointed an apprentice independent non-executive director, who is an observer rather than a director. The Board also comprises 2 shareholder directors from the Group's parent FirstRand. The Board believes that diversity is an important ingredient of board effectiveness, and that a diverse board will bring richer and more broad-based perspectives to governance and decision-making. The Board adopted the targets of the Hampton-Alexander Review (33% female representation on the Board) and the Parker Review (one director of colour on the Board) in February 2021, as part of a longer-term aspiration for the composition of the Board to broadly match the gender mix of the UK population. As at the date of this report, the representation of women on our Board stands at 27% and the Board's membership includes one director who identifies as being a person of colour. The Board also acknowledges its leadership role, beyond Board composition, to promote the Group's broader societal responsibility to embrace and encourage diversity and inclusiveness. The Board has committed to encouraging people to uphold values and behaviours that promote diversity and inclusiveness, that ensure fairness of opportunities, and that remove any barriers to diversity, inclusivity, and fairness where they might exist, through its governance processes and priorities. All Board appointments are subject to a formal, rigorous and transparent procedure and are made on individual merit against a defined job specification and criteria. The Company seeks to ensure that at least half the Board, excluding the Chair, is made up of independent non-executive directors. The Company aims to have a Board that brings perspectives, skills and experiences from a wide range of backgrounds and disciplines. The Board appointment process is overseen by the Board Corporate Governance and Nomination Committee, which ensures candidates from a diverse range of backgrounds are considered on merit and against objective criteria. The process includes consideration of the impact individual candidates will have on overall Board diversity. The effectiveness of the Board and its committees has been formally evaluated on an annual basis by means of completion of a self-assessment questionnaire by each Board member, followed by review meetings between the Chair and individual directors. Progress against recommendations arising from the annual effectiveness review is monitored by the Board, and findings inform Board succession planning. Following the review in 2021, and the implementation of learnings gleaned from this which included strengthening the Board composition by adding more digital experience and prioritising female candidates, which resulted in two new, female, directors being appointed as well as our apprentice independent non-executive director (also female), the Board decided that, in order to allow our new directors appropriate time to settle into their roles, the next Board Effectiveness Review would be carried out in January 2023. The Corporate Governance and Nomination Committee held a discussion on the effectiveness and composition of the Board and its committees during the year and was satisfied that they remain effective and that the directors continue to demonstrate commitment to their roles.	6 57 26

Directors' Responsibilities	The Board has a non-executive Chair to ensure that the balance of responsibilities, accountabilities and decision making is effectively maintained. The non-executive directors provide constructive challenge in the Board's decision-making processes. The Board receives regular reports on business, financial performance, colleague matters and engagement, stakeholders and key business risks. The Board has established an Audit Committee, a Risk Committee, a Remuneration Committee and a Corporate Governance and Nomination Committee. Each of these committees has clearly defined Terms of Reference, and the Board receives regular updates on the activities and decisions of each committee. The Audit Committee is comprised entirely of independent non-executive directors and the Risk, Remuneration and Corporate Governance and Nomination Committees are comprised entirely of non-executive directors, the majority of whom are independent. The Board regularly reviews governance processes, the quality and integrity of management information and the effectiveness of internal processes and controls.	61
Opportunity and Risk	Long-term strategic opportunities are evaluated by the Board. The Board has been involved in the development of the new strategy. The Risk Committee plays a key role in providing oversight and advice to the Board on the current risk exposures and future risk strategy of the Group, including the transformation of the Group's Risk Management Framework. It also oversees performance against the Group's approved risk appetite. The Executive Risk Committee assists the Chief Risk Officer in designing and embedding the Group's Risk Management Framework, monitoring adherence to risk appetite statements, and identifying, assessing and controlling the principal risks within the Group.	50
Remuneration	The Remuneration Committee has clearly defined terms of reference and is responsible for setting the Group's remuneration policy and recommending and monitoring the level and structure of remuneration for the Chair of the Board, all executive directors, members of the senior leadership team, and any identified staff, including pension rights and any compensation payments. The Remuneration Committee oversees development and implementation of remuneration policies and practices consistent with Group's purpose, values strategy and with aim of promoting long term sustainable success of the Group and remuneration policies have been recommended to the Board for approval. Pay is aligned with performance, considering fair pay and conditions across the Group's workforce. Details of remuneration structures are set out in the Remuneration Committee Report on page 58. The Committee takes advice from independent external consultants who provide updates on legislative requirements, market best practice and remuneration benchmarking	57
Stakeholder relationships and engagement	At the heart of our business is our Purpose – "*Back more people to go for it, in life and business"*. It is a statement fundamentally aimed at our customers (including our intermediary partners) because they are the reason we exist, and it signifies the role we play in building loyalty with customers colleagues and partners by anticipating and responding to their changing needs and circumstances. The Section 172(1) Statement on pages 33 to 35 sets out the details of some of the engagement that takes place at an operational or Group-level with key stakeholders. Additionally, our Strategic Review pages 6 to 19 sets out how the business continues to deliver for our customers, communities and stakeholders.	31 6

Audit Committee Report

I am pleased to present the Audit Committee's report for the year ended 30 June 2022. It has been a challenging year and, as noted in the report below, the Committee has spent much time considering the economic impacts of high inflation and other macro-economic impacts of the post pandemic recovery and the war in Ukraine on our loan loss provisions, where the level of uncertainty as to the future outlook has been unprecedentedly high. We have also continued to monitor the impact of working from home on our internal control environment. There have been a couple of changes to the composition of the Committee over the year and I would like to thank Cathy Turner for her invaluable contribution to the Committee and to welcome Romy Murray.

The Committee is comprised of Independent Non-Executive Directors. I was appointed Chair of the Committee in May 2014 and, as a qualified Chartered Accountant, act as the Committee member required to have recent and relevant financial experience. The Board has confirmed that it remains satisfied with my experience. The other members of the Committee are Richard Banks (appointed 1 September 2020), Desmond Crowley (appointed 1 May 2020) and Romy Murray (appointed 1 August 2021). Cathy Turner stepped down as a member of the Committee on 31 March 2022.

The Committee's principal responsibilities are:

- **Monitoring the integrity of the Group's financial statements, including reviewing whether appropriate accounting standards have been followed, and reviewing key areas of judgement.**

  During 2021/22, the Committee:

  - Approved the Pillar 3 disclosures as at 30 June 2021 and the associated Pillar 3 Reporting Policy;
  - Reviewed a summary of Deloitte's findings of the calculation of the Group's expected credit losses ('ECL') estimate from the prior year audit, which, highlighted a number of areas that required attention. It reviewed management's action plan for addressing these areas and received frequent updates on progress made. Overall, the Committee satisfied itself that management's response plan and the controls put in place to improve the overall accuracy and completeness of the Group's ECL were robust;
  - Received regular updates on progress made to implement a new organisation-wide General Ledger system which was successfully delivered in March 2022;
  - Recommended the Annual Report and Accounts of the Company, the Bank and MotoNovo Finance, for the year-ended 30 June 2022, to the respective Boards for approval;
  - Significant matters and key areas of judgement reviewed by the Committee in respect of the Annual Report and Accounts for the year to 30 June 2022 were:
    - Loan impairment provisions, reviewing the Group's approach to applying the IFRS 9 accounting standard. The key assumptions and judgements underlying the provisions, including management overlays and post model adjustments for identified issues not fully covered by the provisioning models were challenged and reviewed, notably the impact of affordability on the Group's portfolios given the current cost of living crisis and the unwind of previous provisions held for the impact of Covid-19. In addition, the Committee considered the accuracy and validity of forward-looking indicators ("FLI"), including the new constrained forward looking indicator models ("C-FLI") adopted across all portfolios and used to incorporate forward looking macro-economic forecasts within the expected credit loss calculation. In particular, this year the Committee also:

- Monitored the sensitivity of the Group's macroeconomic scenarios from inputs developed by in-house specialists from the Group's parent, FirstRand and Aldermore; and
- Monitored the expected impacts to the ECL engine for the financial year-end arising from remediation activity across the Group. The Committee concluded the management's approach and assumptions around IFRS 9 impairments were appropriate and reflected fairly in the associated disclosures contained in the financial statements.
- Assumptions on loan asset expected lives within the Effective Interest Rate ("EIR") accounting models. They were rebuilt during the year, with the transitional changes made agreed as a change in accounting estimate. The impact from the current cost of living crisis on customer behaviour was also assessed. The Committee endorsed the judgements made by management
- Impacts of ongoing remediation activity across the Group and that the associated costs of remediation were appropriately recorded in the financial statements. The Committee were content that the items had been fairly disclosed.

- The Committee recommended that the Group's Annual Report and Accounts should be prepared on a Going Concern basis and the statement should be approved by the Board, following a detailed review of the underlying analysis prepared by management and the relevant disclosures in the financial statements.

- **Monitoring the effectiveness of the Group's internal control systems.**
  During 2021/22, the Committee:
  - Reviewed the final observations from the external auditor, Deloitte LLP ("Deloitte") arising from the testing of the Group's internal controls relevant to the audit of the financial statements for the year ended 30 June 2021 and the interim observations arising from the audit for the year ended 30 June 2022;
  - Considered the findings of the Group Internal Audit ("GIA") function's programme of audit reviews throughout the year;
  - Approved the annual Money Laundering Officer's report;
  - Assessed the Group's systems of risk management and internal controls, including a specific assessment that the financial statements were free from material error due to fraud;
  - Ratified the findings of an assessment of the Group's internal financials controls at year end 2022 to fulfil listing requirements for FirstRand Limited; and
  - Assessed the Group's systems of risk management and internal controls and following the annual review of the Group's disclosure controls and associated procedures concluded that, overall, the internal control environment was satisfactory and that the controls and procedures in place remained fit for purpose.

- **Reviewing the effectiveness of the Group Internal Audit ("GIA") function and reviewing GIA reports and monitoring management's responsiveness to findings and recommendations.**
  The GIA effectiveness review was undertaken in the first quarter of 2021/22 and, overall, the Committee concluded that the GIA effectiveness review responses had been positive from both Committee members and Management and that GIA was sufficiently resourced and effective.
  Specifically, during 2021/22, the Committee:
  - Approved audit plans for GIA reviews across both Aldermore and the MotoNovo Finance business covering the period from July 2022 to June 2023;
  - Approved an updated GIA Charter, which sets out the mandate and remit of the function;
  - Approved the GIA 2022/23 Skills and Capability Self-Assessment;

  - Reviewed quarterly reports from GIA on the output of the function's work, progress against the plans for 2021 to 2022 and management's progress on remediation of issues; and
  - I met regularly with the Director of GIA and also met with the members of his team. The Committee also held a private session with the Director of GIA and a number of the senior members of the team made presentations to the Committee.

Following the resignation of the Director of GIA in March 2022, I was involved in the recruitment of a well-qualified interim replacement and continuing involvement in the search for a permanent replacement.

- **Overseeing the relationship with and independence of the external auditor, Deloitte, appointed with effect from 1 January 2017.**
  Specifically, during 2021/2022, the Committee:
  - Reviewed the external audit plan for 2021/2022, as well as Deloitte's terms of engagement and approved their 2021/22 fee proposal for the audit of the Group accounts for the year ended 30 June 2022. This review included consideration of the experience of the audit team assigned;
  - Approved the fees for the work undertaken to perform a set of specified procedures as requested by the FirstRand Group auditors;
  - Considered the external auditor's assessment of their own independence;
  - Reviewed the Group's Combined Policy on Non-Audit Services, Auditor Independence and employment of former employees of the Auditor and approved non-audit services provided by the external auditor. The Committee monitored adherence to additional governance requirements in relation to the engagement for non-audit services of PricewaterhouseCoopers LLP, joint auditor with Deloitte for the FirstRand Group;
  - Reviewed control observations made by the external auditor, including management's responses;
  - Reviewed representation letters to the external auditor and recommended these for Board approval;
  - Met privately with the senior members of the Deloitte audit team. In addition, I met regularly with Deloitte during the period to facilitate effective and timely communication; and
  - Assessed the effectiveness of the external auditor and recommended the re-appointment of the external auditor. In addition to the matters above, this assessment considered the Deloitte audit team's contribution to the Audit Committee's discussions.

- **Other activities**

Following the publication by the PRA of its "Dear CEO" letter on thematic findings on the reliability of regulatory reporting, it was agreed that the Committee would receive quarterly updates on regulatory reporting. The inaugural report was received by the Committee in Q3 of the financial year and included an update on regulatory reporting developments and how they impacted the Group, an overview of the regulatory developments over the past quarter, details on progress of the Group's regulatory reporting automation programme and a detailed comparison of the Bank's regulatory reporting metrics to the PRA in the UK and the Prudential Authority ("PA") in South Africa.

The Committee also carried out a review of its own Terms of Reference during 2021/22. A number of minor updates were recommended to and approved by the Board.

John Hitchins
Audit Committee Chair

Risk Committee Report

I am pleased to present my report as Chair of the Risk Committee (the "Committee"). It has been a uniquely challenging period as we have managed risk through the challenges presented by Covid-19, only to face into global economic uncertainty, rising inflation and cost of living in the UK, increasing threats of climate change, and the war in Ukraine and the impact on food and power supplies.

It is the role of the Risk Committee to provide oversight of and advice to the Board on the current and potential horizon risk exposures and the future risk strategy of the Group. This includes ongoing refinement and implementation of the Group's Risk Management Framework and making recommendations to the Board to ensure compliance with the Group's approved risk appetite.

The Committee is comprised of Non-Executive Directors. I was appointed as a member on 1 September 2020, and as Chair with effect from 21 December 2020. The other members of the Committee are Desmond Crowley (appointed 1 May 2020), Ruth Handcock (appointed 1 October 2021) John Hitchins (appointed 28 May 2014), Harry Kellan (appointed 1 July 2020), Romy Murray (appointed 1 August 2021) and Alan Pullinger (appointed 1 July 2020).

The Group's Risk and Compliance functions are led by Andrew Lewis, the Group's Chief Risk Officer ("CRO"), who joined the Group in November 2020. In addition to its standing members, meetings of the Committee are attended by the CRO, the Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and as required, other senior managers. The Group's Internal Audit Director, and the Group's external auditor also attend. This ensures that the Committee has a collegiate and open relationship with the business.

The Committee places great importance on its relationship with our regulators and continues to maintain an open and transparent relationship. Throughout the year the Committee has considered feedback provided by them, as part of ongoing regulatory reviews and activities both specific to the Aldermore Group and industry-wide. An important aspect of maintaining good relationships is healthy dialogue and to openly discuss matters with our regulators across a number of topics, inter alia Covid-19, maturity of the risk management framework, credit quality, the Internal Capital Adequacy Assessment Process ("ICAAP") and thematic reviews. There have been regular meetings with our regulators involving both myself, as the Chair of the Risk committee, and Andrew Lewis as CRO.

Areas of focus

Government financial support programmes in relation to Covid-19 were gradually phased out over the summer and early autumn of 2021 as public restrictions were lifted and the economy reopened. The lasting impacts of Covid-19 remain to be seen, with continued financial stresses and risks experienced by our customers, as well as our business, and our people. In preparation for the end of the Government's Covid-19 support schemes, and since then the Committee has continued to assess operational capacity and change management risks to ensure that the Group is well placed to support our customers, in particular our vulnerable customers, and to ensure positive outcomes. In parallel the Group's credit risk profile and credit capabilities have been the subject of continued scrutiny by the Committee.

The collective challenges and risks faced by businesses are in many ways unprecedented and against this backdrop the Group has successfully evolved and matured its Risk Management Framework.

The Risk Management Framework 2.0 ("RMF 2.0") has been a key area of focus for the Committee during the year as Andrew Lewis led the business through the process. The Committee was regularly engaged on progress and the challenges of the key elements of this change, the three layers of risk management: (i) Strategic Risk Objectives; (ii) Top-Down Risk Appetite approach (macro-control environment); and (iii) Bottom-Up Risk Appetite approach (micro-control environment). Implementation of the revised Risk Appetite framework has resulted in several shifts in business-as-usual activity, such as how and where work gets done, the development of staff capabilities and improvements in processes from digitisation and automation. The latter investment is focussed improving the customer experience to ensure good outcomes.

The integration of MotoNovo's operations and a new operational target operating model focussed on functionalising activities across the whole Group to maximise efficiencies thorough best practice whilst minimising risk has also been a focus for the Committee.

The Committee received detailed monthly briefings from the CRO, supported by the CEO, CFO and others. Additionally, regular, key focus areas were discussed, ad-hoc presentations were given by senior management or subject matter experts, and a programme of deep dives on specific subjects was provided. This aims to ensure that the Committee is kept informed of progress being made across the Group, and that the work being undertaken is demonstrably cohesive, joined-up work. For example, sharing lessons learned or bringing together areas of expertise. Examples of key focus areas that were regularly reviewed and discussed include Credit Risk modelling, change management and ICAAP stress testing; additionally, the Committee has been engaged in the development of the Group's Climate Change Framework.

Other key matters discussed by the Committee are set out below. Additionally, set out on pages 71 to 77 is a summary of the Group's principal risks and key mitigants, together with an overview of emerging risks, and recent and anticipated future developments. More information on the Group's approach to risk management, the governance framework for managing risks and stress testing, together with a full analysis of the Group's principal risks, can be found in the risk management section on pages 67 to 96.

The structure and format of meetings of the Committee enable its members to provide challenge, oversight and to bring their broad external perspectives and expertise to bear on developments. As Chair, it is my responsibility to ensure that all members have opportunities to contribute during meetings, allowing adequate time for questions, and extending the same opportunity to members who cannot attend by taking their questions offline and ensuring these are represented during meetings.

Covid-19

The ongoing risks and associated impacts of Covid-19 has remained a key focus for the Group and the Committee, whose role has been to review and challenge the risks arising as the economy emerges from the crisis, understanding the impact they will have on the Group's risk profile. The circumstances surrounding Covid-19 have changed somewhat, the economy has slowly re-opened and public restrictions have lifted. As previously mentioned the Government withdrew the financial packages and support available to individuals and businesses throughout the year, presenting new risks and stresses to the finances of our customers and business, including the increased risks of forbearance. Discussions by the Committee centred on operational resilience, liquidity and funding considerations and the impact of material increases in forbearance. Particular focus was on our vulnerable customers, to ensure the business was well placed to provide the appropriate support and to ensure the best possible outcomes could be achieved. There was evidence of spikes in defaults attributed to the impacts of Covid-19, however, these were appropriately managed within risk appetite and, importantly, affected customers were supported. Whilst not underplaying the implications of Covid-19 these risks have been overtaken to a large extent by the impact of inflation and general economic uncertainty.

Other areas of focus

The Committee continued to focus on its core responsibilities. The monthly CRO briefings and the series of regular key focus areas were supported by deep dives. This included areas such as Complaints Management, Higher Risk Characteristics, Change Risk Management, Retail Finance Credit, Business Finance Credit, Motor Credit, Credit Risk Modelling, Operational Resilience and Data and Cloud Risk. The Committee considers these to be an important component of proactive risk management. The content has been high of quality, presented by knowledgeable, skilled professionals in their fields, which has created the right environment for value-add discussions. These, together with the focussed reports from the senior executives support the Committee in its assessment of the Group's principal risks.

Overarching risk profile

The Committee carried out reviews across the Group's principal risks on a regular basis. In addition, the Committee approved changes to risk metrics, triggers and limits, as well as the introduction of the RMF 2.0 which has improved risk management, risk reporting, risk collaboration across the business and as a consequence enhanced clarity between risk and reward in writing new business.

Risk Frameworks and Policies

The Committee reviewed and approved a comprehensive annual review of the Group's policy framework. This review included changes to the process for reviewing policies and introduced some new policies. Additional recommendations have been made to integrate policies across the business where possible, to simplify policies so that they are more easily read by users and to create a consistent approach to expectations and requirements. In particular the Committee approved reviews of the effectiveness of Risk Frameworks and polices during the year, which included the Market Risk Management Framework, Capital Investment Policy, Conduct Risk Management Framework, Reputational Risk Policy, Market Risk Policy and Credit Risk Appetite Framework. The Committee also carried out a review of its own Terms of Reference during 2022/23 and a number of minor updates were recommended to and approved by the Board.

Risk culture

The Committee is required to review the Group's risk culture and the effectiveness of its embedding across the Group on an ongoing basis and during the year the Committee received management's qualitative assessment of risk culture. The need for the risk management framework to evolve, to reflect the maturity of the business, is evidenced through RMF 2.0. The tone from the top led by the CEO, the Executive Committee and supported by the People Function have enhanced the risk culture throughout the business. For example, introducing a common language and taxonomy, together with training and communications reinforcing the need for positive behaviours, with all staff having individual risk responsibilities. Additionally, the Committee have given consideration to a scorecard framework for assessing risk culture at the senior levels within the organisation. This has been recommended for review and approval by the Remuneration Committee.

Credit risk

The credit risk profile of the Group is closely scrutinised by the Committee, with regular reporting to demonstrate the Group performance against risk appetite statements and risk metrics. The unusual economic conditions have ensured that credit risk remains in the spotlight, with particular focus on non-performing loans. Tracking trends enables the Group to respond to and get in front of changing conditions, whilst ensuring good outcomes for customers. Regular reporting of credit risk data informs the Committee of business performance overall and how this impacts on earnings, capital and liquidity.

As part of RMF 2.0, a new Credit Risk Appetite Framework 2.0 ("CRAF 2.0") was reviewed and approved by the Committee. This introduced how the business would deliver on the third layer of RMF 2.0, the Bottom-Up Risk Appetite approach. Aligned to the Strategic Risk Objectives and Top-Down Risk Appetite, the Committee reviewed and approved the new control environment under CRAF 2.0, considering how this feeds into credit monitoring and reporting and the operational model that underpins this.

Capital and liquidity risk

The Committee received regular updates and reports on the Group's capital and liquidity risks, including actual and forecast levels in relation to key risk appetite framework metrics. The Group performed detailed annual assessments of its liquidity and capital within its Internal Liquidity Adequacy Assessment Process ("ILAAP") and Internal Capital Adequacy Assessment Process ("ICAAP"). The Committee scrutinised and approved the Group's ILAPP and ICAAP during the year, receiving regular updates, presentations and reports throughout the process.

The Committee reviewed and approved changes to the Capital Investment Policy following an annual review.

Market risk

The Group has a low risk appetite for Market Risk as it does not have a strategic intention to profit from market risk. Although the Group does not seek to take market risk, the Committee reviewed the interest rate risk that the Group carries as part of the ICAAP review process and reviewed an updated Market Risk Management Framework as part of the annual review process, approving changes to the document.

Operational risk

The Group's operational risk profile and operational resilience has been another key area of focus for the Committee. Although some operational risks associated with Covid-19 have dissipated, we have identified a number of customers where process failures arising from our response to the Covid-19 epidemic may not have led to the best outcome for the customer and remediation work is being undertaken. There also remains a level of uncertainty both in the context of the impact on our customers and on our people. Additional areas of focus and discussion have centred around Credit Risk, Collections, Risk Framework and Governance, Remediations, Resource and emerging trends in the employment market, introduction of the FCA's new principle of Consumer Duty and more recently the war in Ukraine. The Group has implemented organisational design changes throughout the year, including changes to the risk management function, responsibilities and governance, which the Committee has closely monitored. The Group's overall Change Management programme has been under close scrutiny and challenge by the Committee.

Unusual behaviours in the employment market gave rise to the so called "Great Resignation" during 2021; although this was witnessed early in 2021, it came to prominence in the summer with unprecedented levels of job changing taking place and vacancies arising in the employment market. This posed a threat to operational capability and was kept under close review by the Committee with the CEO and CRO overseeing the Group's tactical and strategic approach to managing the issue included adapting to new ways of working.

The ever-evolving threat to cyber security, data protection and information security, continues to move at pace which has led to an elevated focus by the Committee. Regular reports and risk assessments were provided and reviews of the deployment of additional defences, colleague education and the outcomes from control and penetration testing. A review has taken place to assess the Group's capabilities in relation to Ransomware and this will be reported to the Committee in the early part of financial year 2023. Additionally, disaster recovery and resilience has been in view to ensure the Group's capability to recover its business critical services and sustain services to customers.

As previously mentioned, our change portfolio and transformation projects have been kept under close review, with presentations to the Committee followed by appropriate challenges. The Committee monitored the performance of key systems and closely scrutinised the Group's material outsourced arrangements.

The Committee has overseen the business and risk functions adapting to change and collaborating on thematic areas, such as the review of Collections. Following a review by Group Internal Audit ("GIA") all actions had been satisfactorily closed and a sustained improvement in the performance of Collections has been reported. As stated last year, this review was carried out by GIA at the request of the PRA which asked the Internal Audit functions of a sample of non-systemic banks and building societies in November 2019 to carry out a review of collections functions.

These examples help to demonstrate the additional value and expertise that the Committee brings in supporting the risk function and the business to manage and maintain its risks within our guardrails. Throughout the year the Committee also received updates on key controls testing across Aldermore and MotoNovo Finance. The Committee received and approved changes to the Operational Resilience Framework as part of its annual review process. As mentioned earlier, a review of the Group's Operational Risk Framework saw the introduction of new controls and policies, along with recommendations for improvements. In conclusion, the Committee was satisfied that the Group's approach is fit for purpose and proportionate.

Compliance, conduct and financial crime risk

Conduct risk management is a key area of focus and following the annual review of its effectiveness, the Committee approved updates to the Conduct Risk Management Framework. As part of the regular updates provided by the CRO, the Committee received reports on performance against conduct risk metrics. It also reviewed and agreed proposals to transform the Complaints Management function. The Annual Compliance Effectiveness Review has been replaced by a bi-annual strategic overview of Compliance and Conduct Risk and the Committee received the inaugural review during the year.

The Committee received readiness updates on the implementation of the FCA's new Consumer Duty principle, as well as updates on product design and monitoring and outcomes testing. As referenced earlier a small number of customers were previously identified as being impacted by process failures arising from our response to the Covid-19 epidemic which necessitated remediation activity and these remain under review of the Committee. Remediations are carried out with full disclosure to the FCA, including lessons learned. In circumstances where the Group has determined that a process undertaken may not have resulted in the best outcome, work is ongoing to support those impacted customers. The Committee has worked closely with the business to understand the scope and to challenge the timeliness of execution of the remediation work. Further disclosures will be made as necessary and an update will be provided in the Risk Committee Report in next year's annual report. I have also previously referenced the increased focus on supporting vulnerable customers: the Group has a control framework in place to manage the associated risks with a Group Vulnerable Customer Policy supported by colleague training. In the light of the current economic conditions this will be a particular focus over the next 12 months.

The Committee received assurances on data protection and GDPR compliance across all areas of reporting and activity.

Reputational risk

The Board looks to the Risk Committee to monitor reputational risks and to provide oversight and assurance of management and their actions to mitigate risk and to support the Committee, the CRO created a Reputational Risk Forum during the year which meets weekly and is attended by senior leaders across the Group. The frequency of meetings ensures that content is current and enables the business to quickly get in front of any challenges, assessing the associated risks and impacts. Reputational risk does not have metrics but is reported on a qualitative assessment, on the basis that most reputational risks cannot be quantified and most arise as a result of, or from activities under other principal risks.

Given the breadth and depth of discussion at the weekly Reputational Risk fora, updates are provided to the Committee on an "exceptions" basis, as part of the monthly report provided by the CRO.

Climate change

The Committee reviewed and approved the Group's new Climate Change Framework and receives regular updates on the approach to addressing the financial risks from climate change. This is an extensive area of focus and the Group is integrating Climate Change into its overall risk management framework. At the end of the year the Group was compliant with PRA regulations.

The Committee has received presentations on the development of the Climate Change Framework and the Climate Dashboard and going forward will receive updates every six months.

Remuneration matters

The Committee has a duty to advise the Remuneration Committee regarding both the design of senior executive annual and long-term incentive plans, to ensure that management are not being incentivised to take undue risks. It also considers any risk management and control issues that have arisen that it believes should be taken into account when determining executive remuneration payments under the aforementioned plans. During 2021/22 the Committee reviewed regular reports from the Chief Risk Officer in relation to such matters.

Recovery Plan

The Committee was presented with a revised Recovery Plan, the aim of which sets out a framework for the Group response to existential financial stress events. This included improvements to ensure continuity of important business services and to strengthen the Group's response to certain threats.

A programme of testing has been undertaken throughout the year and the Committee reviewed a comprehensive Operational Resilience Self-Assessment report outlining test outcomes, findings and recommendations which demonstrated overall improvements against the 2019 Maturity Assessment undertaken by KPMG. However, there are some areas where further improvements are planned.

Risk management function

The Committee reviewed the remit and performance of Aldermore's risk management functions. This confirmed that these functions have the requisite skills, experience and resources and with unrestricted access to information to discharge their responsibility effectively in accordance with the relevant professional standards ensuring also that the functions have adequate independence. In this context Andrew Lewis, the CRO, has led the delivery of organisational transformation and implemented a new Operating Model to drive more effective management of risk. This has included the creation of a single, future-ready Risk function, moving to a risk partnering model, promoting first line empowerment by moving the second line of defence teams undertaking first line risk activities for our customer-facing divisions into the business lines. A series of shared services (for example, reporting, assurance and governance) and centres of excellence (such as models, credit decisioning and risk automation) have also been established to drive the efficiency and effectiveness of the function and to enhance our modelling, as capabilities are developed.

Whilst there is still much to be done, the Committee commends the changes delivered by the CRO and fully supports this step change in how the Group manages its risks going forward. The new roles that have been created have been filled with skilled individuals and the Group is well placed to face into the challenges of the future.

Horizon Risks

As discussed above we continue to face challenges both, internal and external but we must strive to ensure the right outcomes for our customers. The war in Ukraine creates economic uncertainties and market volatility with no sign yet of an end. The rising cost of living and fuel costs, and the withdrawal of Government Covid-19 financial support raises the risk of stresses on customers finances. We have implemented a focused approach to supporting our customers, in particular our vulnerable customers. We have seen a step change in how we will manage risk as a business going forward, which will present new opportunities, improve reporting and improve performance. Our approach to managing climate change risk too, will enable us to better assess and evaluate the impacts of climate risk across our portfolio. The threat of data and information security losses elevates the risk profile of cyber security.

The regulatory horizon has also moved significantly. For example, owing to the size of the Group we will see an increase in the level of regulatory supervision and we are preparing for the implementation of the FCA's new Consumer Duty. Both the FCA and PRA recognise the regulatory risks posed by firms and individuals. Along with the Bank of England, the PRA and FCA have set robust operational resilience standards for firms under their supervision. This introduces, for example, a more prescriptive approach to preparing for cyber-attacks, failed IT upgrades and other forms of disruption to a firm's systems. Firms are required to complete annual self-assessments to demonstrate resilience, vulnerabilities and recommended remedial actions. The PRA continues to focus on regulatory reporting, with emphasis on the timely and accurate provision of regulatory returns. The PRA will expand its programme of using skilled persons reviews to verify the integrity of data submitted by firms and has underlined that it expects all firms to continue to take action to ensure the integrity of their returns.

Additionally, in relation to regulatory reporting and the First Rand Group's ("FSR") obligations under the Basel Committee on Banking Supervision ("BCBS") 239 Principles the Group has agreed new reporting requirements with FSR under the Risk Data Aggregation and Risk Reporting framework.

The Committee has noted that Deep Dives will be performed on a number of key areas including Governance, 3LoD and Performance Management, Operational Resilience and Cyber Security at the end of the financial year. These will be reported to the Committee in the early part of financial year 2023.

The additional work that is underway to review our scenario planning tools to test the resilience of the business will position the Group as a forward-looking organisation in respect of understanding and preparing for horizon threats. The business and the management team, supported by the risk function, have the skills, tools and maturity to successfully face these challenges in 2022/23 and beyond.

Richard Banks

Risk Committee Chair

6 September 2022

Remuneration Committee Report

This report presents (i) details of the remuneration of our Directors and senior management team, and (ii) a summary of our Directors' Remuneration Policy.

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

As a retail bank, Aldermore is subject to CRD V regulations, which came into force from 1 July 2021. As a result, certain changes have been made to the Directors' Remuneration Policy to ensure that the variable to fixed cap of 2:1 (as approved by Aldermore's shareholder) is applied and new rules on deferral (including the requirement for a holding period on payments in instruments) comply with the requirements.

The aggregate emoluments (i.e. salary/fees, market adjusted allowances, Annual Incentive Plan (AIP) and benefits) received by Directors in the year ended 30 June 2022 was £3.5 million. (2021: £4.4 million) The emoluments received by the highest paid Director, Steven Cooper, were £1.9m (2021: £1.6m, Phillip Monks). Steven Cooper was awarded a cash bonus buyout of £1.0 million in 2021 upon commencement of employment with Aldermore Group, which is largely responsible for the year on year change in Director emoluments.

Two additional non-executive directors, Alan Pullinger and Harry Kellan, are appointed by the FirstRand Group and receive no remuneration personally although an equivalent sum is paid to the FirstRand Group in respect of their services. In addition, an apprentice non-executive director, Nicolina Andall, was in place for the year and remunerated appropriately for her time but is excluded from the above as she does not hold director status.

Remuneration for other members of the senior management team

The senior management team consisted of 12 employees in the year. The aggregate total remuneration for the senior management team (including the Chief Executive Officer) was £6.9 million (2021: £8.6 million). Of this, £3.8 million was fixed pay (salary, market adjusted allowance, benefits and pension) and £3.1 million was variable pay, (2021: £6.3 million and £2.3 million respectively).

The approach to variable pay within the senior management team was reviewed to simplify the approach and now includes a smaller LTIP annual award and a higher AIP opportunity. This has resulted in the maximum level of AIP increasing to 180% of salary p.a. as of 1 July 2022 (2021: 125%). To balance the increased in AIP opportunity, the maximum LTIP award has been reduced for the new performance year to 67.5% of salary p.a. (2021: 135%).

The principles and remuneration structures described within the Directors' Remuneration Policy apply to all the senior management team with the exception of key control functions (risk, compliance and internal audit). The remuneration of this population is managed as follows:

- AIP measures will not relate to financial performance of the area for which they have oversight, and AIP performance measures will be set on the basis of non-financial measures relating to personal performance and the effectiveness of their functions; and
- Key control functions employees will participate in a restricted stock plan with no performance conditions rather than the standard LTIP.

Remuneration for wider employees

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

We have reported our gender pay gap annually since 2017. The 2021 report was expanded to also include data for MotoNovo Finance Limited. We are committed to continuing the progress we have made to reduce the gender pay gap, which we view as a representation rather than a pay differential issue.

In 2016, we became one of the first signatories to the HM Treasury Women in Finance Charter, and we see gender representation as an integral part of our Diversity and Inclusion agenda. By signing up to the Charter, we have committed as a business to its four key pillars. The commitments we made by signing the Charter are as important as ever because they align so closely with our purpose of ‘backing people to go for it, in life and business’ and we are preparing milestones that take us beyond the initial 30% target.

Please see our Women in Finance and Gender Pay Gap disclosure on our website for more information: www.aldermore.co.uk /about-us/women-in-finance-charter/

Directors’ Remuneration policy

The Directors’ Remuneration Policy is based on the following key principles:

- Aligned to the long-term success of the Company;
- Competitive but not excessive;
- Appropriate and balanced proportion of variable pay, with due regard to any impact of risk;
- Simplicity and transparency in the design; and
- Remuneration is fair and supports equality.

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

Element of remuneration	Policy and operation	Performance measures and Committee flexibility
Salary *To provide a fair level of fixed pay which reflects the individual’s experience and contribution*	Typically paid monthly in cash and reviewed annually. The annual review takes into account corporate and individual performance, any change in role and responsibilities, market benchmarking and pay increases awarded across the Aldermore Group as a whole.	No performance measures apply. Base salary increases will be awarded at the Remuneration Committee’s discretion, taking into account the factors listed.
Market Adjusted Allowance *To ensure appropriate weighting of fixed and variable remuneration within an overall competitive package*	A fixed monthly allowance, typically paid in cash. Paid on the same basis as salary but is not taken into account when calculating other elements of remuneration.	No performance measures apply. Market Adjusted Allowance increases will be awarded at the Remuneration Committee’s discretion, but will only be increased if there is a meaningful change in the appropriate market benchmarks.
Benefits *To provide competitive benefits*	A range of benefits is provided which includes a car allowance, insurance benefits and, if appropriate, relocation costs.	No performance measures apply. The Remuneration Committee may introduce new benefits and amend existing benefits as appropriate.
Pension *To enable Executive Directors to build long-term savings for retirement within an overall competitive package*	Contributions may be paid into personal pension arrangements or as a cash supplement (reduced for the impact of employers’ social security contributions) with the levels aligned to those available to staff.	No performance measures apply.

Annual Incentive Plan ("AIP") *To motivate Executive Directors and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of our strategy*	A bonus plan which operates annually. The maximum level of AIP outcome is 180% of salary p.a. Performance measures are set by the Remuneration Committee at the start of the financial year and targets are assessed following the year-end. A portion of annual bonuses will be deferred to ensure compliance with CRD V regulations (with AIP and LTIP deferral considered in aggregate). Deferral will be made 50% in cash and 50% in equity-linked instruments which mirror the percentage change in FirstRand's share price, albeit not subject to changes in the Rand: GBP exchange rate. Malus and clawback provisions apply to both the cash bonus and the deferred bonus.	Performance measures will be a balanced scorecard, comprising financial, risk and personal objectives. For all performance measures, there is a robust discretionary override available to the Remuneration Committee to ensure that outcomes are consistent with affordability and overall appropriateness. The performance measures for employees within key control functions will be set only on the basis of measures which are predominantly non-financial and relate to personal performance. Performance is not assessed over the financial performance of the unit in respect of which they have oversight.
Long-Term Incentive Plan ("LTIP") *To motivate Executive Directors and incentivise delivery of performance over the long-term*	A long-term incentive plan which operates annually. The maximum award is 67.5% of salary p.a. Awards are settled in equity-linked instruments (where the headline amount vesting will be multiplied by the percentage change in FirstRand's share price, albeit not subject to changes in the Rand:GBP exchange rate), if performance conditions are achieved over a 3 year performance measurement period. Malus and clawback provisions apply to the LTIP. Awards will be subject to additional deferral and holding periods (following the end of the performance period) to comply with CRD V.	Performance for the LTIP awards is assessed 20% against FirstRand performance measures and 80% against a balanced scorecard of growth in earnings, return on equity and risk for the Aldermore Group. In the view of the Remuneration Committee, the proposed performance measures for LTIP awards are supportive of the Company's risk appetite and do not promote undue risk inconsistent with that appetite. Colleagues in control functions will be subject only to risk.

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

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

Cathy Turner

Remuneration Committee Chair

Directors' Report

The Directors present their report and the financial statements of the Group for the twelve months ended 30 June 2022. As permitted by legislation, some of the matters normally included in the Directors' Report are included by reference as detailed below.

Requirement	Detail	Where to find further information:	
		Section	Location
Business review	Information regarding the key performance indicators, business review and future developments, and principal risks are contained within the Strategic Report.	Strategic Report	Page 15 (Key performance indicators) Pages 21 to 25 (Business review) Pages 71 to 74 (Principal risks)
Strategic report	The contents of the Strategic Report fulfil Section 414C of the Companies Act 2006.	Strategic Report	Pages 6 to 19
Results	The results for the year are set out in the income statement. The profit before taxation for the year ended 30 June 2022 was £204.7 million (year ended 30 June 2021: £157.8 million). A review of the financial performance of the Group is included within the Strategic report.	Income statement Strategic Report	Page 111 Pages 15 to 19
Dividend	The Directors do not propose to recommend a final dividend in respect of the year ended 30 June 2022 (2021: £nil).	–	–
Financial instruments	The Group uses financial instruments to manage certain types of risk, including liquidity and interest rate risk. Details of the objectives and risk management of these instruments are contained in the risk management section.	Risk Management	Page 67
Post balance sheet events	There have been no post balance sheet events.	Note 41 to the consolidated financial statements.	Page 181
Share capital	At 30 June 2022, the Company's share capital comprised 2,439,016,380 ordinary shares of £0.10 each. The Company did not issue or repurchase any of the issued ordinary shares during the twelve months ended 30 June 2022 or up to the date of this report. Details of the Company's share capital are provided in note 33 to the consolidated financial statements.	Note 33 to the consolidated financial statements.	Page 166

<table>
<tr><th>Requirement</th><th>Detail</th><th colspan="2">Where to find further information:</th></tr>
<tr><td>Rights and obligations attaching to shares</td><td>There are no restrictions on the transfer of the Company's ordinary shares or on the exercise of the voting rights attached to them, except for:
• where the Company has exercised its right to suspend their voting rights or prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006; or
• where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.
All the Company's ordinary shares are fully paid and rank equally in all respects and there are no special rights with regard to control of the Company.</td><td>–</td><td>–</td></tr>
<tr><td>Employee share scheme rights</td><td>Details of how rights of shares in employee share schemes are exercised when not directly exercisable by employees are provided in note 34 to the consolidated financial statements.</td><td>Note 34 to the consolidated financial statements</td><td>Page 166</td></tr>
<tr><td>Employees</td><td>The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status. The Group is committed to ensuring that disabled people are afforded equality of opportunity with respect to entering into and continuing employment with the Group. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development.
Information on employee involvement and engagement can be found in the Strategic report.</td><td>Strategic Report
S172(1) Statement
Sustainability</td><td>Pages 6 to 19
Page 33
Page 26</td></tr>
<tr><td>Suppliers</td><td>Information on supplier engagement can be found in the Strategic report.</td><td>Strategic Report
S172(1) Statement
Sustainability</td><td>Pages 6 to 19
Page 33
Page 26</td></tr>
<tr><td>Corporate Governance Arrangements</td><td>For the year ended 30 June 2022, under the Companies (Miscellaneous Reporting) Regulations 2018, the Aldermore Group PLC applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ('FRC') in December 2018.
Further information can be found in the Corporate Governance report.</td><td>Corporate Governance</td><td>Pages 43 to 46</td></tr>
</table>

Requirement	Detail	Where to find further information:	
Directors	The names of the current Directors who served on the Board and changes to the composition of the Board that have occurred during the financial period are provided on page 4 and are incorporated into the Directors' Report by reference.	Company Information	Page 4
Appointment and retirement of Directors	The appointment and retirement of the Directors is governed by the Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may only be amended by a special resolution passed by shareholders at a general meeting. According to the Company's Articles of Association, each Director shall retire at the Annual General Meeting held in the third calendar year following the year in which the Director was elected or last re-elected by the Company, or at such earlier Annual General Meeting as the Directors may resolve.	Corporate governance – Election and re-election	–
Directors' indemnities	The Directors who served on the Board up to the date of this report have benefitted from qualifying third-party indemnity provisions by virtue of deeds of indemnity entered into by the Directors and the Company. The deeds indemnify the Directors to the maximum extent permitted by law and by the Articles of Association of the Company, in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a Director of the Company and any associated company, as defined by section 256 of the Companies Act 2006. The Group also maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its Directors.	–	–
Significant agreements	None for 2022 (2021: None)	–	–
Political donations	£Nil for 2022 (2021: £Nil)	–	–
Research and development activities	The Group does not undertake formal research and development activities. However, new products and services are developed in each of the business lines in the ordinary course of business in accordance with the Group's product and pricing governance framework. Under this framework, all new products are reviewed and approved by the Group's Customer and Product Committee.	Note 24 to the consolidated financial statements	Pages 161

Requirement	Detail	Where to find further information:	
Going concern	The financial statements are prepared on a going concern basis. The Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements) and that there are no material uncertainties to disclose. In making this assessment, the Directors have considered a wide range of information including the impact of the current cost of living economic conditions, future projections of profitability, cash flows and capital resources, operational resilience and the longer-term strategy of the business. In particular, the Directors have considered the following: • The impact on the Group's profitability from future increases in expected credit losses. As part of this, the Directors considered revised macroeconomic scenarios which were received from the Group's in-house experts. These are discussed and sensitivities are disclosed in note 3; • Sufficiency of headroom over minimum regulatory requirements for liquidity and capital, including the ability of the Group to access sources of additional liquidity and / or capital if required; • Current and forecasted conditions are significantly less severe than the reverse stress scenario considered in the latest ICAAP presented to the Prudential Regulation Authority; • The plans for further improving the operational resilience of the Group including cyber and information security, information technology, supplier management, people and property. These improvements are planned as part of ongoing investment activity in the Aldermore Group; • Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position; • The validity of the Group's current strategy and its achievement of its longer-term strategic ambitions. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors as noted above. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including under a range of stressed scenarios. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.	–	–

Requirement	Detail	Where to find further information:	
Disclosure of information to auditors	Each person who is a Director at the date of this Directors' Report confirms that: • so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and • he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.	–	–
Auditor	Deloitte LLP was reappointed as the Company's auditor with effect from the 2021 AGM, at which a resolution authorising the Board to set Deloitte's remuneration was passed.	-	Page 49

This report was approved by the board on 6 September 2022 and signed on its behalf:

Ralph Coates
Director
6 September 2022

05

Risk Management

Risk Management

All areas of the following report are covered by the external auditor's opinion on pages 100 to 110, except for those areas highlighted in grey which are the yield curve on page 93, the leverage ratio and the risk weighted assets and associated capital ratios on page 95.

The Group's approach to risk

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

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

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

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 good customer outcomes and prudent decision-making within risk appetite are incentivised. Colleagues are not unduly rewarded for driving sales and/or profits.

Risk management and internal control

The Group's risk management and internal control systems are designed to identify, manage, monitor and report on risks to which the Group is exposed. It can therefore, only provide reasonable but not absolute assurance against the risk of material misstatement or loss. Further details of the processes and procedures for managing and mitigating these risks are provided in the risk management section from page 67.

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

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

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

Risk management framework

The RMF defines Aldermore Group's overall approach to risk management across all roles and material risk types. The RMF is the Group's foremost risk document, to which all subsidiary risk policies and frameworks must align. The RMF is subject to approval, at least annually and is a framework reserved for Board approval. The RMF describes risk management roles and responsibilities and outlines the Group's approach to each material risk to which it is exposed. The RMF articulates the Group's principal risks, i.e. the categories of risk that are most significant given the Group's business model and operating environment. As noted in the Risk Committee report, a number of enhancements have been made to the RMF during the financial year.

Risk governance and oversight

The Group's risk governance structure ensures the Board and senior management are accountable for overall risk management. As part of the Risk Framework upgrade, the risk governance structure has been refined with increased focus on credit risk at the executive level. The Board is responsible for approving the highest materiality risk frameworks and policies, following recommendation by subsidiary committees. A delegated authority approves other frameworks and policies.

Three lines of defence

The Group employs a "three lines of defence" model to segregate responsibilities between:

- Risk management as part of business activities;
- Risk oversight; and
- Independent assurance.

Each of the three lines of defence is responsible for maintaining a prudent and risk-aware culture.

First line of defence – Business lines and central functions

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

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

Second line of defence – Risk functions

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

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

Third line of defence – Internal Audit

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

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

Risk appetite framework

The RAF defines the Group's approach to setting risk appetite and underpins the approach to monitoring Principal Risks. This Framework applies to the whole Group and to all colleagues responsible for defining risk appetite metrics and/or statements, providing risk appetite data or monitoring risk appetite reports. The Framework defines the Group's approach to monthly risk reporting to senior and working level committees and fora and is a core component of the Group's RMF. The Framework is subject to approval at least annually and is a framework reserved for Board approval. The RAF was updated during the year to reflect the scope and structure of a refreshed Risk Framework and included new Credit Risk Appetite limits defined as a part of the refresh.

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.

Risk appetite statement

Aldermore has Strategic Risk Objectives set at a Group level which provide the overarching risk goals of the Group. The Strategic Risk Objectives define how much risk we are willing to take, what return we require and how much financial resilience we wish to be able to demonstrate under various degrees of stress.

The principal risks identified within the Risk Management Framework have an overarching qualitative risk appetite statement and, where appropriate, quantitative metrics to measure the Group's tolerance and appetite for risk. The suite of risk appetite metrics enable systematic monitoring of the risk profile against appetite and is reported to committees and fora on a monthly basis. The Group's risk appetite is set by the Board and embedded down to each business line through the informal risk forums, driving a consistent message across the organisation.

Risk culture

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

Risk culture is further embedded through:

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

Stress testing

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

We maintain a Stress Testing Framework ("STF") which is updated on an annual basis, or more frequently if required, to assist the Board's understanding of the key risks, scenarios and sensitivities that may adversely impact our financial or operational position. The STF is a framework reserved for Board approval. The Board Risk Committee review the ICAAP, ILAAP and the RRP, ensuring the processes are in accordance with regulatory rules and make recommendation to the Board for approval.

To ensure a coherent approach to stress testing, the Group adheres to the following core principles:

- Stress testing is an integral part of risk management. Results inform decision making at the appropriate level, including strategic decisions made by the Board and senior management;
- Stress testing draws on the experience and skills of staff across an appropriately wide range of disciplines;
- Written policies and procedures govern the Group's approach to stress testing, with dedicated policies maintained for material asset classes and types of stress test;
- Taken as a whole, stress tests span a range of analytical techniques, risk types, scenarios and severities to ensure a complete view of material risks. Stress testing systems and procedures must be sufficiently flexible to facilitate this approach, while remaining proportionate to the Group's size and activities;
- Consistent with the RMF, the Group reviews this Framework at least annually; and
- The STF relies upon and supports the Capital Planning and Management policy, the Funding and Liquidity policy and the Operational and Credit Risk Frameworks, all of which provide detail of how the STF has been implemented within these specific areas.

Scope of the stress testing framework:

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

* Out of scope of this Framework

Principal risks

Effective risk management is a core component of the Group, which is embedded throughout the organisation. The Board and senior management ensure that a strong risk culture is at the heart of everything we do, with risk appetite clearly defined, managed and reported against, and embedded down to business lines.

The following section summarises the principal risks, which are the categories of risk that are most significant given our business model and operating environment, along with our approach to their mitigation.

Principal risk	Mitigation	Commentary
Credit risk The risk of financial loss arising from a borrower or a counterparty failing to meet financial obligations to the Group according to agreed terms. Refer to page 52.	Operate in selected sectors and products, where we have expertise to originate and underwrite transactions within the agreed risk appetite; Maintain controlled levels of credit losses within an agreed expected loss appetite, operating through the economic cycle; Where appropriate, obtain physical or financial collateral; Origination is supported by robust post-completion credit stewardship and in-life management of the credit portfolio; Perform disciplined ongoing management of customer credit risk, including adherence to explicit concentration and credit rating limits; Credit risk profile is monitored and reported systematically against appetite through a set of credit risk metrics with associated triggers and limits, driving management actions where appropriate.	The credit portfolio continues to perform in a satisfactory manner. Against this, the outlook remains of concern due to the ongoing economic uncertainty caused by a variety of factors including rising inflation, interest rates, petrol and energy prices as well as the Ukraine conflict. We have taken account of this in our forward looking IFRS9 expected credit loss calculations and as such are satisfied that we remain adequately provided. Affordability models have been updated and lending standards / risk appetite are being closely monitored as the situation unfolds.
Capital risk The risk that the Group has insufficient capital resources to cover regulatory requirements, internal targets and/or to support the Group's strategic plans. Refer to page 52.	Robust controls for Pillar 1 reporting; A comprehensive annual ICAAP assessment of all material capital risks; A forward-looking capital plan, formally assessing confirmed and potential changes in regulatory rules; Regular sensitivity analysis; and An appropriately sized internal capital buffer over and above regulatory requirements applied both at a point in time and on a forward looking basis to protect against unexpected losses or risk-weighted asset growth	The Group has maintained a strong capital position over the period, with capital ratios remaining above regulatory minimums and internal targets.
Liquidity risk The risk that the Group is unable to meet its financial obligations as they fall due, or can only do so at excessive cost. Refer to page 52.	Maintain a sufficient portfolio of cash and high quality liquid assets ("HQLA") to absorb liquidity shocks; Perform a comprehensive annual ILAAP assessment of all material liquidity risks and meet internal buffers on an ongoing basis; and Monitor the Group's liquidity position on a daily basis, with intra-month escalation of material risks as appropriate.	The Group's liquidity position remains stable, despite the uncertain external environment, and has been managed well within liquidity buffers.

Principal risk	Mitigation	Commentary
Market risk The risk arising from adverse movements in market prices given long or short positions in impacted assets and / or liabilities. Refer to page 53.	Seek to match the interest rate structure of assets and liabilities, creating a natural hedge; Where a natural hedge is not possible or desirable, hedge any material market risk exposure by using financial instruments as outlined in the Treasury Risk Limits and Standards; Perform a comprehensive assessment of market risk drivers as part of the ICAAP and assess new/emerging risks on an ongoing basis; Maintain a strong control framework to ensure exposures are managed in line with risk appetite; and Daily monitoring of the Group's Market Risk exposure, with intra-month escalations as appropriate	The Group's approach remains prudent in response to any external economic uncertainty and underlying risks remain unchanged.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Maintain a comprehensive Risk Control Self-Assessment ("RCSA") process. Assess the efficacy of these controls by maintaining a robust approach to key control testing; Maintain the risk event reporting process; Mandate detailed and coherent committee and fora reporting that brings together a diverse range of supporting risks; Ensure a significant emphasis on IT and Operational Resilience; Regularly review the external threat posed by cyber-crime and ensure the adequacy/effectiveness of our defences; Effective assessment of risks arising from the execution of change initiatives; Systematically monitor operational losses on both a net (overall financial impact) and gross (excluding recoveries) basis to understand risk profile and identify trends; and Proactively identify changes to our risk profile and manage any changes required to our control environment in response to external environment, for example post pandemic activity and emerging economic conditions.	The Operational Risk profile is considered to be heightened as the organisation executes a significant change agenda and as we recognise external threats. Whilst we do not consider the Group to have a higher likelihood of being targeted by cyber criminals the overall threat environment has increased for this risk, given external factors, such as the Russia/Ukraine conflict. In turn, we have a continuous programme to monitor these threats and ensure resilience, with a number of system enhancements being made. Please refer to the Emerging Risk section for further details. The Group operates a recognised Three Lines of Defence ("3LoD") approach to Risk. To further support the management of Operational Risks, we are reviewing our 3LoD approach and have invested in enhanced skills and oversight capability.

Principal risk	Mitigation	Commentary
Compliance, conduct and financial crime risk The risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of a failure to comply with applicable laws and regulations, codes of conduct and standards of good practice or as a result of the Group's activities being used by criminals for the purposes of money laundering, terrorist financing, bribery and corruption and fraud.	Maintain a well-defined and embedded process for regulatory and legislative horizon scanning, and preparation for confirmed and potential changes; Maintain processes that focus on fair customer outcomes, including the use of metrics on staff performance, training, customer feedback, complaints and product cancellation; Ensure that recruitment and training processes have a clear customer focus, including the use of mandatory training modules; Ensure the approach to remuneration incentivises fair customer outcomes and prudent decision-making within risk appetite; Perform the requisite checks on all customers, including money laundering, sanctions and fraud at origination, and where appropriate, on an ongoing basis. Tightly monitor remedial actions relating to financial crime breaches; and Produce an annual Money Laundering Reporting Officer ("MLRO") Report, which is approved at Board Audit Committee, and which includes an opinion from the MLRO relating to the adequacy of the Group's existing systems and controls for the prevention of money laundering and terrorist financing risk.	The Compliance Conduct and Financial Crime key risks remain unchanged, notwithstanding the influence of a number of external factors. These include the future implementation of new Consumer Duty regulations, the economic environment and potential impact on customer vulnerability, and the conflict in Ukraine with associated sanctions. Significant focus remains on these to ensure compliance with applicable regulations and to ensure our products and processes support good customer outcomes.
Reputational risk The risk of negative consequences arising from a failure to meet the expectations and standards of our customers, investors, regulators or other stakeholders during the conduct of any business activities.	Assess the impact of reputational risk at the Reputational Risk Forum chaired by the Chief Risk Officer and initiate mitigating actions as appropriate; Maintain a clear and explicit set of reputational risk policy requirements to which all colleagues must confirm their understanding and adherence; and Ensure that the reputational impact of changes to products, pricing, systems and processes is formally considered at the relevant committees and fora.	The Group's risk profile remains within appetite. The Reputational Risk Forum has been embedded as an effective part of the organisation's governance enhancing the reputational risk lens brought to policies, processes and individual transactions.

Principal risk	Mitigation	Commentary
Model Risk The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Consequences can include poor business decisions, financial loss or the misstatement of financial and/or regulatory reports.	The Model Risk Management ("MRM") function has been established as a second-line risk team comprising Independent Model Validation, and Model Governance and Reporting. MRM is responsible for the independent oversight of model development and the second line control environment for managing model risk throughout the model lifecycle. Model Risk is managed through a robust Model Risk framework, that includes: A central model inventory and documentation repository; A central repository for all independent validation findings to facilitate reporting and tracking; Assigning a model risk rating based on materiality to the Group. The rating drives level of validation, approval and performance monitoring; Ensuring models are well-documented, with a clear understanding of strengths, limitations and assumptions; Regular tracking of model outputs, including a robust process to remediate identified issues; and A systematic approach in applying model risk mitigants, by means of Post Model Adjustments ("PMAs") and/or Overlays, where models are underperforming.	As the Group's use of models continues to evolve in sophistication, the control environment around Models continues to be a priority area of focus and investment. Further enhancements to the Model Risk Framework and associated second-line oversight activities will continue to be rolled out and embedded in the latter part of 2022.

Emerging risks

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

Themes	Risk	What we are currently doing
Political and Economic Environment		
Geopolitical Risk	**International:** the Ukraine conflict and geopolitical situation remain sensitive; second and third order effects are now becoming very tangible across the globe, such as cost of living, supply chain issues and food shortages. **Domestic:** a mid-term change in leadership is further increasing market uncertainty, exacerbated by industrial action, Scotland launching a second referendum campaign and tensions in Ireland due to border issues.	The impact from continued geopolitical uncertainty has been assessed across the principal risks and is managed through the RMF. Where second and third order effects have resulted in an elevated risk profile, these have been factored into the impacted Principal Risk(s) and monitored through the regular business as usual Risk Management process.
Macro-Economic Risks	**Economy / market, consumer & business confidence:** alongside the impacts from geopolitical uncertainty, predicting where the economy will go and what moved policy makers are going to make is increasingly difficult and this is manifesting itself in market, business, and consumer confidence.	Scenario analysis and stress testing are a key feature of our annual strategic planning. Several macro-economic forecasts depicting alternative severe stress environments are utilised in the annual ICAAP to assess the strategic plan against a number of downside risks with mitigating actions identified. A watching brief is maintained of all Macro trends via a monthly macroeconomic forum, chaired by the CFO with scenarios updated regularly.
Declining Affordability	**Cost of Living:** The cost-of-living crisis continues to drive an increasingly cautious credit outlook. With inflation reaching its highest rate in 40 years, and projected to outpace wage growth until Q2 2024, the current squeeze on household finances is expected to endure and businesses are continuing to be impacted by higher operating expenses and supply chain disruptions, hindering any broader recovery, and holding back business investment.	Updated affordability criteria have been implemented for new originations and will be reviewed on an ongoing basis. A specific cost-of-living expected credit loss overlay has been added to ensure Aldermore remains adequately provided on existing exposures. An updated suite of early warning indicators ("EWIs") has been developed, and continues to be enhanced, utilising both internal and external data sources. These EWIs, together with our probability weighted economic scenarios, are being used to inform capacity planning in collections, formulation of pre-delinquency strategies and will inform risk appetite adjustments where required.

Themes	Risk	What we are currently doing
Competitive Environment		
Competitive dynamics in Specialised Lending	The competitive environment is increasingly demanding with more pressure to respond to the evolving needs of consumers and maintain relevance. The wider macroeconomic environment is impacting core markets with property sales starting to fall as mortgage rates rise. Consumer behaviour continues to change, with surveys citing a shift to digital channels, declining brand loyalty and growing demand for sustainable businesses.	Increased focus has been given to the competitive environment in which the Group operates. The Executive Risk Committee includes a watching brief on competitive dynamics and any significant events and/or trends that may impact the Group. Any significant market threats are considered as a part of the scenario analysis and stress testing process.
Operating Environment		
Risks from Climate Change	Climate change and society's response to it presents a global threat. The risks associated with climate change arise via two primary transmission channels: the physical effects of climate change, and the impact of changes associated with the transition to a lower-carbon economy (i.e. increased energy efficient standards on Buy to Let properties). These risks manifest themselves across and amplify other financial and non-financial risk types.	• The Group CRO holds the Senior Management Function ("SMF") responsibilities for identifying and managing the financial risks from climate change. Matters are escalated to ERC as required, with oversight from BRC. • A Climate Change Framework has been approved by BRC, as referenced on pages 36 to 41. • The Group is developing its approach and disclosures in line with accepted and emerging standards, including the Taskforce for Climate-related Financial Disclosures recommendations, as referenced on pages 36 to 41.
Operational Resilience	Cyber threat remains significant and high profile across all industries. Cyber threats continue to evolve, with increased monetisation of cyber to substitute more traditional crime. Due to the events in Russia – Ukraine, there is a heightened risk of increased cyber or phishing activity.	As noted within our Operational Risk Profile commentary, whilst we do not consider the Group to have a higher likelihood of being targeted by cyber criminals, the overall threat environment has increased for this risk. In turn, we are focused on ensuring enhanced resilience against this threat, through heightened defences and collaboration with external security experts.
Heightened Regulatory Change	Aldermore Group operates in a highly regulated environment that is increasingly complex. We continue to see significant regulatory developments, for example, in Operational Resilience and the new Consumer Duty expectations. Against the prevailing economic conditions, we anticipate regulatory focus on good customer outcomes remaining heightened.	We maintain open and productive relationships with our primary UK regulators, the PRA and FCA, as well as with the South African regulatory bodies of our parent, First Rand. We are preparing for the implementation of the FCA's new Consumer Duty rules, which were released in July 2022 and will come into effect from 2023.

Themes	Risk	What we are currently doing
Heightened Change and Talent Risk	The Group's Strategy is dependent on successful delivery of a significant change agenda, including a new approach to our technology infrastructure. Alongside execution risk associated with any change agenda, appropriate expertise will be needed, including experience of new ways of working, change management and technology development. Given a backdrop of a highly competitive market for talent and experience in the financial services industry, ongoing Talent Risk will continue to be prominent.	Several important hires have been made to key transformation and technology positions, alongside work with external partners and leveraging capability within the wider First Rand Group. A methodical approach has been taken to the design and delivery of strategy components with strong Executive leadership and governance. A key component of our strategy is a refreshed People strategy. This includes development of our performance, reward and recognition mechanisms; optimising working patterns in a post pandemic environment; building career paths and creating an inclusive culture.

Credit Risk

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

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

The Group's maximum exposure to credit risk;

1. Credit quality and performance of loans;
2. Forbearance granted through the flexing of contractual agreements;
3. Diversity and concentration within our loan portfolio;
4. Details of provisioning coverage and the value of assets against which loans are secured; and
5. Information on credit risk within our treasury operations.

Due to the more bespoke nature of the Property Development business, the portfolio is excluded from a number of the following tables, as indicated by the footnotes. Gross Property Development exposure at 30 June 2022 was £156 million (30 June 2021: £134 million), and net exposure was £154 million (30 June 2021: £131 million).

1. The Group's maximum exposure to credit risk

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

Our net credit risk exposure as at 30 June 2022 was £19,095.4 million (30 June 2021: £16,792.9 million), an increase of 13.7%. The main factors contributing to the increase were:

i) the growth in gross loans and advances to customers (our largest credit risk exposure), by £1,353.1 million;
ii) the growth in cash and balances at central banks by £149.8 million;
iii) an increase in derivatives held for risk management by £272.0 million; and
iv) an increase in commitments to lend by £223.6 million.

	Note	30 June 2022	30 June 2021
Included in the statement of financial position:		**£m**	**£m**
Cash and balances at central banks		838.3	688.5
Loans and advances to banks		226.6	223.0
Debt securities		2 339.2	1 999.5
Derivatives held for risk management		291.6	19.6
Loans and advances to customers	19	14 965.7	13 612.6
Other financial assets	39	32.4	29.5
		18 693.8	**16 572.7**
Irrevocable Commitments to lend	37	636.0	412.4
Gross credit risk exposure		**19 329.8**	**16 985.1**
Less: allowance for impairment losses	19	(234.4)	(192.2)
Net credit risk exposure		**19 095.4**	**16 792.9**

2. Credit quality and performance of loans

The credit quality of loans and advances to customers are analysed internally in the following tables, which also include the fair value of collateral held capped at the gross exposure amount. The underlying credit and asset quality remains similar to the prior year, however model recalibrations undertaken in the last 12 months and the implementation of a new macroeconomic model have increased our customers' expected probability of default..This has resulted in a number of exposures moving into high risk, in particular this is evidenced in SME Commercial Mortgages, Buy to Let and Residential Mortgages.

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

30 June 2022	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	20.5	5.4	78.8	84.3	0.9	2 571.9	2 761.8
Medium risk	1029.7	208.7	779.0	3 664.7	1561.0	1060.2	8 303.3
High risk	581.5	256.5	307.2	599.7	413.3	31.6	2189.8
Total	**1 631.7**	**470.6**	**1165.0**	**4 348.7**	**1 975.2**	**3 663.7**	**13 254.9**
Fair value of collateral held	**1 042.1**	**455.3**	**1 143.4**	**4 347.7**	**1 974.5**	**3 214.0**	**12 177.0**

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

30 June 2022	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	0.4	-	27.1	0.4	0.1	94.8	122.8
Medium risk	45.4	4.4	29.4	15.6	1.9	220.0	316.7
High risk	62.2	8.1	137.0	471.7	222.5	11.1	912.6
Total	**108.0**	**12.5**	**193.5**	**487.7**	**224.5**	**325.9**	**1 352.1**
Fair value of collateral held	**64.8**	**11.7**	**188.0**	**487.6**	**224.4**	**283.1**	**1 259.6**

Stage 3 per IFRS 9 – credit impaired assets:

30 June 2022	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
High risk	15.8	3.5	29.0	123.3	105.4	81.9	358.9
Total	**15.8**	**3.5**	**29.0**	**123.3**	**105.4**	**81.9**	**358.9**
Fair value of collateral held	**10.0**	**2.5**	**28.8**	**123.2**	**105.3**	**71.6**	**341.4**

[1] The above analysis includes Property Development.

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

30 June 2021	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance[2] £m	Total £m
Low risk	52.9	3.2	144.7	722.1	314.5	1 888.5	3 125.9
Medium risk	1 005.5	238.6	755.5	3 848.1	1406.0	990.5	8 244.2
High risk	311.7	157.1	26.5	112.7	109.9	46.1	764.0
Total	**1 370.1**	**398.9**	**926.7**	**4 682.9**	**1 830.4**	**2 925.1**	**12 134.1**
Fair value of collateral held	**877.1**	**413.9**	**926.7**	**4 682.9**	**1 830.4**	**2 533.1**	**11 264.1**

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

30 June 2021	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance[2] £m	Total £m
Low risk	0.5	-	9.9	22.6	15.9	31.4	80.3
Medium risk	75.8	1.1	110.9	213.6	110.6	90.2	602.2
High risk	118.7	2.8	43.8	148.0	82.5	7.8	403.6
Total	**195.0**	**3.9**	**164.6**	**384.2**	**209.0**	**129.4**	**1 086.1**
Fair value of collateral held	**117.0**	**3.9**	**164.6**	**384.2**	**209.0**	**110.0**	**988.7**

Stage 3 per IFRS 9 – credit impaired assets:

30 June 2021	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance[2] £m	Total £m
High risk	46.7	3.6	56.1	127.5	110.1	48.4	392.4
Total	**46.7**	**3.6**	**56.1**	**127.5**	**110.1**	**48.4**	**392.4**
Fair value of collateral held	**28.7**	**1.7**	**56.1**	**127.5**	**110.1**	**40.5**	**364.6**

[1] The above analysis includes Property Development.
[2] The 2020/21 MotoNovo Finance fair value of collateral has been restated due to updated methodology whereby collateral value is capped at the value of exposure.

The credit quality in respect of irrevocable commitments to lend, which, as at 30 June 2022 and 30 June 2021, were all stage 1 exposures was as per the following table, which also includes the fair value of collateral to be provided capped at the gross exposure amount.

30 June 2022	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	-	-	7.8	4.6	0.1	-	12.5
Medium risk	-	-	77.2	201.2	112.4	36.9	427.7
High risk	-	-	30.4	32.9	29.8	2.7	95.8
Total	**-**	**-**	**115.4**	**238.7**	**142.3**	**39.6**	**536.0**
Assessed fair value of collateral to be provided	**-**	**-**	**113.3**	**238.6**	**142.2**	**36.7**	**530.8**

[1] The above analysis excludes Property Development.

30 June 2021	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Low risk	-	-	11.6	9.1	17.5	-	38.2
Medium risk	-	-	60.9	48.0	78.4	33.9	221.2
High risk	-	-	2.2	1.4	6.1	3.6	13.3
Total	**-**	**-**	**74.7**	**58.5**	**102.0**	**37.5**	**272.7**
Assessed fair value of collateral to be provided	**-**	**-**	**74.7**	**58.5**	**102.0**	**37.5**	**272.7**

[1] The above analysis excludes Property Development.

Not included in the above are £100.0 million (30 June 2021: £139.7 million) of irrevocable commitments to lend for Property Development. We use “loan-to-gross-development-value” as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan-to-gross-development-value is a measure used to monitor the loan balance compared with the expected gross development value once the development is complete. The anticipated gross development value of the committed lending for Property Development is £433.8 million (30 June 2021: £380.3 million).

The categorisation of high, medium and low risk is based on internal IFRS 9 Probability of Default (“PD”) and Loss Given Default “LGD” models. Drivers for the PDs and LGDs include external credit reference agency risk scores, property valuations, qualitative factors and macro-economic adjustments. The relative measure of risk reflects a combined assessment of the probability of default by the customer and an assessment of the expected loss in the event of default.

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

3. Forbearance granted through the flexing of contractual agreements

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

The most widely used methods of forbearance are temporarily reduced monthly payments and deferral of payment to reduce the borrower's financial pressures. Where the arrangement is temporary, borrowers are expected to resume normal payments within six months. Both temporary and permanent concessions are reported as forborne for twenty-four months following the end of the concession. Forborne amounts disclosed as stage 1 in the below table relate to such accounts which are now performing but still reported as forborne following the end of concessionary arrangements. In all cases, the above definitions are subject to no further concessions being made and the customers' compliance with the new terms.

Forbearance levels increased during the Covid-19 payment breaks, however over the last reporting period the levels of accounts subject to forbearance has reduced. There remains a proportion of accounts that are still subject to a deferred payment, the balance of forborne accounts by payment status is shown in the tables below.

30 June 2022	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Stage 1	0.4	-	0.2	4.1	0.9	0.4	6.0
Stage 2	0.5	-	2.5	4.0	5.1	5.1	17.2
Stage 3	1.3	-	3.0	14.2	19.7	13.3	51.5
Total	**2.2**	**-**	**5.7**	**22.3**	**25.7**	**18.8**	**74.7**

[1] The above analysis includes Property Development.

30 June 2021	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Total £m
Stage 1	0.3	-	-	23.9	5.9	2.7	32.8
Stage 2	0.3	0.3	6.3	3.9	4.3	7.7	22.8
Stage 3	4.3	-	10.5	19.3	26.2	10.9	71.2
Total	**4.9**	**0.3**	**16.8**	**47.1**	**36.4**	**21.3**	**126.8**

[1] The above analysis includes Property Development.

As at 30 June 2022, the Group had undertaken forbearance measures as follows in the following segments:

	30 June 2022 £m	30 June 2021 £m
Asset Finance		
Reduced monthly payments	-	0.1
Deferred payment	2.2	4.8
Total Asset Finance	**2.2**	**4.9**
Forborne as a percentage of the total divisional gross lending book (%)	0.12%	0.30%
Invoice Finance		
Agreement to advance funds in excess of normal contractual terms	-	0.3
Total Invoice Finance	**-**	**0.3**
Forborne as a percentage of the total divisional gross lending book (%)	0.00%	0.10%
SME Commercial Mortgages[1]		
Temporary or permanent switch to interest only	0.5	0.3
Reduced monthly payments	3.5	-
Deferred payment	1.5	16.5
Total SME Commercial Mortgages	**5.5**	**16.8**
Forborne as a percentage of the total divisional gross lending book (%)	0.45%	1.65%
Buy to Let		
Temporary or permanent switch to interest only	-	0.1
Reduced monthly payments	17.0	-
Payment, waiver or lower rate product switch	0.9	-
Deferred payment	4.3	47.0
Total Buy to Let	**22.2**	**47.1**
Forborne as a percentage of the total divisional gross lending book (%)	0.45%	0.90%
Residential Mortgages		
Reduced monthly payments	15.9	2.2
Payment, waiver or lower rate product switch	4.7	-
Deferred payment	5.1	34.2
Total Residential Mortgages	**25.7**	**36.4**
Forborne as a percentage of the total divisional gross lending book (%)	1.11%	1.70%
MotoNovo Finance		
Reduced monthly payments	-	15.5
Deferred payment	18.9	5.8
Total MotoNovo Finance	**18.9**	**21.3**
Forborne as a percentage of the total divisional gross lending book (%)	0.46%	0.72%
Total forborne		
Total temporary or permanent switch to interest only	3.5	0.4
Total reduced monthly payments	33.4	17.8
Total Payment, waiver or lower rate product switch	5.6	-
Total deferred payment	32.0	108.3
Total agreement to advance funds in excess of normal contractual terms	-	0.3
Total forborne	**74.5**	**126.8**
Total forborne as a percentage of the total gross lending book (%)	0.50%	0.93%

[1] The above analysis includes Property Development.

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

4. Diversity and concentration within our loan portfolio

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

Credit concentration by segment

Details of our net lending by segment are as follows:

	30 June 2022		30 June 2021	
	£m	%	£m	%
Asset Finance	1 728.1	12	1 570.3	12
Invoice Finance	480.7	3	401.6	3
SME Commercial Mortgages[1]	1 364.5	9	1 126.0	8
Buy to Let	4 918.2	33	5 159.5	38
Residential Mortgages	2 285.8	16	2 136.2	16
MotoNovo Finance	3 954.0	27	3 026.8	23
	14 731.3	**100**	**13 420.4**	**100**

[1] The above analysis includes Property Development.

Credit concentration by geography[1]

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

	30 June 2022	30 June 2021
	%	%
East Anglia	10.8	10.8
East Midlands	6.9	6.6
Greater London	16.6	17.3
North East	3.2	3.1
North West	10.8	10.3
Northern Ireland	1.4	1.2
Scotland	7.0	6.5
South East	17.2	18.2
South West	8.8	8.9
Wales	3.5	3.3
West Midlands	6.5	6.5
Yorkshire and Humberside	7.3	7.3
	100	**100**

[1] The above analysis includes Property Development.

Credit concentration by sector[1]

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

	30 June 2022	30 June 2021
	%	%
Agriculture, hunting and forestry	0.2	0.2
Construction	4.5	3.2
Education	0.2	0.1
Electricity, gas and water supply	0.4	0.1
Financial intermediation	3.4	1.7
Health and social work	0.3	0.2
Hotels and restaurants	0.3	0.3
Manufacturing	2.2	1.4
Mining and quarrying	0.2	0.1
Private households with employed persons	2.1	4.3
Real estate, renting and business activities	24.9	15.2
Residential	56.3	68.6
Transport, storage and communication	2.8	1.7
Wholesale & retail trade repair of motor vehicles & household goods	2.2	2.9
	100	**100**

[1] The above analysis includes Property Development.

Credit concentration by quantum of exposure

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

30 June 2022	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance[2] £m
£0 - £50k	601.2	2.6	6.1	73.4	40.0	3 831.6
£50 - £100k	322.6	6.1	28.0	628.9	332.3	35.8
£100 - £150k	178.8	9.1	34.1	625.5	489.7	5.7
£150 - £200k	106.9	8.8	28.0	585.0	406.2	6.5
£200 - £300k	115.3	18.0	50.0	1 104.1	556.1	11.4
£300 - £400k	68.7	18.4	46.6	751.1	247.7	9.3
£400 - £500k	55.9	18.5	47.1	365.6	104.0	9.3
£500k - £1m	141.1	69.6	149.5	514.2	99.8	22.3
£1m - £2m	77.0	60.0	185.4	182.1	8.0	13.9
£2m+	60.6	269.8	635.2	88.4	2.0	8.2
Total	**1 728.1**	**480.9**	**1 210.0**	**4 918.3**	**2 285.8**	**3 954.0**

[1] The above analysis excludes Property Development.

[2]The above analysis includes Dealer Funding.

30 June 2021	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages[1] £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m
£0 - £50k	582.4	2.5	5.0	68.6	38.7	2 939.8
£50 - £100k	304.9	5.9	26.1	670.7	341.2	18.9
£100 - £150k	161.0	7.7	30.9	658.8	490.8	5.4
£150 - £200k	100.8	7.2	28.5	633.2	383.6	6.4
£200 - £300k	104.0	16.2	40.0	1 174.4	500.6	9.5
£300 - £400k	58.7	14.3	41.9	822.5	206.1	9.1
£400 - £500k	45.2	14.8	38.7	379.1	82.3	4.2
£500k - £1m	90.0	53.4	143.7	484.9	87.9	12.7
£1m - £2m	51.4	40.9	169.2	171.2	3.0	15.4
£2m+	71.9	238.7	470.8	96.1	2.0	5.4
Total	**1 570.3**	**401.6**	**994.8**	**5 159.5**	**2 136.2**	**3 026.8**

[1] The above analysis excludes Property Development.

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

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

SME Commercial Mortgages[1]

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

	30 June 2022 £m	30 June 2021 £m
100%+	29.4	36.0
95-100%	9.3	21.6
90-95%	19.4	34.9
85-90%	15.7	41.0
80-85%	27.4	47.9
75-80%	41.6	71.5
70-75%	94.3	128.2
60-70%	410.6	215.2
50-60%	294.5	176.8
0-50%	268.0	221.7
	1 210.2	**994.8**
Capital repayment	644.8	480.6
Interest only	565.4	514.2
	1 210.2	**994.8**
Average loan-to-value percentage	59.99%	64.23%

[1] The above analysis excludes Property Development.

Property Development

We use “loan-to-gross-development-value” as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan-to-gross-development-value is a measure used to monitor the loan balance compared with the expected gross development value once the development is complete. Average loan-to-gross-development-value at origination for Property Development loans at 30 June 2022 was 63.1% (30 June 2021: 61.8%).

Buy to Let

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

	30 June 2022 £m	30 June 2021 £m
100%+	9.8	11.4
95-100%	6.0	7.2
90-95%	9.5	16.0
85-90%	25.1	47.7
80-85%	83.7	132.5
75-80%	307.9	409.7
70-75%	565.8	943.0
60-70%	1 817.8	2 003.3
50-60%	1 258.2	932.5
0-50%	834.4	656.2
	4 918.2	**5 159.5**
Capital repayment	270.7	289.5
Interest only	4 647.5	4 870.0
	4 918.2	**5 159.5**
Average loan-to-value percentage	60.69%	63.62%

Residential Mortgages

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

	30 June 2022 £m	30 June 2021 £m
100%+	6.0	5.3
95-100%	8.2	10.6
90-95%	32.9	54.9
85-90%	84.6	145.4
80-85%	158.8	242.3
75-80%	223.1	257.1
70-75%	288.8	256.4
60-70%	544.7	443.8
50-60%	392.2	303.4
0-50%	546.5	417.0
	2 285.8	**2 136.2**
Capital repayment	2 114.6	1 961.0
Interest only	171.2	175.2
	2 285.8	**2 136.2**
Average loan-to-value percentage	61.44%	65.00%

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

As at 30 June 2022, 95% of the exposures with a current LTV in excess of 85% relate to either HTB or MIG (30 June 2021: 96%). The average LTV for mortgages with a guarantee was 75% (30 June 2021: 80%). As at 30 June 2022, the average LTV of the non-mortgage guarantee owner occupied book is 53% (30 June 2021: 56%).

Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 30 June 2022, 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 63.7% (30 June 2021: 68.3%).

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

Asset Finance

In respect of Asset Finance, collateral is provided by our rights and/or title to the underlying assets, which we are able to repossess in the event of default. Where appropriate, we will also obtain additional security, such as parent company or personal guarantees. Asset Finance also undertakes unsecured lending where we have obtained an understanding of the ability of the borrower's business to generate cash flows to service and repay the facilities provided. As at 30 June 2022, the total amount of such unsecured lending was £16.7 million (30 June 2021: £18.9 million).

MotoNovo Finance

In respect of MotoNovo Finance Limited, collateral is provided by our rights and/or title to the underlying assets. A proportion of loans are sanctioned at LTVs higher than 100% of the estimated retail value and, although the whole agreement is secured on the vehicle, there may be a shortfall in the event of repossession. Loans where LTV exceeds 100% are subject to more stringent underwriting criteria. LTV information on MotoNovo Finance's vehicle finance portfolio is set out as follows:

	30 June 2022	30 June 2021
	£m	£m
100%+	1 107.7	1 000.8
95-100%	511.0	393.1
90-95%	509.7	364.0
85-90%	445.6	293.4
80-85%	354.1	226.9
75-80%	271.3	172.1
70-75%	200.9	128.2
60-70%	264.3	172.9
50-60%	157.9	107.9
0-50%	131.5	93.5
	3 954.0	**2 952.8**

Group impairment coverage ratio

Impairment coverage is analysed as follows:

30 June 2022	Gross carrying amount £m	Provisions £m	Coverage Ratio %
Stage 1	13 254.9	88.7	0.67%
Stage 2	1 352.0	44.5	3.29%
Stage 3	358.8	101.2	28.21%
Undrawn loan facilities	636.0	1.9	0.30%
Total	**15 601.7**	**236.3**	**1.51%**

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

The increase in provisions as at 30 June 2022 is predominantly driven by an increase of stage 3 as the book matures. The NPL coverage ratio increased to 28.3% (2021: 22.6%) reflecting a combination of customers migrating out of stage 3 and management maintaining a prudent level of coverage as a result of the uncertain economic outlook.

Offsetting financial assets and liabilities

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

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

As our derivatives are under master netting and margining agreements as described, which only allows for offsetting in certain circumstances such as default, they do not meet the criteria for offsetting in the statement of financial position.

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

30 June 2022	Gross amount of recognised financial instruments	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
			Financial instruments	Cash collateral paid/ (received)	Net amount
Type of financial instrument	**£m**	**£m**	**£m**	**£m**	**£m**
Assets					
Loans and advances to customers (amounts pre-positioned as collateral under the TFS)	2 908.0	2 908.0	(1 067.8)	-	1 840.2
Derivatives held for risk	291.4	291.4	-	(274.0)	17.4
	3 199.4	**3 199.4**	**(1 067.8)**	**(274.0)**	**1 857.6**
Liabilities					
Amounts due to banks (central bank under the TFS)	(1 067.8)	(1 067.8)	1 067.8	-	-
Derivatives held for risk management	(24.3)	(24.3)	-	8.1	(16.2)
	(1 092.1)	**(1 092.1)**	**1 067.8**	**8.1**	**(16.2)**

30 June 2021	Gross amount of recognised financial instruments	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
			Financial instruments	Cash collateral paid/ (received)	Net amount
Type of financial instrument	**£m**	**£m**	**£m**	**£m**	**£m**
Assets					
Loans and advances to customers (amounts pre-positioned as collateral under the TFS)	3 425.1	3 425.1	(1 326.6)	-	2 098.5
Derivatives held for risk management	19.6	19.6	(7.2)	(12.4)	-
	3 444.7	**3 444.7**	**(1 333.8)**	**(12.4)**	**2 098.5**
Liabilities					
Amounts due to banks (central bank under the TFS)	(1 326.6)	(1 326.6)	1 326.6	-	-
Derivatives held for risk	(40.9)	(40.9)	7.2	30.5	(3.2)
	(1 367.5)	**(1 367.5)**	**1 333.8**	**30.5**	**(3.2)**

6. Information on credit risk within our treasury operations

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

Credit quality of treasury assets

The table below sets out information about the credit quality of treasury financial assets. As at 30 June 2022 and at 30 June 2021, all treasury assets were classified as stage 1 assets per IFRS 9 and no treasury assets were past due or impaired. The Group deems the likelihood of default across the respective asset counterparties as immaterial, and hence does not recognise a provision against the carrying balances.
The analysis presented below is derived using ratings provided by Standard and Poor's (see below disclaimer for further details) and Fitch. The worst rating from the credit agencies for each of the counterparties is used as the basis for assessing the credit risk of treasury financial assets.

	30 June 2022	30 June 2021
	£m	£m
Cash and balances at central banks and loans and advances to banks		
- Rated AA+ to AA-	1 064.9	911.5
	1 064.9	**911.5**
High quality liquid assets included in the liquidity buffer		
- Rated AAA	1 794.7	1 489.0
- Rated AA+ to AA-	544.5	510.5
Debt securities: Asset backed securities		
	2 339.2	**1 999.5**
Derivatives held for risk management purposes		
- Rated A+ to A-	291.4	19.6
	291.4	**19.6**
	3 695.5	**2 930.6**

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Funding and liquidity risk

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

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

Analysis of the liquidity buffer

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

	30 June 2022	30 June 2021
	£m	£m
Level 1		
Bank of England reserve account and unencumbered cash and bank balances	792.6	652.3
UK gilts and Treasury bills, other Sovereign, Supranational and Covered bonds	2 060.8	1 829.6
Level 2		
Covered bonds	132.4	54.5
Asset backed securities	146.0	115.4
Total liquidity buffer	**3 131.8**	**2 651.8**
As a % of funding liabilities	*18.67%*	*17.62%*

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

Customer deposits and wholesale funding

As at 30 June 2022, customer deposits have grown by 13.5% to £14.1 billion (30 June 2021: £12.4 billion) and the Group continues to maintain a diversified source of funding and contingent facilities, including utilising cost effective sources offered by the Bank of England.

In October 2018, the Group issued a new securitisation (Oak No.2) providing £325 million of funding, with £65.5 million in issue as at 30 June 2022. The underlying mortgages within the outstanding Oak No.2 securitisation will continue to be repaid with a call option in February 2023.

The Group issued two further tranches of Tier 2 subordinated debt, to its fellow subsidiary FirstRand Bank during the 2019 financial year, the first tranche of £100 million was issued in November 2018 and the second tranche of £52 million in May 2019. The 2016 issuance of £60m was redeemed in October 2021.

In September 2019, the Group issued a new securitisation (Oak No.3) providing £343.5 million of funding with £144.5 million in issue as at 30 June 2022. The underlying mortgages within the outstanding Oak No.3 securitisation will continue to be repaid with a call option in July 2024.

In September 2019 the Group issued an auto-loan backed warehouse facility (MotoMore) providing £250.2 million of funding, which was expanded during the year with £682.2 million in issue as at 30 June 2022. The revolving period end date is anticipated to occur in September 2023 and the final maturity date in October 2029.

In October 2020 the Group issued a new auto-loan backed securitisation (Turbo 9) providing £583.8 million of funding with £278.0 million in issue as at 30 June 2022. The Turbo 9 securitisation will continue to be repaid with a call option which will become applicable once the notes outstanding reach 10% of the original principal balance of the notes.

	30 June 2022	30 June 2021
	£m	£m
Retail deposits *	9 662.0	9 009.4
SME deposits *	2 499.1	2 263.0
Corporate deposits	1 944.3	1 155.1
Customer deposits	**14 105.4**	**12 427.5**
Term Funding Scheme ("TFS")	-	726.1
Term Funding Scheme for SMEs ("TFSME")	1 067.8	600.0
Other eligible schemes	210.0	-
Residential Mortgages Backed Security ("RMBS")	278.0	316.7
Warehouse backed by auto loans	682.2	769.0
Deposits by banks	274.0	0.5
Subordinated liabilities	152.8	213.6
Wholesale funding	**2 664.8**	**2 625.9**
Total funding	**16 770.2**	**15 053.4**

*The 2021 amounts shown for Retail and SME deposits have been restated.

Interest rate and market risk

Interest rate risk is the risk of loss through mismatched asset and liability positions which are sensitive to changes in interest rates. Interest rate risk consists of asset-liability gap risk and basis risk. The Group is not exposed to significant foreign exchange or equity price risk.

Asset-liability gap risk

Where possible, we seek to match the interest rate structure of assets with liabilities, creating a natural hedge. Where this is not possible, we will enter into interest rate swap transactions to convert the fixed rate exposures on loans and advances, customer deposits and fair value through other comprehensive income ("FVOCI") securities into variable three-month SONIA assets and liabilities.

Given timing differences and the price of hedging small gaps, it is not cost effective to have an absolute match of variable rate assets and liabilities. The risk exposure of the overall asset-liability interest rate profile is monitored against approved limits using changes in the economic value of the balance sheet as a result of a modelled 2 percentage point shift in the interest yield curve.

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

	30 June 2022	30 June 2021
	£m	£m
2% shift up of the yield curve:		
As at year end	(5.6)	(0.6)
Average of month end positions	(4.6)	(4.1)
2% shift down of the yield curve:		
As at year end	6.3	0.9
Average of month end positions	5.8	1.9

Gross undiscounted contractual cash flows

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

30 June 2022	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Non-derivative liabilities						
Amounts due to banks	-	2.8	8.3	1 081.9	274.0	1 367.0
Customers' accounts	4 248.0	4 977.4	3 553.5	1 405.0	-	14 183.9
Other liabilities	20.2	39.7	3.5	15.1	14.0	92.5
Debt securities in issue	-	87.2	265.2	820.2	-	1 172.6
Subordinated notes	-	2.5	5.6	4.6	152.0	164.7
Unrecognised loan commitments	636.0	-	-	-	-	636.0
	4 904.2	**5 109.6**	**3 836.1**	**3 326.8**	**440.0**	**17 616.7**
Derivative liabilities						
Derivatives held for risk management settled net	-	4.8	11.7	7.4	0.7	24.6
	-	**4.8**	**11.7**	**7.4**	**0.7**	**24.6**

30 June 2021	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Non-derivative liabilities						
Amounts due to banks	0.3	450.2	275.5	601.3	-	1 327.3
Customers' accounts	3 532.4	4 249.7	3 241.8	1 473.4	0.2	12 497.5
Other liabilities	41.9	4.6	4.8	18.5	14.9	84.7
Debt securities in issue	21.8	19.0	169.9	425.1	93.9	729.7
Subordinated notes	-	-	70.0	164.5	-	234.5
Unrecognised loan commitments	412.4	-	-	-	-	412.4
	4 008.8	**4 723.5**	**3 762.0**	**2 682.8**	**109.0**	**15 286.1**
Derivative liabilities						
Derivatives held for risk management settled net	-	6.2	17.6	17.3	(0.1)	41.0
Amounts received	-	4.3	-	-	-	4.3
Amount paid	-	(4.4)	-	-	-	(4.4)
	-	**6.1**	**17.6**	**17.3**	**(0.1)**	**40.9**

Capital risk

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

The Group operated in line with its capital risk appetite as set by the Board and above its regulatory capital requirements throughout the year ended 30 June 2022 and 30 June 2021.

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

	30 June 2022 £m	30 June 2021 £m
Common Equity Tier 1		
Share capital	243.9	243.9
Share premium account	74.4	74.4
Capital redemption reserve	0.1	0.1
FVOCI reserve	7.0	8.3
Retained earnings	946.0	796.5
IFRS 9 Transitional adjustment[1]	79.5	63.4
Less: intangible assets	(8.8)	(15.0)
Total Common Equity Tier 1 capital (CET1)	**1 342.1**	**1 171.6**
Additional Tier 1	108.0	108.0
Total Tier 1 capital	**1 450.1**	**1 279.6**
Tier 2 capital		
Subordinated notes	152.0	212.0
Total Tier 2 capital	**152.0**	**212.0**
Total capital resources	**1 602.1**	**1 491.6**
Risk weighted assets – Pillar 1[2]	**9 580.8**	**8 434.4**
Capital ratios – regulatory basis[2]		
Common Equity Tier 1 ratio	14.0%	13.9%
Tier 1 capital ratio	15.1%	15.2%
Total capital ratio	16.7%	17.7%
Leverage ratio (%)	**8.0**	**7.6**

[1] We have adopted the regulatory transitional arrangements for IFRS 9 as set out in Article 473a of the UK CRR. These arrangements allow certain impacts of IFRS 9 to be phased in over a 5 year period, including revisions made in June 2020 under the EU's 'Quick Fix' relief package. Our capital and ratios presented above are under these arrangements
[2] Risk weighted assets and the capital ratios are not covered by the external auditor's opinion.

On a fully loaded basis, with no addback for the IFRS 9 transition adjustments, the Group's capital ratios would be as follows:

	30 June 2022 £m	30 June 2021 £m
Capital ratios– fully loaded basis[1]		
Common Equity Tier 1 ratio	13.2%	13.1%
Tier 1 capital ratio	14.3%	14.4%
Total capital ratio	15.9%	16.9%

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

Reconciliation of equity per statement of financial position to capital resources

	30 June 2022 £m	30 June 2021 £m
Equity per statement of financial position	**1 379.3**	**1 231.2**
Add: subordinated notes	152.0	212.0
Add: IFRS 9 transitional adjustment	79.5	63.4
Less: intangible assets	(8.7)	(15.0)
Total capital resources	**1 602.1**	**1 491.6**

06

Financial Statements

Financial statements

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report on pages 6 to 19 includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Ralph Coates
Chief Financial Officer
6 September 2022

Independent Auditors Report to the Members of Aldermore Group PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Aldermore Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2022 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);

- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements;
- the credit risk and capital disclosures marked as audited on pages 78 to 96; and
- the related notes 1 to 41.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in note 10 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • expected credit losses on loans and advances to customers; and • effective interest rate income recognition. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £10m which was determined on the basis of 5% of profit before tax.
Scoping	Our group audit focused on Aldermore Group Plc and its significant subsidiaries, Aldermore Bank Plc and MotoNovo Finance Limited.
Significant changes in our approach	In the prior year, the impact of Covid-19 led to significant volatility in the profit before tax and our materiality was based on net assets. Given this is now returning to normal levels, we have reverted to using profit before tax. There have been no other significant changes in our approach in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

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

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

5. Key audit matters

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

5.1. Expected credit losses on loans and advances to customers

Key audit matter description	As disclosed in note 2(g) the Group recognises Expected Credit Losses ("ECL") on loans and advances to customers in line with the requirements of IFRS 9. ECL provisions as at 30 June 2022 were £234.4m (2021: £192.2m), which represented 1.6% (2021: 1.4%) of loans and advances to customers. The Income Statement charge for the year was £57.4m (2021: £51.3m). As detailed in note 3 on pages 130 to 134 'Use of estimates and judgements', determining the ECL provision is inherently uncertain and requires significant judgements and estimates. The current cost of living challenges have increased the complexity involved in estimating ECLs, in particular with respect to the incorporation of forward-looking information and identifying significant increases in credit risk. Due to the considerable judgement required to estimate the ECL, which by its nature, gives rise to a higher risk of material misstatement due to error or fraud, we have identified the determination of the ECL provision as a key audit matter. We identified four specific areas in relation to the determination of ECL that require significant judgement or relate to assumptions to which the overall ECL is particularly sensitive: • The key judgements around the cure rate and forced sale discounts applied in the Loss Given Default (LGD) model. The cure rates measure the number of loans that will cure and return to the good book after defaulting and the forced sale discount measures the difference in sale proceeds between a sale under normal conditions and a distressed sale. • The inclusion of post model adjustments (PMAs). The inherent limitations of credit risk models are that not all prevalent credit risks may be appropriately captured given new and emerging risks and thus are mitigated by PMAs, specifically around the current cost of living crisis. PMAs by nature are based on judgement and quantified using a range of assumptions. • The selection of macroeconomic scenarios and the associated weightings applied. ECL provisions are required to be calculated on a forward look basis under IFRS 9. Due to the continuing uncertain economic environment, including uncertainty in relation to future increases in borrowers' and tenants' costs of living and rises in inflation, there have been changes to the economic assumptions in each of the scenarios, as well as a change to the weightings applied to each scenario. There is significant judgement in determining the probability weighting of each scenario and the assumptions and characteristics of each scenario applied. • The ECL on significant exposures in default included in Stage 3 is individually assessed on a loan-by-loan basis considering the individual case workout strategy and valuation of collateral. There is a risk that the collateral is not appropriately valued, and all cash flows and workout scenarios are not considered.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the ECL provision with particular focus on controls over significant assumptions and judgements used in the ECL determination. To challenge the modelled LGD assumptions around cure rates and forced sale discounts, we involved our credit modelling specialists and: • Tested the key historical data fields for accuracy and completeness; • Performed an assessment of the model methodology specifically challenging how the cure rates and forced sale discounts were determined and whether these were appropriate; • Assessed whether the LGDs were calculated in line with the model methodology; and • Assessed the model performance monitoring and validation work undertaken by management. To challenge the PMAs implemented, we involved our credit modelling specialists and: • Performed an assessment of management's model methodology to identify where model limitations existed and whether these were appropriately addressed by a PMA; • Tested key data inputs into the PMA calculations, • Assessed whether the PMA was implemented appropriately and addressed the model limitation; • Challenged the quantification, methodology and data inputs for the determination of the cost of living PMA; and • Assessed management's process and recalculated the quantification of the PMAs. To challenge the macroeconomic forecasts and scenarios, we involved our credit modelling specialists and economic advisory specialists and: • Assessed management's determination of the scenarios and probability weightings applied to them as at 30 June 2022; • Evaluated the economic outlook under each of the scenarios with reference to available macroeconomic data; • Assessed whether the appropriate scenarios and forecasts were implemented in the model; • Performed a benchmarking exercise to compare the weightings and forecasts implemented by management to those used by a group of peer lenders; • Assessed whether management had implemented an appropriate selection of economic variables; and • Assessed whether the macroeconomic scenarios and forecasts translated into an appropriate ECL under each scenario. To challenge the provisions that are individually assessed, we: • Independently assessed the appropriateness of the workout scenarios considered by management; • Involved our property valuation specialists for exposures with complex collaterals to independently assess the property values applied in the ECL calculation; • Evaluated the expected cash flows for the individual cases; and • Tested the mechanical accuracy of the ECL by recalculating the ECL amount for a sample of exposures.
Key observations	Based on our audit procedures above, we concluded that the estimate of ECL is not materially misstated.

5.2. Effective interest rate income recognition

Key audit matter description	The Group's revenue recognition policy is detailed in note 2(a). As detailed in note 3, 'Use of estimates and judgements' on pages 130 to 134 a key judgement in recognition of revenue on an Effective Interest Rate ("EIR") basis, is the determination of the expected life of the underlying loans and advances. The Group's net interest income was £529.9m (June 2021: £436.4m). Management's approach to determining the interest income that should be recognised at each reporting date involves the use of complex models and relies on a number of key judgements in respect of which fees and costs should be included in the calculation. As detailed in note 3 on page 134, management have implemented new EIR models in the period which provide a greater degree of accuracy in the Group's EIR modelling. The determination of expected life 'curves' to be used in each EIR model is inherently subjective given they are forward-looking, and the level of judgement to be exercised is increased given the limited availability of historical prepayment information. Due to the considerable judgement required to estimate the expected lives for the repayment of loans and advances to borrowers for whom revenue is recognised at the EIR and given the potential for fraud through inappropriate bias within the estimate, we have identified the determination of income recognition using the EIR as a key audit matter.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the EIR calculation. In addition, for all portfolios we: • Assessed management's accounting policies and confirmed they are in accordance with accounting standards. A particular focus was the fees included / excluded from the EIR models; • Tested the compliance of the new models implemented with IFRS 9; • Tested the relevant loan data inputs, to check they had been completely and accurately included in the EIR models; and • Tested the mathematical integrity of management's EIR models by building our own models ("challenger models") and comparing the output from our models to the output from management's models. To challenge the modelled expected life curves for loan prepayments, we involved our data analytics specialists to: • Assess the methodology and technical source code applied in the EIR model in determining the expected life curves; • Assess the completeness and accuracy of the underlying inputs into the EIR model; and • Independently recreate the forecast expected life curves and apply them in our challenger models to assess against management's curves.
Key observations	Based on our audit procedures above, we concluded that the interest income for the period is not materially misstated.

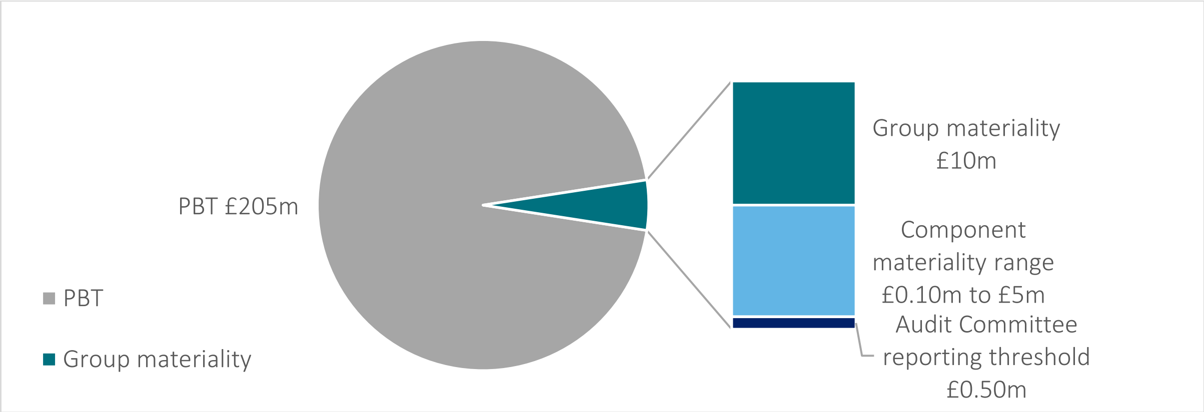
6. **Our application of materiality**

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£10m (2021: £6.1m)	£5m (2021: £3.1m)
Basis for determining materiality	5% of profit before tax (2021: 0.5% of net assets)	0.8% of net assets (2021: 0.5% of net assets)
Rationale for the benchmark applied	In the prior year, the impact of Covid-19 led to significant volatility in the profit before tax and our materiality was based on net assets. Given this is now returning to normal levels, we have reverted to using profit before tax. We believe it is the key metric used by members of the Parent Group and other relevant stakeholders in assessing financial performance.	For the parent company financial statements, as with the prior year our materiality has been capped at 50% of group materiality which equates to 0.8% of net assets, in accordance with our methodology for determining materiality for components. In our professional judgement, we believe that the use of net assets is appropriate as the purpose of the parent company is that of a holding company.



6.2 Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year. Our performance materiality remains consistent with the prior period.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £500k (2021: £300k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Our group audit focused on Aldermore Group Plc and its significant subsidiaries, Aldermore Bank Plc and MotoNovo Finance Limited which were subject to a full scope audit while the remaining subsidiaries were subject to specified audit procedures. The full scope audit of the three entities named above provided us with 100% coverage of all material balances. Our audits of each of the subsidiaries were performed using levels of materiality appropriate to each subsidiary and ranged from £0.5m to £10m. At the group level, we also tested the consolidation process. All work was performed by the group engagement team.

7.2 Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in the financial reporting, lending and savings businesses. For these controls we involved our IT specialists to perform testing over the general IT controls, including testing of user access and change management systems.

In the current year, we relied on controls for some of the lending business and some of the savings business. For the areas where we relied on controls, we performed walkthroughs with management to understand the process and controls and identified and tested relevant controls that address risks of material misstatement in financial reporting.

The Audit Committee has performed their own assessment of the internal control environment as set out on page 48.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's operations and potential impact on its financial statements. The Group has joined the 'Bankers for Net Zero' initiative and is committed to developing its net zero strategy with clearly defined targets over the next financial year. Further information is provided in the Group's Energy and Carbon Reporting on page 36. The Group sets out its assessment of the potential impact of climate change on page 75 of the Emerging Risks section of the Annual Report.

We have held discussions with the Group to understand:

- the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
- the long-term strategy to respond to climate change risks as they evolve.
- Our audit work has involved:
- challenging the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting;
- assessing management's approach to the incorporation and quantification of climate change risks within the ECL model; and
- assessing disclosures in the Annual Report, and challenging the consistency between the financial statements and the rest of the Annual Report.

We have not been engaged to provide assurance over the accuracy of climate change disclosures. As part of our audit procedures we are required to read these disclosures to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit and we did not identify any material inconsistencies as a result of these procedures.

8. **Other information**

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

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

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

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

We have nothing to report in this regard.

9. **Responsibilities of directors**

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

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

10. **Auditor's responsibilities for the audit of the financial statements**

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

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

11. **Extent to which the audit was considered capable of detecting irregularities, including fraud**

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

11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists including IT, valuations, credit modelling, economic advisory, data analytics and prudential risk specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

11.2 Audit response to risks identified

As a result of performing the above, we identified expected credit losses on loans and advances to customers and effective interest rate income recognition were relevant to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the auderdit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence from the Group's primary regulators the PRA and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 40 to the financial statements for the financial year ended 30 June 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

15. **Other matters which we are required to address**

15.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders of the company on 16 May 2017 to audit the financial statements for the year ended 30 June 2018 and subsequent financial periods. The period of total uninterrupted engagement of the firm including previous renewals and reappointments is 5 years, covering the years ended 30 June 2018 to 30 June 2022.

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

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

16. **Use of our report**

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

Manbhinder Rana FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
6 September 2022

Consolidated financial statements

Consolidated income statement
For the year ended 30 June 2022

	Note	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Interest income	5	688.7	592.5
Interest expense	6	(158.8)	(156.1)
Net interest income		**529.9**	**436.4**
Fee and commission income	7	7.4	6.8
Fee and commission expense	8	(9.9)	(10.1)
Net gains/(losses) from derivatives and other financial instruments at fair value through profit or loss	9	7.7	(0.5)
Net gains on disposal of financial assets at fair value through other comprehensive income		0.2	0.7
Other operating income		27.8	37.6
Total operating income		**563.1**	**470.9**
Provisions	29	(16.8)	(3.8)
Other administrative expenses	10	(273.9)	(245.3)
Administrative expenses	10	**(290.7)**	**(249.1)**
Depreciation and amortisation	14	(11.3)	(12.6)
Operating profit before impairment losses		**261.1**	**209.2**
Share of profit of associate	22	1.0	0.7
Impairment losses on loans and advances to customers	19	(57.4)	(51.3)
Impairment losses on lease modifications	19	-	(0.8)
Profit before taxation		**204.7**	**157.8**
Taxation	15	(46.5)	(33.4)
Profit after taxation - attributable to equity holders of the Group		**158.2**	**124.4**

The notes and information on pages 115 to 181 form part of these financial statements.

Consolidated statement of comprehensive income
For the year ended 30 June 2022

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Profit after taxation	**158.2**	**124.4**
Other comprehensive (expense)/income:		
Items that may subsequently be transferred to the income statement:		
FVOCI debt securities:		
Fair value movements	(2.2)	10.3
Amounts transferred to the income statement	(0.2)	(0.7)
Taxation	1.0	(2.8)
Total other comprehensive income	**(1.4)**	**6.8**
Total comprehensive income attributable to equity holders of the Group	**156.8**	**131.2**

The notes and information on pages 115 to 181 form part of these financial statements.

Consolidated statement of financial position
As at 30 June 2022

	Note	30 June 2022 £m	30 June 2021 £m
Assets			
Cash and balances at central banks	36	838.3	688.5
Loans and advances to banks	16	226.6	223.0
Debt securities	17	2 339.2	1 999.5
Derivatives held for risk management	18	291.6	19.6
Loans and advances to customers	19	14 731.3	13 420.4
Fair value adjustment for portfolio hedged risk	18	(199.7)	14.2
Other assets		32.3	29.4
Prepayments and accrued income		19.0	18.4
Taxation asset		8.5	0.7
Deferred taxation	21	7.6	7.6
Investment in associates	22	6.2	5.7
Plant and equipment	23	39.3	47.1
Intangible assets	24	8.8	15.0
Total assets		**18 349.0**	**16 489.1**
Liabilities			
Amounts due to banks	25	1 341.8	1 326.6
Customers' accounts	26	14 105.4	12 427.4
Derivatives held for risk management	18	24.5	40.9
Fair value adjustment for portfolio hedged risk	18	(12.7)	-
Other liabilities	27	92.4	84.7
Accruals and deferred income	28	75.2	62.9
Current taxation		-	11.0
Provisions	29	20.0	5.1
Debt securities in issue	30	1 170.2	1 085.7
Subordinated notes	31	152.8	213.6
Total liabilities		**16 969.6**	**15 257.9**
Equity			
Share capital	33	243.9	243.9
Share premium account		74.4	74.4
Additional Tier 1 capital	35	108.0	108.0
Capital redemption reserve		0.1	0.1
Fair value through other comprehensive income		6.9	8.3
Retained earnings		946.1	796.5
Total equity		**1 379.4**	**1 231.2**
Total liabilities and equity		**18 349.0**	**16 489.1**

The notes and information on pages 115 to 181 form part of these financial statements.

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

Steven Cooper
Director
6 September 2022
Registered number: 06764335

Ralph Coates
Director
6 September 2022

Consolidated statement of cash flows
For the year ended 30 June 2022

	Note	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Cash flows from operating activities			
Profit before taxation		204.7	157.8
Adjustments for non-cash items and other adjustments included within the income statement	36	84.5	65.8
Increase in operating assets	36	(1 461.0)	(973.3)
Increase in operating liabilities	36	1 704.9	663.8
Income tax paid		(64.3)	(17.1)
Net cash flows (used in)/generated from operating activities		**468.8**	**(103.0)**
Cash flows from investing activities			
Purchase of debt securities	17	(723.4)	(444.6)
Proceeds from sale and maturity of debt securities	17	159.6	333.1
Capital repayments of debt securities	17	223.3	61.4
Interest received on debt securities	5	7.6	6.8
Purchase of property, plant and equipment and intangible assets		(2.8)	(14.1)
Net cash used in investing activities		**(335.7)**	**(57.4)**
Cash flows from financing activities			
Repayment of subordinated debt	31	(60.0)	-
Proceeds from issue of debt securities	30	432.4	519.5
Capital repayments on debt securities issued	30	(349.1)	(146.2)
Coupons paid on Additional Tier 1 capital	35	(8.6)	(8.6)
Interest paid on debt securities issued	30	(10.2)	(7.1)
Interest paid on subordinated notes		(10.0)	-
Repayment of lease liabilities – principal		(5.0)	(5.1)
Interest paid on lease liabilities		(0.3)	(0.4)
Net cash generated from financing activities		**(10.9)**	**352.1**
Net increase in cash and cash equivalents		**122.2**	**191.7**
Cash and cash equivalents at start of the period	36	775.3	583.6
Movement during the period		122.2	191.7
Cash and cash equivalents at end of the period	36	**897.5**	**775.3**

Consolidated statement of changes in equity
For the year ended 30 June 2022

	Note	Share capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	FVOCI reserve £m	Retained earnings £m	Total £m
Year ended 30 June 2022								
As at 1 July 2021		**243.9**	**74.4**	**108.0**	**0.1**	**8.3**	**796.5**	**1 231.2**
Profit after taxation		-	-	-	-	-	158.2	158.2
Other comprehensive loss		-	-	-	-	(1.4)	-	(1.4)
- Coupon paid on Additional Tier 1 capital securities		-	-	-	-	-	(8.6)	(8.6)
As at 30 June 2022		**243.9**	**74.4**	**108.0**	**0.1**	**6.9**	**946.1**	**1 379.4**
Year ended 30 June 2021								
As at 1 July 2020		**243.9**	**74.4**	**108.0**	**0.1**	**1.5**	**680.6**	**1 108.5**
Profit after taxation		-	-	-	-	-	124.4	124.4
Other comprehensive income		-	-	-	-	6.8	-	6.8
- Coupon paid on Additional Tier 1 capital securities		-	-	-	-	-	(8.5)	(8.5)
As at 30 June 2021		**243.9**	**74.4**	**108.0**	**0.1**	**8.3**	**796.5**	**1 231.2**

Notes to the consolidated financial statements

1. Basis of preparation

a) Accounting basis

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

Both the Group consolidated financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and the UK adopted IFRS.

During the year ended 30 June 2022 there were no new or amended IFRS standards which became effective that impacted the Group's reported earnings, financial position or reserves, or the accounting policies.

By including the Company financial statements, here together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements, see page 182 for the Company profit disclosure.

The principal activity of the Company is that of an investment holding company. The Company is public and limited by shares. The address of the Company's registered office is: Aldermore Group PLC, Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire, RG1 1AX.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company, (jointly referred to as the Group), for the year ended 30 June 2022.

Control is achieved when the Group:

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation. On initial recognition in the consolidated financial statements, subsidiaries acquired are accounted for by applying the acquisition method of accounting to business combinations.

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

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

Securitisation vehicles

The Group has securitised certain loans and advances to customers by the transfer of the beneficial interest in such loans to securitisation vehicles (see note 30). The securitisation enabled the subsequent issue of debt securities by a securitisation vehicle to investors who have the security of the underlying assets as collateral. The securitisation vehicles are fully consolidated into the Group's accounts as the Group has control as defined above.

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

c) Going concern

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

- The impact on the Group's profitability from future increases in expected credit losses. As part of this, the Directors considered revised macroeconomic scenarios which were received from the Group's in-house experts. These are discussed and sensitivities are disclosed in note 3;
- Sufficiency of headroom over minimum regulatory requirements for liquidity and capital, including the ability of the Group to access sources of additional liquidity and / or capital if required;
- Current and forecasted conditions are significantly less severe than the reverse stress scenario considered in the latest ICAAP presented to the Prudential Regulation Authority;
- The plans for further improving the operational resilience of the Group including cyber and information security, information technology, supplier management, people and property. These improvements are planned as part of ongoing investment activity in the Aldermore Group;
- Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position;
- The validity of the Group's current strategy and its achievement of its longer-term strategic ambitions.

The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors as noted above. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including under a range of stressed scenarios.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

d) Basis of measurement

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

- Derivative financial instruments are measured at fair value through profit or loss;
- Fair value through other comprehensive income ("FVOCI") debt securities are valued at fair value through other comprehensive income; and
- Fair value adjustments for portfolios of financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships, which reflect changes in fair value attributable to the risk being hedged and are reflected through profit or loss in order to match the gains or losses arising on the derivative financial contracts that qualify as hedging instruments.

e) Use of estimates and judgements

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

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

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

f) Presentation of risk and capital disclosures

The disclosures required under IFRS 7: “Financial instruments: disclosures” and IAS 1: "Presentation of financial statements" have been included within the audited sections of the Risk Report on pages 67 to 96. Where information is marked as audited, it is incorporated into these financial statements by this cross reference and it is covered by the Independent Auditor’s report on page 100.

g) Standards and interpretation issued not yet effective

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

New Accounting Standards	Description of change	Impact on the Group
Classification of liabilities as current or non-current (IAS 1)	The amendments clarify the requirements for classifying liabilities as current or non-current. More specifically: ➢ The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. ➢ Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments clarify the situations that are considered settlement of a liability.	Effective date: 01 July 2022 – 30 June 2023. The Group presents its assets and liabilities in order of liquidity in its statement of financial position. This amendment will only affect the disclosures and the Group does not expect this amendment to have a significant impact on the annual financial statements.
Improvements to IFRS **(Annual improvements** **2016 – 2018)**	The IASB issued the Annual improvements to IFRS standards 2016-2018 Cycle. These annual improvements include amendments to the following standards. IFRS 9 – The amendment clarifies that fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.	Effective date: 01 July 2022 – 30 June 2023. The amendments are not expected to have a significant impact on the annual financial statements.

2. Significant accounting policies

(a) Interest income and expense

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

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

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

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

Interest income and expense presented in the income statement includes:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis;
- Interest on FVOCI debt securities calculated on an EIR basis;
- Interest income recognised on finance leases where the Group acts as the lessor (see note19);
- Interest on capitalised leases where the Group is the lessee;
- Interest income is net of variations in interest income which reflect any non-compliance of interest charged to customers;
- Interest income charged to Invoice Finance clients each day on the balance of their outstanding loans on an EIR basis.

(b) Fee and commissions and other operating income

i. Fee and commission income

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

Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers. Arrangement fees, factoring fees for managing the customer sales ledgers within Invoice Finance and other fees relating to loans and advances which meet the criteria for inclusion within interest income are included as part of the EIR.

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

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

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

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

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

ii. Fee and commission expense

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

iii. Other operating income

Other operating income predominantly arises from the provision of MotoNovo Finance dealer funding fees and insurance commission income from the broking of ancillary insurance products that complement the underlying hire purchase agreements advanced to customers. This income is recognised within other operating income when the Group satisfies its performance obligations. MotoNovo Finance recognises a reduction of certain income for policies expected to be cancelled against this based on the long run average cancellation rate over the life of the agreement.

Other operating income also includes income derived from the service level agreement ("SLA") recharge to the FirstRand London Branch in relation to MotoNovo Finance servicing the back book.

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

Net gains/(losses) from derivatives and other financial instruments at fair value through profit or loss relate to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement. It includes all realised and unrealised fair value movements, interest and foreign exchange differences.

(d) Financial instruments - recognition and derecognition

i. Recognition

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

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

ii. Derecognition

Financial assets are derecognised when and only when:

- The contractual rights to receive the cash flows from the financial asset expire; or
- The Group has transferred substantially all the risks and rewards of ownership of the assets.

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

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

iii. Term Funding Scheme ("TFS")

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

(e) Financial assets

i. Classification

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

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

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

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

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

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

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

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

In order for a debt security to be measured at amortised cost or fair value through other comprehensive income, the cash flows on the asset have to be solely payments of principal and interest ("SPPI"), i.e. consistent with those of a basic lending agreement. The SPPI test is applied to individual securities at initial recognition, based on the cash flow characteristics of the asset. All debt securities held as at 30 June 2022 passed the SPPI test. The Group held three portfolios of debt securities, the first as part of a mixed business model whose objectives include both the collection of contractual cash flows and the sale of financial assets, the second as part of a held to collect model whose objective is to collect contractual cash flows until maturity, and the third as part of the Aldermore Group Capital Investment Strategy which seeks to stabilise earnings volatility by extending the investment term of equity capital.

Debt securities held in the mixed business model have been classified as measured at fair value through other comprehensive income, and those held in the held to collect model and Capital Investment Strategy have been classified as measured at amortised cost.

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

ii. Measurement

Financial assets measured at amortised cost

These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount, less impairment provisions for expected losses. Financial assets measured at amortised cost mainly comprise loans and advances to customers and loans and advances to banks.

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

These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset.

Subsequently, they are measured at fair value based on current, quoted bid prices in active markets for identical assets that the Group can access at the reporting date. Where there is no active market, or the debt securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment provisions for expected losses are recognised in the income statement which does not reduce the carrying amount of the investment security but is transferred from the FVOCI reserve in equity. Other fair value movements are recognised in other comprehensive income and presented in the FVOCI reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

Financial assets at fair value through profit or loss

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

Modification of financial instruments

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

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

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

(f) Financial liabilities

i. Overview

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

ii. Financial liabilities at amortised cost

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

iii. Subordinated notes

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

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

(g) Impairment — financial assets

This policy applies to:

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

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

- Stage 1 - at initial recognition of a financial asset, or when an irrevocable loan commitment is made if this occurs before a financial asset is recognised, the asset or loan commitment is classified as stage 1 and 12 month expected credit losses ("ECL") are recognised, which are credit losses related to default events expected to occur within the next 12 months;

- Stage 2 - if the asset has experienced a significant increase in credit risk since initial recognition, the asset is classified as stage 2 and lifetime expected credit losses are recognised; and

- Stage 3 - credit impaired assets are classified as stage 3, the asset is classified as stage 3 and lifetime expected credit losses are recognised.

Collective and individual assessment

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

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

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

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

In respect of debt securities and loans to banks, estimates of expected losses are calculated on the current individual credit grading of the exposure and externally sourced expected loss rates. The Group deems the likelihood of default across the respective asset counterparties as immaterial, and hence does not recognise a provision against the carrying balances.

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

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

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

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

Definition of credit impaired (movement to stage 3)

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

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

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

Movements back to stages 1 and 2

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

Write-Off and Recoveries

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

Forward-looking macroeconomic scenarios

ECLs and SICR take into account forecasts of future economic conditions in addition to current conditions. The Group has developed a macroeconomic model which adjusts the ECLs calculated by the credit models to provide probability weighted numbers based on a number of forward-looking macroeconomic scenarios.

(h) Financial instruments—fair value measurement

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

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

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

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

(i) Derivative financial instruments

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

Derivatives are carried at fair value, with movements in fair values recorded in gains from derivatives and other financial instruments at fair value through profit or loss in the income statement.

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

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

(j) Hedge accounting

The Group exercised the accounting policy choice to continue using IAS 39 hedge accounting for portfolio assets and liabilities being hedged by applying fair value hedge accounting.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective, the strategy in undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship, as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the movements in the fair value of the respective hedged items during the period for which the hedge is designated.

Fair value hedge accounting for portfolio hedges of interest rate risk

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

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

The Group measures monthly the movements in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as a separate item, 'Fair value adjustment for portfolio hedged risk', either within assets or liabilities as appropriate.

The Group measures the fair value of each hedging instrument monthly. The value is included in derivatives held for risk management in either assets or liabilities as appropriate, with the change in value recorded in net gains from derivatives and other financial instruments at fair value through profit or loss in the income statement. Any hedge ineffectiveness is recognised in net gains from derivatives and other financial instruments at fair value through profit or loss in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

(k) Embedded derivatives

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

Embedded derivatives contained within equity instruments are considered separately. The embedded derivatives on the Additional Tier 1 instruments are not separated as the Group has an accounting policy not to separate features that have already been considered in determining that the entire issues are non-derivative equity instruments.

(l) Property, plant and equipment

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

• Fixtures, fittings and equipment	five years
• Computer hardware	one to five years
• Leasehold improvements	one to ten years
• Right of use assets – property	length of the lease
• Right of use assets – motor	three years
• Assets under operating leases	one to seven years

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

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

(m) Intangible assets

i. Goodwill

Goodwill on the acquisition of businesses and subsidiaries represents excess consideration transferred and is recognised as an intangible asset at cost less accumulated impairment losses.

ii. Computer systems

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

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

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

(n) Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, i.e. goodwill and other intangible assets are reviewed for impairment. Goodwill is tested annually for impairment or earlier if there are objective indicators of impairment. Other intangible assets are reviewed for impairment semi – annually or earlier if there is an indicator of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

i. Goodwill

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to operating segments. An impairment loss is recognised if the carrying amount of a segment is higher than its recoverable amount. The recoverable amount of a segment is the greater of its value in use and its fair value less costs to sell. Value in use is calculated from forecasts by management of pre-tax profits for the subsequent five years and a residual value discounted at a risk adjusted interest rate appropriate to the cash generating unit. Fair value is determined through review of precedent transactions for comparable businesses. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

ii. Other intangible assets

Other intangible assets are tested for impairment at least semi-annually. If impairment is indicated, the asset's recoverable amount, being the greater of value in use and fair value less costs to sell, is estimated.

If the carrying value of the asset is greater than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement.

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

(o) Assets leased to customers

Leases of assets to customers are finance leases as defined by IFRS 16. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross lease payments receivable and the present value of the receivable represents the unearned finance income which is recognised as finance income over the term of the lease. Lease income is recognised within interest income in the income statement over the term of the lease which reflects a constant periodic rate of return ignoring tax cash flows.

(p) Assets leased from third parties

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

(q) Provisions

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

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

(r) Foreign currencies

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

(s) Taxation

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

Current tax is the expected tax payable or receivable on taxable profits or tax allowable losses for the period, together with any adjustment in respect of previous years. Current income tax arising from distributions made on other equity instruments is recognised in the income statement as the distributions are made from retained earnings arising from profits previously recognised in the income statement.

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

The Group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

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

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

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

(t) Pension costs

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

(u) Shareholders' funds

i. Capital instruments

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Company to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, or where the instrument will or may be settled in the Company's own equity instruments but includes no obligation to deliver a variable number of the Company's own equity instruments, then it is treated as an equity instrument. Accordingly, the Company's share capital and Additional Tier 1 capital securities are presented as components of equity. Any dividends, interest or other distributions on capital instruments are also recognised in equity.

ii. Share premium

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

(v) Capital raising costs

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

(w) Cash and cash equivalents

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

(x) Investment in group undertakings

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

(y) Share-based payment transactions

In order to incentivise and reward future strong long-term business performance and growth, senior executives and employees of the Group have been granted - as part of their remuneration - awards, which are linked to the quoted share price of FirstRand Limited. The awards are recognised in the financial statements as cash-settled share-based payments. Awards granted under cash-settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

The cost of such awards are settled by payments made by the Company to an associate of the FirstRand Group which assumes the liability for the settlement of the awards, and the cost will be recharged to the Aldermore Group companies to which the awardees provide their services. This results in the derecognition of the share-based payment obligation and the recognition of a prepaid debtor, which the Group releases to the income statement over the vesting period of the original award granted to the employees.

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

Within the parent company standalone financial statements, the equity-settled share-based payment transactions are recognised as an investment in Group undertakings with an associated credit to the share-based payment reserve. For cash-settled share-based payments no cost has been recognised as the costs incurred by the Company are fully rechargeable to the Aldermore Group companies for which the awardees provide their services.

(z) Investment in associates

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

3. Use of estimates and judgements

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

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

(a) Loan impairment provisions

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

Definition of default

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

Significant increase in Credit Risk for classification in stage 2

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

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

As explained in note 2(g), loans are only considered for reclassification from stage 3 into stage 2 when they no longer meet the criteria for inclusion and have completed agreed probation periods. The probation periods are set according to the type of lending and are based upon professional judgement as to when the risk of a return to stage 3 is considered minimal. It should be noted that £9.6 million of the stage 3 ECL at 30 June 2022 no longer meet the criteria for inclusion but remain in stage 3 pending completion of the agreed probation periods (30 June 2021: £21.7 million). Reclassifications from stage 2 to stage 1 are only possible when the SICR criteria are no longer met.

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

PD models

The Group has employed a number of PD models, tailored to different types of lending with shared characteristics, to assess the likelihood of default within the next 12 months and over the lifetime of each loan. The models calculate estimates of PDs based upon current characteristics of the borrower and observed historical default rates. A 10.0% deterioration in the modelled PDs would result in an increase in impairment provisions by £8.1 million as at 30 June 2022 (30 June 2021: £7.3 million).

LGD models

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

- A 10.0% absolute improvement in the cure rate would reduce total impairment provisions by £19.4 million as at 30 June 2022 (30 June 2021: £16.0 million).
- A 10.0% relative reduction in the HPI would increase the total impairment provisions for mortgage lending by £11.3 million as at 30 June 2022 (30 June 2021: £8.4 million).
- A 5.0% absolute increase in the FSD would increase the total impairment provisions for mortgage lending by £8.5 million as at 30 June 2022 (30 June 2021: £6.3 million).
- A 10.0% relative reduction in the overall value of collateral realised in the Asset Finance and Invoice Finance businesses would increase the total impairment provisions for such lending by £2.3 million as at 30 June 2022 (30 June 2021: £2.6 million).
- A 10.0% relative reduction in the overall value of collateral realised in the MotoNovo Finance business would increase the total impairment provisions of such lending by £6.8 million as at 30 June 2022 (30 June 2021: £5.9 million).
- A 20.0% relative reduction in the TTS would reduce the total impairment provisions for mortgage lending and Asset Finance business by £1.6 million as at 30 June 2022 (30 June 2021: £2.2 million)

Forward looking macroeconomic scenarios

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

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

The IFRS9 scenarios used at 30 June 2022 use forecast-error distributions as outlined below:

- Upside scenario;
- Base scenario;
- Downside scenario; and
- Severe Downside scenario.

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

As at 30 June 2022, the following forward-looking macroeconomic scenarios, together with their probability weighting and key economic variables, were used in calculating the ECLs used for determining impairment provisions:

		Economic variables per scenario – average next 5 years			
Scenario	Probability weighting	GDP Growth	Bank of England Base Rate	Unemployment rate	Consumer Price Index
Upside	5%	2.7%	2.0%	3.4%	3.4%
Base	45%	1.5%	1.5%	3.8%	3.6%
Downside	35%	0.4%	2.3%	6.8%	4.2%
Severe Downside	15%	(0.1%)	(0.4%)	8.3%	2.2%

As at 30 June 2022, applying a 100% weighting to the severe downside scenario would result in an incremental £39.8million of provisions being required. Applying a 100% weighting to the upside scenario would result in a £62.5 million reduction of provisions being required.

As at 30 June 2021, the following forward-looking macroeconomic scenarios, together with their probability weighting and key economic variables, were used in calculating the ECLs used for determining impairment provisions:

		Economic variables per scenario – average next 5 years			
Scenario	Probability weighting	GDP Growth	Bank of England Base Rate	Unemployment rate	Consumer Price Index
Upside	10%	4.09%	1.04%	3.78%	2.48%
Base	50%	2.17%	0.12%	4.76%	1.64%
Downside	25%	1.42%	(0.14%)	6.46%	1.13%
Severe Downside	15%	(1.50%)	(0.43%)	8.44%	0.66%

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

Post Model Adjustments

The Group applies Post Model Adjustments ("PMA") to the modelled IFRS 9 ECL provisions. PMAs are reviewed and approved on a periodic basis at the Credit Impairment Committee. The PMAs applied at 30 June 2022 are listed below:

- LGD PMAs are applied to align model outputs to observed loss experience on the Residential Mortgages, Buy to Let, Asset Finance and MotoNovo portfolios. For stage 3 exposures, the PMAs reflect additional risk drivers recognising the need for increased provision coverage as defaulted exposures age on book.;
- Mortgage Lifetime Probability of Default PMA applied to Residential Mortgages and Buy to Let portfolios incorporate more recently observed default data within the probability of default term structure parameters;
- End of Term Risk PMA were raised on the Commercial and Residential Mortgages portfolios to account for additional default risk at the end of the term on Interest-only products, where the borrower is unable to repay or refinance the remaining loan amount;
- PMA to reflect the current cost of living economic conditions where high inflation and reduced affordability is expected to impact customers most vulnerable to indebtedness was applied to the Residential Mortgages, Buy to Let and MotoNovo portfolios;
- Climate risk PMA covering physical and transitional climate risk in relation to vehicle residual values, future property values and Buy to Let EPC legislation;
- PMA to cover additional risk in relation to properties with cladding that may require removal/refitting.

The total value of ECL PMAs as at 30 June 2022 is £49.6 million (30 June 2021: £42.8 million).

Individually assessed impairment provisions on stage 3 loans

In order to determine the lifetime ECL to be reflected as an impairment provision, estimates were made based upon individual assessments of the borrower and the valuation of collateral provided, net of any costs to sell. The most significant estimate is in respect of the valuation of collateral provided and it is estimated that a 10.0% relative reduction in its valuation would increase the total impairment provisions for such lending by £5.4 million as at 30 June 2022 (30 June 2021: £6.9 million).

(b) Effective interest rate ("EIR")

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

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

As at 30 June 2022, included within the overall Residential Mortgages book, are a small number of portfolios which were acquired by the Group and represent approximately 0.7% and 0.7% of Buy to Let and Residential Mortgages net loans respectively (30 June 2021: 1.1% and 0.7% respectively). These portfolios were acquired at a discount which is being recognised under the EIR method. As disclosed below, these portfolios, although representing a small proportion of overall lending, are sensitive to a change in the expected repayment profiles which would impact the periods over which the discount is to be unwound.

A reassessment was made of the estimates used in respect of the expected lives of the Asset Finance and the Buy to Let and Residential Mortgage acquired portfolios during the year. As a consequence, an overall adjustment of £0.9 million (30 June 2021: £14.8 million) was recorded to reduce the value of the loan portfolios and the interest income recognised in the current period, so that interest can continue to be recognised at the original effective interest rate over the remaining life of the relevant lending portfolios.

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

	Year ended 30 June 2022 interest income £m	Year ended 30 June 2021 interest income £m
Asset Finance - organic lending	0.5	(1.1)
SME Commercial - organic lending	-	(1.6)
Buy to Let - organic lending	-	(13.3)
Residential - acquired portfolios	(4.7)	(1.0)
Residential - organic lending	-	2.2
	(4.2)	**(14.8)**

A change in the estimated expected lives to extend the expected lives of the SME Commercial, Buy to Let and Residential Mortgage portfolios by six months would have the effect of reducing the cumulative profit before tax recognised as at June 2022 by £4.5 million (30 June 2021: cumulative increase in profit of £0.7 million).

New effective interest rate ("EIR") models were implemented during the year which provide a greater degree of granularity on the Group's EIR modelling and have provided a one-off benefit of £24.4m, primarily to Business Finance as a result of the revision of the EIR estimates. This change met the criteria in IAS 8 as a change in estimates and hence has been recorded as a current year item.

4. Segmental information

The Group's reporting segments as noted in the Strategic Report are allocated to three distinct customer facing businesses: Business Finance (made up of Asset Finance, Invoice Finance and SME Commercial Mortgages); Retail Finance (made up of Residential Owner Occupied Mortgages and Buy to Let Mortgages) and MotoNovo Finance. For the reportable segments the Group has shown these more detailed business portfolios plus Central Functions. All 2022 financial reports detail performance on a reporting segment basis. It is also possible to review performance aggregated by Business Finance and Retail Finance using data from the individual reporting segments. As such, it is still deemed appropriate to split the segmental reporting by individual reporting segments for the 2022 IFRS 8 disclosure.

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

- Asset Finance - lease and hire purchase financing for SMEs, focusing on sectors with complex and structured deals, which play to our specialist underwriting advantage;
- Invoice Finance - provides UK SMEs with working capital solutions through invoice discounting, factoring and asset based lending;
- SME Commercial Mortgages - property finance needs of professional, commercial property investors, and owner-occupier SMEs. Targets multi-let commercial investment property loans and property development to experienced regional developers;
- Buy to Let Mortgages - offers a wide range of standard and specialist Buy to Let mortgages for residential units, multi-unit freehold or houses with multiple-occupation ("HMO") to both individuals and companies;
- Residential Owner Occupied Mortgages - prime residential mortgages targeting under-served segments of creditworthy borrowers that provide attractive and sustainable margins; and
- MotoNovo Finance - provides individuals and dealers with funding to purchase cars, vans and motorcycles.

Central Functions include the reconciling items between the total of the Bank's five reportable operating segments (MotoNovo Finance is excluded as it has its own central function costs) and the consolidated income statement. As well as common costs, Central Functions include the Group's Treasury and Savings functions which are responsible for raising finance on behalf of the reporting segments. The costs of raising finance are all recharged by Central Functions to the reporting segments, apart from those costs relating to the subordinated notes and the net gains / losses from derivatives held at fair value shown in note 18.

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

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

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

Segmental information for the year ended 30 June 2022

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy to Let £m	Residential Mortgages £m	MotoNovo Finance £m	Central Functions £m	Total £m
Interest income – external customers	110.2	30.8	70.9	191.2	84.6	191.0	10.0	688.7
Interest expense – external customers	-	-	-	-	-	-	(158.8)	(158.8)
Interest (expense)/income – internal	(21.8)	(2.9)	(16.1)	(80.3)	(29.2)	(43.9)	194.2	-
Net fees and other income – external customers	4.3	4.1	0.5	(0.2)	(0.1)	23.3	1.3	33.2
Total operating income	**92.7**	**32.0**	**55.3**	**110.7**	**55.3**	**170.4**	**46.7**	**563.1**
Administrative expenses including depreciation and amortisation	(14.5)	(8.4)	(6.4)	(13.9)	(8.5)	(82.9)	(167.4)	(302.0)
Impairment losses	11.1	(1.3)	(1.6)	(7.1)	(6.2)	(52.3)	-	(57.4)
Share of profit of associate	-	-	-	-	-	-	1.0	1.0
Segmental result	**89.3**	**22.3**	**47.3**	**89.7**	**40.6**	**35.2**	**(119.7)**	**204.6**
Tax								(46.5)
Profit after tax								**158.2**
Assets	1 728.1	480.7	1 364.5	4 918.3	2 285.9	3 954.0	3 617.5	18 349.0
Liabilities							(16 969.6)	(16 969.6)
Net assets/(liabilities)	**1 728.1**	**480.7**	**1 364.5**	**4 918.3**	**2 285.9**	**3 954.0**	**(13 352.2)**	**1 379.4**

Segmental information for the year ended 30 June 2021

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

5. Interest income

Interest income calculated using effective interest rate	**Year ended 30 June 2022 £m**	Year ended 30 June 2021 £m
On loans and advances to customers*	678.6	604.7
On loans and advances to banks	3.6	0.7
On debt securities - measured at FVOCI	9.2	8.1
	691.4	**613.5**
On financial assets at fair value through profit or loss:		
Net interest expense on financial instruments hedging assets	(2.7)	(21.0)
	688.7	**592.5**

* Interest Income on loans and advances to customers includes a £7.3m reduction (June 2021: £2.2m) to reflect the non-compliant nature of interest charged to customers during a specific period.

6. Interest expense

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
On financial liabilities at amortised cost:		
On customers' accounts	110.9	118.3
On amounts due to banks	5.6	2.8
On debt securities in issue	2.1	10.0
On subordinated notes	9.2	12.7
On lease liabilities	0.1	0.4
Other	0.5	0.5
	128.4	**144.7**
On financial liabilities at fair value through profit or loss:		
Net interest expense on financial instruments hedging liabilities	30.4	11.4
	158.8	**156.1**

7. Fee and commission income

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Invoice Finance fees	1.0	0.9
Valuation fees	0.5	0.9
HP income, option fees and secondary rental fees	3.3	2.1
Annual administration and arrears fees	0.7	0.6
Other fees	1.9	2.3
	7.4	**6.8**

8. Fee and commission expense

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Introducer commissions	0.9	1.0
Legal and valuation fees	1.7	1.1
Company searches and other fees	5.1	6.4
Credit protection and insurance charges	2.2	1.6
	9.9	**10.1**

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

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Net gains/(losses) on derivatives	7.9	(0.3)
Net (losses) on available for sale assets held in fair value hedges	(0.2)	(0.2)
	7.7	**(0.5)**

Included within net gains / (losses) on derivatives on financial instruments at fair value through profit or loss are gains of £219.9 million (2021: £44.2 million gain) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with loans and advances to customers, together with losses of £211.6 million (2021: £44.4 million loss) representing changes in the fair value of the hedged interest rate risk. Also included are losses of £12.7 million (2021: £3.5 million loss) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with customer deposits, together with gains of £8.5 million (2021: £2.6 million gain) representing changes in the fair value of the hedged interest rate risk.

10. Administrative expenses

	Note	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Staff costs	11	160.0	138.8
Legal and professional and other services		47.9	38.4
Information technology costs		45.5	44.5
Office costs		7.5	6.2
Provisions	29	16.8	3.8
Impairment of leases		-	0.6
Other		13.0	16.8
		290.7	**249.1**

Included in legal and professional and other services is remuneration to the Group's external auditors (Deloitte LLP) for the annual audit of £2.0 million (2021: £1.3 million) and £0.0 million for other assurance services (2021: £0.1 million). The increase in legal and professional costs in the year mainly reflects costs incurred to deliver the new strategy for the Group.

Included in office costs are operating lease rentals (including service charges) of £1.6 million (2021: £0.8 million).

Included in other administrative expenses are costs relating to temporary staff of £11.6 million (2021: £5.6 million), travel and subsistence of £1.7 million (2021: £0.3 million) and staff recruitment of £4.3 million (2021: £2.2 million).

11. Staff costs

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Wages and salaries	134.2	115.1
Social security costs	15.2	13.8
Other pension costs	6.4	5.9
Share based payments	4.2	4.0
	160.0	**138.8**

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

	Year ended 30 June 2022	Year ended 30 June 2021
Central functions	780	695
Business Finance and Retail Finance	605	576
MotoNovo Finance	813	758
	2 198	**2 029**

12. Remuneration of directors

	Year ended 30 June 2022 £'000	Year ended 30 June 2021 £'000
Directors' emoluments	3 304.2	4 113.8
Payments in respect of personal pension plans	75.0	60.2
Contributions to money purchase pension scheme	64.2	17.0
Long term incentive schemes	49.4	177.3
	3 492.8	**4 368.3**

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

In the year ended 30 June 2022, the Group's securitisation vehicles paid third party fees of £44,500 for corporate director services (2021: £44,500). While the share capital of these vehicles is not owned by the Group, the vehicles are included in the consolidated financial statements as they are controlled by the Group.

Long-term incentive schemes

A number of long-term incentive schemes were introduced following the acquisition by FirstRand in March 2018. These new schemes are a mixture of equity-settled, a requirement to purchase FirstRand shares at vesting, and cash-settled schemes. Amounts are reflected in the above remuneration disclosures when the awards are payable as a result of the Director satisfying the scheme conditions.

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

Highest Paid Director

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

	Year ended 30 June 2022 £'000	Year ended 30 June 2021 £'000
Emoluments	1 864.4	1 392.7
Payments in respect of personal pension plans	50.2	49.5
Long term incentive schemes	-	177.3
	1 914.6	**1 619.5**

13. Pension and other post-retirement benefit commitments

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £6.4 million (2021: £5.9 million) were charged to the income statement during the year in respect of these schemes. The Group made payments amounting to £75,046 (2021: £60,220) in aggregate in respect of Directors' individual personal pension plans during the year. There were outstanding contributions of £0.6 million at the year end (2021: £0.7 million).

14. Depreciation and amortisation

	Note	**Year ended 30 June 2022 £m**	Year ended 30 June 2021 £m
Depreciation	23	10.6	10.6
Amortisation of intangible assets	24	0.7	2.0
		11.3	**12.6**

15. Taxation

a) Tax charge

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Current tax on profits for the year	45.1	39.5
Over provision in previous periods	0.4	(0.2)
Total current tax	**45.5**	**39.3**
Deferred tax	0.9	(5.5)
Over provision in previous periods	0.1	(0.4)
Total deferred tax charge/(credit)	**1.0**	**(5.9)**
Total tax charge	**46.5**	**33.4**

Current tax on profits reflects UK corporation tax levied at a rate of 19% for the year ended 30 June 2022 (30 June 2021: 19%) and the banking surcharge levied at a rate of 8% on the profits of banking companies chargeable to corporation tax after an allowance of £25.0 million per annum.

A tax charge of £1.0 million in respect of the fair value movements in FVOCI sale debt securities has been shown in other comprehensive income during the year ended 30 June 2022 (30 June 2021: £2.8 million credit in respect of AFS securities).

The tax relief on the contingent convertible security coupon costs for the consolidated Group for the year is £1.8 million (2021: £2.0 million). This comprises £1.6 million at mainstream rate (2021: £1.6 million) and £0.2 million at surcharge rate (2021: £0.4 million).

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023 as substantively enacted on 24 May 2021. On the 24 February 2022 the Finance Act 2022 was substantively enacted. This confirmed that the banking surcharge rate of 8% will be reduced to 3% and the banking surcharge allowance will be increased from £25m to £100m both with effect from 1 April 2023. Deferred tax amounts are measured taking into account this change.

b) Factors affecting tax charge for the year

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Profit before tax	**204.7**	**157.8**
Tax at 19% (2021: 19%) thereon	38.9	30.0
Effects of:		
Expenses not deductible for tax purposes	0.2	0.3
Over/(under) provision in previous periods	0.5	(0.6)
Deferred tax rate adjustment	1.2	(2.1)
Effect of banking tax surcharge	10.0	8.0
Other differences	(2.7)	(0.6)
Tax credit relief for contingent convertible securities coupon	(1.6)	(1.6)
	46.5	**33.4**

The effective tax rate of 22.7% is higher than the UK corporation tax rate due to the impact of the bank surcharge. The ETR is higher than the prior period (21.1%) due to more banking surcharge becoming payable as a result of higher profits, prior year adjustments and the impact of deferred tax rate change.

16. Loans and advances to banks

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	131.1	123.0
Cash collateral on derivatives placed with banks	90.5	84.8
Other loans and advances to banks	5.0	15.2
	226.6	**223.0**

£5.0 million is recoverable more than 12 months after the reporting date in respect of cash held by banks on behalf of the Group's securitisation vehicles (30 June 2021: £15.2 million).

All loans and advances to banks were stage 1 assets under IFRS 9 as at 30 June 2022 and as at 30 June 2021. There were no significant impairment provisions in respect of expected losses as at 30 June 2022 or during the year then ended.

17. Debt securities

	30 June 2022 £m	30 June 2021 £m
FVOCI debt securities:		
UK Government gilts	156.8	133.3
Supranational bonds	963.9	1 061.2
Asset-backed securities	146.0	115.4
Covered bonds	681.1	495.9
Debt securities at amortised cost:		
UK Government gilts	150.3	107.3
Supranational bonds	241.1	86.4
	2 339.2	**1 999.5**

At 30 June 2022, £2,104.3 million (30 June 2021: £1,659.6 million) of debt securities are expected to be recovered more than 12 months after the reporting date.

All debt securities were stage 1 assets under IFRS 9 as at 30 June 2022 and as at 30 June 2021. There were no significant impairment provisions in respect of expected losses as at 30 June 2022 or as at 30 June 2021.

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

18. Derivatives held for risk management

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

	2022		2021	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Instrument type				
Interest rate (not in hedging relationships)	8.2	8.5	1.8	1.6
Interest rate (fair value hedges)	282.9	15.7	17.8	39.3
Equity	0.1	0.1	-	-
Foreign exchange	0.4	0.2		
	291.6	**24.5**	**19.6**	**40.9**

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

a) Fair value hedges of interest rate risk

In accordance with its risk management strategy as described on page 93, the Group enters into interest rate swap contracts to manage the interest rate risk arising in respect of the fixed rate interest exposures on loans and advances to customers, debt securities and customer deposits, which are each treated as separate portfolios.

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

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

The Group has identified the following possible sources of ineffectiveness:

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

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

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

	Nominal amount of the hedging instruments Year ended 30 June 2022	Carrying amount of the hedging instruments Year ended 30 June 2022		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness Year ended 30 June 2022
Fair value hedges *Interest rate risk*	£m	Assets £m	Liabilities £m		£m
Interest rate swaps	12 309.3	282.9	15.8	Derivatives held for risk management	272.0

	Nominal amount of the hedging instruments Year ended 30 June 2021	Carrying amount of the hedging instruments Year ended 30 June 2021		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness Year ended 30 June 2021
Fair value hedges *Interest rate risk*	£m	Assets £m	Liabilities £m		£m
Interest rate swaps	10 591.1	17.8	39.3	Derivatives held for risk management	63.6

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

Fair value hedges *Interest rate risk*	**Carrying amount of the hedged items Year ended 30 June 2022** Assets £m	Liabilities £m	**Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged items Year ended 30 June 2022** Assets £m	Liabilities £m	**Line item in the statement of financial position where the hedged items are included**
Loans and advances to customers	6 855.0	N/A	(199.7)	N/A	Loans and advances to customers
Debt securities	881.2	N/A	(68.5)	N/A	Debt securities
Customer deposits	N/A	3 276.9	N/A	12.7	Customer accounts

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

The table below summarises the hedge ineffectiveness recognised in profit or loss during the financial year ended 30 June 2022 and the comparative period, for the Group’s designated fair value hedge relationships.

	Ineffectiveness recognised in the income statement Year ended 30 June 2022 £m	Line item in the statement of financial position where the hedged instrument is located
Fair value hedges *Interest rate risk*	3.9 Gain	Net gains / (losses) from derivatives and other financial instruments at fair value through profit or loss

	Ineffectiveness recognised in the income statement Year ended 30 June 2021 £m	Line item in the statement of financial position where the hedged instrument is located
Fair value hedges *Interest rate risk*	5.7 Gain	Net gains / (losses) from derivatives and other financial instruments at fair value through profit or loss

b) Other derivatives held for risk management

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

- Interest rate basis risk on certain mortgage loans;
- Equity market risk on equity-linked products offered to depositors; and
- Foreign exchange risk on currency loans provided to Invoice Finance customers.

19. Loans and advances to customers

	30 June 2022 £m	30 June 2021 £m
Gross loans and advances	14 965.7	13 612.6
less: allowance for impairment losses	(234.4)	(192.2)
	14 731.3	**13 420.4**
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	12 470.1	11 627.4

At 30 June 2022, loans and advances to customers of £2,920.4 million (30 June 2021: £3,425.1 million) were pre-positioned into a Single Funding Pool with the Bank of England and HM Treasury Term Funding Scheme. These loans and advances were available for use as collateral with the Scheme. Details of amounts drawn on the facility are shown in note 25.

At 30 June 2022, loans and advances to customers included £1,349.5 million (30 June 2021: £1,146.6 million) which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to securitisation vehicles consolidated into these financial statements. All the assets pledged are retained within the statement of financial position as the Group retains substantially all the risks and rewards relating to the loans.

Analysis of gross loans and advances

£m	30 June 2022 Gross loans and advances (amortised cost) Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2021	**12 134.1**	**1 086.2**	**392.3**	**13 612.6**
Improvement in credit exposure				
Stage 2 to stage 1	515.0	(515.0)	-	-
Stage 3 to stage 1	58.8	-	(58.8)	-
Stage 3 to stage 2	-	27.7	(27.7)	-
Deterioration of credit exposure				-
Stage 1 to stage 2	(685.9)	685.9	-	-
Stage 1 to stage 3	(69.1)	-	69.1	-
Stage 2 to stage 3	-	(47.6)	47.6	-
Opening balance after transfers	**11 952.9**	**1 237.2**	**422.5**	**13 612.6**
Repayments of loans and advances	(3 692.5)	(367.4)	(121.8)	(4 181.7)
Change in exposure due to new business in the current year	5 006.4	478.2	70.4	5 555.0
Bad debts written off	-	-	(20.2)	(20.2)
Amount as at 30 June 2022	**13 266.8**	**1 348.0**	**350.9**	**14 965.7**

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

Analysis of loss allowances

£m	30 June 2022 Allowance for impairment losses (amortised cost) Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2021	**60.1**	**42.5**	**89.6**	**192.2**
Improvement in credit exposure				
Stage 2 to stage 1	8.1	(8.1)	-	-
Stage 3 to stage 1	10.7	-	(10.7)	-
Stage 3 to stage 2	-	5.1	(5.1)	-
Deterioration of credit exposure				-
Stage 1 to stage 2	(3.3)	3.3	-	-
Stage 1 to stage 3	(0.6)	-	0.6	-
Stage 2 to stage 3	-	(4.6)	4.6	-
Opening balance after transfers	**75.0**	**38.2**	**79.0**	**192.2**
Change in exposure of back book in the current year	**(15.4)**	**(10.8)**	**29.4**	**3.2**
Attributable to change in measurement basis	-	(6.2)	-	(6.2)
Attributable to change in risk parameters	(15.4)	(4.6)	29.4	9.4
Change in exposure due to new business in the current year	29.1	17.1	19.9	66.1
Acquisition/(disposal) of advance	-	-	(6.9)	(6.9)
Bad debts written off	-	-	(20.2)	(20.2)
Amount as at 30 June 2022	**88.7**	**44.5**	**101.2**	**234.4**
Included in the total loss allowance				
Netted against loans and advances to customers	86.8	44.5	101.2	232.5
Included in respect of loan commitments*	1.9	-	-	1.9
Other components of the total loss allowance				
- Forward looking information	9.9	15.2	2.0	27.1
- Changes in models	1.7	3.6	6.8	12.1
- Interest on stage 3 advances**	-	-	5.4	5.4

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

Breakdown of impairment charge recognised during the year

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Included in provisions in respect of loan commitments	1.3	(0.1)
Change in exposure of back book in the current year	1.9	29.8
Change in exposure due to new business in the current year	66.1	34.2
Interest income suspended	(2.4)	(3.3)
Increase in loss allowance	**66.9**	**60.6**
Recoveries of bad debts	(9.5)	(9.3)
Impairment losses on loans and advances to customers	**57.4**	**51.3**
Impairment losses on lease modifications	-	0.8
Impairment of advances recognised during the period	**57.4**	**52.1**

*Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single EAD. The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.

**Cumulative balance as at 30 June 2022.

Basis of preparation of the gross carrying amount and loss allowance

The reconciliation of the gross carrying amount and loss allowance is prepared using a year-to-date view. This means that the Group reports exposures based on the impairment stage at the end of the reporting period. The Group transfers opening balances (back book), at the value as at 1 July 2021, based on the impairment stage at the end of the reporting period. Any additional ECL raised or released is included in the impairment stage as at the end of the reporting period. Exposures in the back book, can move directly from stage 3 to stage 1, if the curing requirements have been met in a reporting period. All new business (as defined below) is included in the change in exposure due to new business in the current year based on the exposures' impairment stage at the end of the reporting period. Similarly, exposures in the new business lines can be reported in stage 3 at the end of the reporting date.

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

Changes in exposure reflect the net amount of:

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

Decreases in the advance as a result of write-off are equal to the decrease in ECL as exposures are 100% provided for before being written off. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is £20.2 million.

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**12.3**	**9.5**	**19.8**	**41.6**
Improvement in credit exposure				
Stage 2 to stage 1	3.1	(3.1)		
Stage 3 to stage 1	6.8		(6.8)	
Stage 3 to stage 2		2.5	(2.5)	
Deterioration of credit exposure				
Stage 1 to stage 2	(0.5)	0.5		
Stage 1 to stage 3	(0.1)		0.1	
Stage 2 to stage 3		(0.3)	0.3	
Opening balance after transfers	**21.6**	**9.1**	**10.9**	**41.6**
Change in exposure of back book in the current year	**(12.6)**	**(5.5)**	**3.6**	**(14.5)**
Attributable to change in measurement basis	-	(3.7)	-	(3.7)
Attributable to change in risk parameters	(12.6)	(1.8)	3.6	(10.8)
Change in exposure due to new business in the current year	6.9	0.6	1.1	8.6
Bad debt written off	-	-	(8.4)	(8.4)
Amount as at 30 June 2022	**15.9**	**4.2**	**7.2**	**27.3**
Included in the total loss allowance				
Netted against loans and advances to customers	15.9	4.2	7.2	27.3
Other components of total loss allowance				
- Forward looking information	0.9	2.2	0.6	3.7
- Changes in models	(2.7)	(1.8)	3.5	(1.0)
- Interest on stage 3 advances**			0.3	0.3

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

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**3.7**	**-**	**0.9**	**4.6**
Improvement in credit exposure				
Stage 3 to stage 1	0.1		(0.1)	-
Deterioration of credit exposure				
Opening balance after transfers	**3.8**	**-**	**0.8**	**4.6**
Change in exposure of back book in the current year	**0.2**	**0.1**	**0.5**	**0.8**
Attributable to change in risk parameters	0.2	0.1	0.5	0.8
Change in exposure due to new business in the current year	0.5	-	-	0.5
Bad debt written off	-	-	(0.1)	(0.1)
Amount as at 30 June 2022	**4.5**	**0.1**	**1.2**	**5.8**
Included in the total loss allowance				
Netted against loans and advances to customers	4.5	0.1	1.2	5.8
Other components of total loss allowance				
- Forward looking information	0.2	-0.1	-2.4	-2.3
- Changes in models	1.2	1.2	0.4	2.8

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

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**5.3**	**4.8**	**11.3**	**21.4**
Improvement in credit exposure				
Stage 2 to stage 1	1.4	(1.4)		-
Stage 3 to stage 1	1.8		(1.8)	-
Stage 3 to stage 2		0.9	(0.9)	-
Stage 1 to stage 2	(0.3)	0.3		-
Stage 2 to stage 3		(0.1)	0.1	-
Opening balance after transfers	**8.2**	**4.5**	**8.7**	**21.4**
Change in exposure of back book in the current year	**(3.4)**	**(1.3)**	**2.6**	**(2.1)**
Attributable to change in measurement basis	-	0.7	-	0.7
Attributable to change in risk parameters	(3.4)	(2.0)	2.6	(2.8)
Change in exposure due to new business in the current year	1.8	1.2	0.9	3.9
Bad debt written off	-	-	(0.1)	(0.1)
Amount as at 30 June 2022	**6.6**	**4.4**	**12.1**	**23.1**
Included in the total loss allowance				
Netted against loans and advances to customers	6.1	4.4	12.1	22.6
Included in respect of loan commitments*	0.5	-	-	0.5
Other components of total loss allowance				
- Forward looking information	0.5	0.8	1.1	2.4
- Changes in models	0.5	1.7	2.5	4.7
- Interest on stage 3 advances**	-		0.9	0.9

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

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**9.2**	**7.2**	**18.8**	**35.2**
Improvement in credit exposure				
Stage 2 to stage 1	1.6	(1.6)		-
Stage 3 to stage 1	0.7		(0.7)	-
Stage 3 to stage 2		0.2	(0.2)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(0.5)	0.5		-
Stage 2 to stage 3		(0.7)	0.7	-
Opening balance after transfers	**11.0**	**5.6**	**18.6**	**35.2**
Change in exposure of back book in the current year	**2.1**	**0.6**	**(1.1)**	**1.6**
Attributable to change in measurement basis	-	1.1	-	1.1
Attributable to change in risk parameters	2.1	(0.5)	(1.1)	0.5
Change in exposure due to new business in the current year	2.5	2.0	0.9	5.4
Bad debt written off	-	-	(0.7)	(0.7)
Amount as at 30 June 2022	**15.6**	**8.2**	**17.7**	**41.5**
Included in the total loss allowance				
Netted against loans and advances to customers	14.7	8.3	17.6	40.6
Included in respect of loan commitments*	1.0	-	-	1.0
Other components of total loss allowance				
- Forward looking information	1.3	3.8	1.6	6.7
- Changes in models	2.0	5.4	1.3	8.7
- Interest on stage 3 advances**			1.7	1.7

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

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**2.5**	**2.5**	**8.4**	**13.4**
Improvement in credit exposure				
Stage 2 to stage 1	0.3	(0.3)		-
Stage 3 to stage 1	0.2		(0.2)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(0.2)	0.2		-
Stage 2 to stage 3		(0.1)	0.1	-
Opening balance after transfers	**2.8**	**2.3**	**8.3**	**13.4**
Change in exposure of back book in the current year	**2.1**	**(0.3)**	**1.3**	**3.1**
Attributable to change in measurement basis	-	(0.1)	-	(0.1)
Attributable to change in risk parameters	2.1	(0.2)	1.3	3.2
Change in exposure due to new business in the current year	1.0	0.7	1.4	3.1
Bad debt written off	-	-	(0.3)	(0.3)
Amount as at 30 June 2022	**5.9**	**2.7**	**10.7**	**19.3**
Included in the total loss allowance				
Netted against loans and advances to customers	5.5	2.7	10.6	18.8
Included in respect of loan commitments*	0.4	-	-	0.4
Other components of total loss allowance				
- Forward looking information	0.7	1.6	0.6	2.9
- Changes in models	0.7	(2.9)	(0.9)	(3.1)
- Interest on stage 3 advances**			1.7	1.7

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

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**27.1**	**18.5**	**30.4**	**76.0**
Improvement in credit exposure				
Stage 2 to stage 1	1.7	(1.7)		-
Stage 3 to stage 1	1.1		(1.1)	-
Stage 3 to stage 2		1.5	(1.5)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(1.8)	1.8		-
Stage 1 to stage 3	(0.5)		0.5	-
Stage 2 to stage 3		(3.4)	3.4	-
Opening balance after transfers	**27.6**	**16.7**	**31.7**	**76.0**
Change in exposure of back book in the current year	**(3.8)**	**(4.4)**	**22.5**	**14.3**
Attributable to change in measurement basis	-	(4.2)	-	(4.2)
Attributable to change in risk parameters	(3.8)	(0.2)	22.5	18.5
Change in exposure due to new business in the current year	16.4	12.6	15.6	44.6
Acquisition/(disposal) of advance	-	-	(6.9)	(6.9)
Bad debt written off	-	-	(10.6)	(10.6)
Amount as at 30 June 2022	**40.2**	**24.9**	**52.3**	**117.4**
Included in the total loss allowance				
Netted against loans and advances to customers	40.2	24.9	52.3	117.4
Other components of total loss allowance				
- Forward looking information	6.3	6.9	0.5	13.7
- Interest on stage 3 advances**	-	-	0.8	0.8

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

*Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single EAD. The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.

**Cumulative balance as at 30 June 2021.

Lease Modifications

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

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Modifications losses of assets in stage 2 and 3	-	(0.4)
Gross carrying amount of assets before modification	-	120.0
Loss allowance on asset before modification	-	(21.9)
Amortised cost of assets before modification	**-**	**98.1**
Gross carrying amount of assets modified while in stage 2 or 3 and now in stage 1	28.2	16.0

Finance lease receivables

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

	Year ended 30 June 2022 £m	Year Ended 30 June 2021 £m
Gross investment in finance leases, receivable:		
Less than one year	1 461.9	1 455.5
Between one and five years	3 692.9	3 613.5
More than five years	74.2	64.4
	5 229.0	**5 133.4**
Unearned finance income	(764.1)	(738.9)
Net investment in finance leases	**4 464.9**	**4 394.5**
Net investment in finance leases, receivable:		
Less than one year	1 233.3	1 235.3
Between one and five years	3 167.6	3 102.7
More than five years	64.0	56.5
	4 464.9	**4 394.5**

The Group enters into finance lease and hire purchase arrangements with customers in a wide range of sectors including plant and machinery, cars and commercial vehicles. The accumulated allowance for uncollectable minimum lease payments receivable is £82.1 million (30 June 2021: £61.0 million).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 30 June 2022 (30 June 2021: no material residual values).

20. Investment in subsidiaries

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

	Principal activity	Shareholding %	Class of shareholding	Country of incorporation
Subsidiary undertakings (direct interest)				
Aldermore Bank PLC	Banking and related services	100	Ordinary	UK[1]
MotoNovo Finance Limited	Motor finance	100	Ordinary	UK[2]
Dormant subsidiary undertakings (indirect interest)				
Aldermore Invoice Finance (Holdings) Limited (Company number 06913207)	Dormant	100	Ordinary	UK[1]
Aldermore Invoice Finance Limited (Company number 02483505)	Dormant	100	Ordinary	UK[1]
Aldermore Invoice Finance (Oxford) Limited (Company number 02129734)	Dormant	100	Ordinary	UK[1]
AR Audit Services Limited (Company number 09495046)	Dormant	#	#	UK[3]
Securitisation vehicles (indirect interest)				
Oak No.2 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.2 PLC*	Securitisation vehicle	*	*	UK[4]
Oak No.3 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.3 PLC*	Securitisation vehicle	*	*	UK[4]
Oak No.4 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.4 PLC*	Securitisation vehicle	*	*	UK[4]
MotoMore Limited*	Securitisation vehicle	*	*	UK[4]
Turbo Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Turbo 9 Finance Limited*	Securitisation vehicle	*	*	UK[4]

The share capital of this company is not owned by the Group, but is included in the consolidated financial statements as it is controlled by the Group.

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

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

[2] Registered address One, Central Square, Cardiff, Wales, United Kingdom, CF10 1FS

[3] Registered address 6 Coldbath Square, London, England, United Kingdom, EC1R 5HL

[4] Registered address 11th Floor, 200 Aldersgate Street, London, England, United Kingdom, EC1A 4HD

21. Deferred taxation

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable future taxable profits against which the unwinding of the asset can be offset.

Analysis of recognised deferred tax asset:

	Balance as at 30 June 2021 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance as at 30 June2022 £m
Year ended 30 June 2022				
Capital allowances less than depreciation	5.5	(2.2)	-	3.3
FVOCI debt securities transition adjustment	(0.5)	-	-	(0.5)
Gains on debt securities recognised through other comprehensive income	(3.1)	-	1.0	(2.1)
IFRS 9 transition adjustment	2.0	(0.5)	-	1.5
Other temporary differences	3.3	2.0	-	5.3
Share-based payment timing differences	0.4	(0.3)	-	0.1
	7.6	**(1.0)**	**1.0**	**7.6**

	Balance as at 30 June 2020 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance as at 30 June2021 £m
Year ended 30 June 2021				
Capital allowances less than depreciation	2.2	3.3	-	5.5
FVOCI debt securities transition adjustment	(0.5)	-	-	(0.5)
Gains on debt securities recognised through other comprehensive income	(0.3)	-	(2.8)	(3.1)
IFRS 9 transition adjustment	1.7	0.3	-	2.0
Other temporary differences	0.9	2.4	-	3.3
Share-based payment timing differences	0.5	(0.1)	-	0.4
	4.5	**5.9**	**(2.8)**	**7.6**

The deferred tax asset at 30 June 2022 of £7.6 million (30 June 2021: £7.6 million) has been based on substantively enacted tax rates at the balance sheet date. These rates should apply when the temporary differences giving rise to the deferred tax are expected to reverse. The deferred tax asset relates mainly to timing differences between capital allowances, depreciation and other temporary differences.

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023 as substantively enacted on 24 May 2021. On the 24 February 2022 the Finance Act 2022 was substantively enacted. This confirmed that the banking surcharge rate of 8% will be reduced to 3% and the banking surcharge allowance will be increased from £25m to £100m both with effect from 1 April 2023. Deferred tax rates have been remeasured and the deferred tax asset adjusted to reflect this change.

There were no unrecognised deferred tax balances at 30 June 2022 (30 June 2021: £nil).

22. Investment in associate

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

Name of associate	Principal activity	Registered office 30 June 2022 and 2021	Proportion of ownership interest/voting rights held by the Group 30 June 2022 and 2021
AFS Group Holdings Limited (Company number 09438039)	Financial Services Intermediary	UK[1]	48%[2]

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

The above associate is accounted for using the equity method in these consolidated financial statements. The carrying amount of the investment as at 30 June 2022 is £6.2 million (30 June 2021: £5.7 million). This includes a £1.0 million share of profit of associate which has been recognised in the Consolidated Income Statement for the period ended 30 June 2022 (30 June 2021: £0.7 million).

The financial year end date of AFS Group Holdings Limited is 30 April. For the purposes of applying the equity method of accounting, the management accounts of AFS Group Holdings Limited for the 12 months ended 30 April 2022 have been used.

Summarised financial information in respect of the associate is set out below. The summarised financial information below represents amounts shown in the associate's management accounts for the 12 months ended 30 April 2022 (adjusted by the Group for equity accounting purposes).

	30 April 2022 £m	30 April 2021 £m
Current assets	7.1	7
Non-current assets	0.8	0.5
Current liabilities	4.0	4.7
Non-current liabilities	0.3	0.2

	Year ended 30 April 2022 £m	Year ended 30 April 2021 £m
Revenue	32.6	22.9
Profit from continuing operations	2.5	1.7
Profit for the period	2.5	1.7
Total comprehensive income for the period	2.5	1.7
Dividends received from the associate during the period	0.6	0.5

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

	AFS Group Holdings Limited	
	30 June 2022 £m	30 June 2021 £m
Net assets of the associate	3.6	2.6
Proportion of the Group's ownership Interest in the Associate	48%	48%
Group share of net assets of the associate	1.7	1.2
Goodwill	4.5	4.5
Dividend received from associate	(0.6)	(0.5)
Carrying amount of the Group's interest in the associate	**6.2**	**5.7**

23. Property, plant and equipment

	Computer Systems £m	Furniture, fixtures & fittings £m	Right of Use Assets - Property £m	Right of Use Assets - Motor vehicles £m	Assets Under Operating Lease £m	Total £m
Cost						
1 July 2021	9.5	12.1	38.0	1.9	7.8	69.3
Additions	1.0	1.0	-	0.5	0.6	3.1
Disposal	-	-	-	(0.3)	(0.5)	(0.8)
30 June 2022	**10.5**	**13.1**	**38.0**	**2.1**	**7.9**	**71.6**
1 July 2020	7.9	13.0	39.1	1.5	-	61.5
Additions	1.8	0.6	4.6	0.4	7.8	15.2
Disposals	(0.2)	(1.5)	(5.7)	0.0	-	(7.4)
30 June 2021	**9.5**	**12.1**	**38.0**	**1.9**	**7.8**	**69.3**
Depreciation						
1 July 2021	6.8	5.3	8.1	0.9	1.1	22.2
Charge for the year	1.5	1.7	4.6	0.6	2.2	10.6
Disposals	-	-	-	(0.3)	(0.2)	(0.5)
30 June 2022	**8.3**	**7.0**	**12.7**	**1.2**	**3.1**	**32.3**
1 July 2020	5.0	4.4	4.90	0.40	-	14.7
Charge for the year	1.9	1.9	5.1	0.6	1.1	10.6
Disposals	(0.1)	(1.0)	(1.9)	(0.1)	-	(3.1)
30 June 2021	**6.8**	**5.3**	**8.1**	**0.9**	**1.10**	**22.2**
Net book value						
30 June 2022	**2.2**	**6.1**	**25.3**	**0.9**	**4.8**	**39.3**
30 June 2021	2.7	6.8	29.9	1.0	6.7	47.1

24. Intangible assets

	Computer Systems £m	Goodwill £m	Total £m
Cost			
1 July 2021	**23.2**	**8.6**	**31.8**
Other Movement*	(5.5)	-	(5.5)
30 June 2022	**17.7**	**8.6**	**26.3**
1 July 2020	20.1	8.6	28.7
Additions	3.3	-	3.3
Retirements	(0.2)	-	(0.2)
30 June 2021	**23.2**	**8.6**	**31.8**
Amortisation			
1 July 2021	**16.8**	-	**16.8**
Charge for the year	0.7	-	0.7
30 June 2022	**17.5**	**-**	**17.5**
1 July 2020	15.0	-	15.0
Charge for the year	2.0	-	2.0
Retirements	(0.2)	-	(0.2)
30 June 2021	**16.8**	**-**	**16.8**
Net book value			
30 June 2022	**0.2**	**8.6**	**8.8**
30 June 2021	6.4	8.6	15.0

*Intangible assets includes a £(5.5) million adjustment linked to assets which, after review, are no longer expected to provide the Group with future economic benefits therefore, no longer meeting the criteria for capitalisation under IAS 38.

The goodwill disclosed above relates to the SME Commercial Mortgages segment. The Value in Use (“VIU”) for SME Commercial Mortgages was determined by discounting the future cash flows to be generated from the continuing use of the segment. VIU at 30 June 2022 has been determined in a similar manner as at 30 June 2021.

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

- Cash flows were projected based on past experience, actual operating results and the six year business plan. Cash flows after the planning period were extrapolated using a constant growth rate of 2.0% (30 June 2021: 2.0%) into perpetuity; and
- A pre-tax discount rate of 14.5% (30 June 2021: 14.4%) was applied in determining the recoverable amounts for the SME Commercial Mortgages operating segment. These discount rates were based on the weighted average cost of funding for the segment, taking into account the Group's regulatory capital requirement and expected market returns for debt and equity funding, then adjusted for risk premiums to reflect the systemic risk of the segment.

IAS 36 requires an assessment of goodwill balances for impairment on an annual basis, or more frequently if there is an indication of impairment. An impairment charge should be recognised where the recoverable amount from the segment is less than the carrying value of the goodwill. Under IAS 36, the recoverable amount is the greater of either the VIU of a business or its Fair Value less Costs of Disposal ("FVLCD").

The VIU of the SME Commercial Mortgages segment is significantly above the carrying value of the attributable goodwill and net assets. The Group estimates that reasonably possible changes in the above assumptions are not expected to cause the recoverable amount of SME Commercial Mortgages to reduce below the carrying amount.

25. Amounts due to banks

	30 June 2022 £m	30 June 2021 £m
Cash collateral received on derivatives	0.4	0.5
Due to banks - central banks - Term Funding Scheme interest accrual	2.8	1.1
	3.2	**1.6**
Amounts repayable within 12 months:		
Due to banks – central banks – Term Funding Scheme interest accrual	-	725.0
Due to banks – central banks – Other eligible schemes interest accrual	273.6	-
	273.6	**725.0**
Amounts repayable after 12 months:		
Due to banks – central banks – Term Funding Scheme	1 065.0	600.0
	1 065.0	**600.0**
	1 341.8	**1 326.6**

Amounts repayable after 12 months

Loans received from the Bank of England against which the Group provides collateral under the Term Funding Scheme are recorded as 'Amounts due to banks' and are accounted for as a financial liability at amortised cost. Further details can be found in note 19.

26. Customers' accounts

	30 June 2022 £m	30 June 2021 £m
Retail deposits	9 662.0	9 009.3
SME deposits	2 499.1	2 263.0
Corporate deposits	1 944.3	1 155.1
	14 105.4	**12 427.4**
Amounts repayable within one year	12 729.8	10 985.9
Amounts repayable after one year	1 375.6	1 441.5
	14 105.4	**12 427.4**

27. Other liabilities

	30 June 2022 £m	30 June 2021 £m
Amounts payable within 12 months:		
Amounts payable to Invoice Finance customers	12.9	14.9
Other taxation and social security costs	3.8	4.2
Trade creditors	44.3	8.3
Lease liabilities	27.1	30.7
Other payables	4.3	26.6
	92.4	**84.7**

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

	30 June 2022 £m	30 June 2021 £m
Maturity analysis of finance leases:		
Less than one year	4.7	5.3
Between one and five years	15.1	16.2
More than five years	7.3	9.2

28. Accruals and deferred income

	30 June 2022 £m	30 June 2021 £m
Amounts payable within 12 months:		
Accruals	74.3	62.0
Deferred income	0.9	0.9
	75.2	**62.9**

The increase in accruals for the year ended 30 June 2022 is largely due to increased IT spend and reshaping of the strategy related costs in 2022.

29. Provisions

	Customer Redress £m	Other £m	Total £m
1 July 2021	4.8	0.3	5.1
Utilised during the year	(1.6)	(0.3)	(1.9)
Provided during the year	16.6	0.2	16.8
30 June 2022	**19.8**	**0.2**	**20.0**
1 July 2020	1.5	3.0	4.5
Utilised during the year	-	(3.2)	(3.2)
Provided during the year	3.3	0.5	3.8
30 June 2021	**4.8**	**0.3**	**5.1**

Customer Redress

Motor Finance Remediation

As a result of implementing rapid measures in the Motor Finance business to ensure that customers financially impacted by Covid-19 were able to take advantage of Government support measures, certain variations in procedures were undertaken by the Group. Management discovered that certain Consumer Credit Act ("CCA") related documents that were required to have been delivered to a sub-section of loan receivable customers were not delivered or were delivered with incomplete or incorrect information. This will require remediation. Provisions include £15.9m (30 June 2021: £2m) in respect of estimated costs to undertake a remediation programme to ensure impacted customers' loan balances and documentation are up to date. As the Aldermore Group provides operational support to Motonovo London Branch (part of FirstRand London Branch ("FRLB")), for whom a sub-section of loan receivable customers are also impacted, £7.3m of this provision (30 June 2021: £nil) is recoverable from FRLB.

This provision is expected to be utilised over the next twelve to eighteen months.

There remains some uncertainty in respect to the amount of the provision recorded as the remediation programme progresses and as the remediation outcomes are overseen by one of the Group's Regulators, the Financial Conduct Authority ("FCA").

Mortgages Remediation

Swift changes had to be made in the Mortgages division in response to the Government support measures in place to help those financially affected by the pandemic. Although the majority of payment break cases were dealt with seamlessly, a population of customers were not moved back onto their normal interest terms upon conclusion of their payment break. As a result, the Group has employed external consultants to assess the size and cost of any potential remediation. The estimated costs to complete this remediation exercise are expected to be £2.8m recognised within provisions at 30 June 2022 (30 June 2021: £1.7m). This activity is expected to be complete within the next 6 months.

Debt Consolidation

Following an internal compliance review, it became evident that a small population of customers that were sold mortgages to consolidate debt over a number of years were not given sufficient and appropriate advice. The sale of debt consolidation mortgages by the Group ceased from February 2019. Work is ongoing by the Group to evaluate which customers, past and present, did not receive sufficient and appropriate advice and calculate the redress due. A provision has been made at 30 June 2022 for £0.7 million (30 June 2021: £0.9 million) for potential compensation based on an analysis of a sample of cases reviewed to that date. A further £0.4m of provisions have been recognised relating to Payment Protection Insurance ("PPI") and exit fees.

Other

Financial Services Compensation Scheme ("FSCS")

In common with all regulated UK deposit takers, the Group's principal subsidiary, Aldermore Bank PLC, pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS provision at 30 June 2022 of £0.2 million (30 June 2021: £0.2 million) represents the interest element of the compensation levy for the 2021/2022 scheme year (30 June 2021: interest levy for the 2020/2021 scheme year).

30. Debt securities in issue

	30 June 2022 £m	30 June 2021 £m
Debt securities in issue - Oak No 2 PLC	65.5	97.5
Debt securities in issue - Oak No 3 PLC	144.5	219.2
Debt securities in issue - MotoMore Limited	682.4	250.2
Debt securities in issue - Turbo Finance 9 PLC	277.8	518.8
	1 170.2	**1 085.7**

Debt securities in issue with a book value of £1,170.2 million (2021: £1,085.7 million) are secured on certain portfolios of variable and fixed rate mortgages and auto loans through the Group's securitisation vehicles. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage and auto loan customers in respect of the underlying assets.

The final maturity date in respect of the Oak No.2 PLC notes is 26 May 2055 with a call option exercisable on the notes falling due on 27 February 2023. The final maturity date in respect of the Oak No.3 PLC notes is 28 July 2061 with a call option exercisable on the notes falling due on 29 July 2024. The final maturity date in respect of the MotoMore Limited notes is 19 October 2029 with the revolving period end date to occur in September 2023. The final maturity date in respect of Turbo Finance 9 PLC is 21 August 2028. A clean up call will occur when the book value of the Turbo 9 Finance PLC notes becomes less than 10% of the initial principal balance.

31. Subordinated notes

	30 June 2022 £m	**30 June 2021 £m**
Subordinated notes 2026	-	60.5
Subordinated notes 2028	100.5	100.8
Subordinated notes 2029	52.3	52.3
	152.8	**213.6**

On 28 October 2016, the Group issued £60.0 million subordinated 8.5% loan notes, repayable in 2026, with an option for the Group to redeem after five years. This option was taken and therefore the loan was redeemed in October 2021.

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

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

32. Financing activity

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

Year ended 30 June 2022

	As at 1 July 2021 £m	Financing cash flows-debt issued £m	Financing cash flows - repayment of debt £m	Financing cash flows - interest paid on debt £m	Non-cash changes-Interest expense per Income Statement £m	As at 30 June 2022 £m
Debt Securities in Issue - note 30	1 085.7	432.4	(349.1)	(10.0)	11.2	**1 170.2**
Subordinated notes - note 31	213.6	-	(60.0)	(9.7)	8.9	**152.8**

Year ended 30 June 2021

	As at 1 July 2020 £m	Financing cash flows-debt issued £m	Financing cash flows - repayment of debt £m[1]	Financing cash flows - interest paid on debt £m	Non-cash changes-Interest expense per Income Statement £m	As at 30 June 2021 £m
Debt Securities in Issue - note 30	712.3	518.2	(146.2)	(6.8)	8.2	**1 085.7**
Subordinated notes - note 31	213.5	-	-	(12.6)	12.7	**213.6**

33. Share capital

	30 June 2022 £m	30 June 2021 £m
Type		
Ordinary shares authorised and fully paid up of £0.10 each	**243.9**	**243.9**

As at 30 June 2022, there were 2,439,016,370 ordinary £0.10 shares in issue resulting in share capital of £243,901,637 (30 June 2021: 2,439,016,370 and £243,901,637 respectively).

34. Share-based payments

The table below shows the charge to the income statement:

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Share plans issued in period ended 30 June 2018	0.1	-
Share plans issued in year ended 30 June 2019	0.3	0.5
Share plans issued in year ended 30 June 2020	0.6	0.6
Share plans issued in year ended 30 June 2021	1.0	1.0
Share plans issued in year ended 30 June 2022	0.7	-
Total share-based payment charge	**2.7**	**2.1**

Awards

The table below shows the number of awards outstanding as at 30 June 2022:

Plan	Awards outstanding value 30 June 2022 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached [2]	Settlement	Liability transferred to RMBMS by assumption of liability agreement [3]	Aldermore Group Residual Liability	Charge for current year £m
Deferred Bonus Scheme - FY19	0.2	Sep-20 Sep-21 Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	-
Deferred Bonus Scheme - FY21	0.9	Sep-22 Sep-23 Sep-24	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.2
LTIP awards (risk & compliance) - FY20	0.2	Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards (risk & compliance) - FY21	0.1	Sep-23	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards (risk & compliance) - FY22	0.3	Sep-24	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards - FY20	0.5	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards - FY21	0.7	Sep-23	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards - FY22	0.7	Sep-24	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (Exco) - FY20	0.4	Sep-22	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
LTIP awards (Exco) - FY21	0.9	Sep-23	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (Exco) - FY22	1.2	Sep-24	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.3
Covid Conditional Incentive Plan - FY21	0.6	Sep-23	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
Conditional Share Plan (MotoNovo Finance) - CP18	-	Sep-21	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1

Plan	Awards outstanding value 30 June 2022 £m m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached 2	Settlement	Liability transferred to RMBMS by assumption of liability agreement 3	Aldermore Group Residual Liability	Charge for current year £m
Conditional Share Plan (MotoNovo Finance) - CP19	0.1	Sep-22	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.3
Conditional Share Plan (MotoNovo Finance) - CP20	0.4	Sep-23	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.3
Conditional Share Plan (MotoNovo Finance) - CP21	0.3	Sep-24	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1
Total	**7.5**							**2.7**

2. Non Market Performance Conditions - 40.0% of the conditional award will vest if: Increase in FirstRand normalised earnings per share equals or exceeds the South Africa CPI plus real GDP growth, on a cumulative basis, over the performance period; FirstRand Limited delivers ROE of at least 18.0% over the performance period; and 60.0% of the conditional award will be based on the performance conditions linked to Aldermore.

3. Aldermore entered into an assumption of liability and novation agreement with RMB Morgan Stanley Proprietary Ltd ("RMBMS"), a 50.0% owned JV of the FirstRand Group to hedge the cost of the awards linked to the FirstRand share price. In return for Aldermore making a payment to RMBMS, RMBMS is substituted in the agreement and is obligated to pay the GBP amount due to the Aldermore employees at the vesting date.

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

Plan	Awards outstanding value 30 June 2021 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached [1]	Settlement	Liability transferred to RMBMS by assumption of liability agreement [2]	Aldermore Group Residual Liability	Charge for current year £m
Deferred Bonus Scheme FY18	0.1	Sep-21	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	-
Deferred Bonus Scheme FY19	0.5	Sep-21 Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
Deferred Bonus Scheme FY21	1.0	Sep-21 Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.3
LTIP awards (risk & compliance) FY19	0.1	Sep-21	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	-
LTIP awards (risk & compliance) FY20	0.4	Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards (risk & compliance) FY21	0.4	Sep-23	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards FY19	0.3	Sep-21	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
LTIP awards FY20	0.5	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
LTIP awards FY21	0.5	Sep-23	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1

Plan	Awards outstanding value 30 June 2021 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached [1]	Settlement	Liability transferred to RMBMS by assumption of liability agreement [2]	Aldermore Group Residual Liability	Charge for current year £m
LTIP awards (Exco) FY19	0.6	Sep-21	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (Exco) FY20	0.9	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (Exco) FY21	0.9	Sep-23	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
Conditional Share Plan (MotoNovo Finance) - CP18	0.6	Sep-21	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.2
Conditional Share Plan (MotoNovo Finance) - CP19	0.3	Sep-22	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1
Conditional Share Plan (MotoNovo Finance) - CP20	0.6	Sep-23	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1
Covid-19 Conditional Incentive Plan	0.6	Sep-21 Sep-22 Sep 23	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Sep-23 vesting only	Yes	0.2
Total	**8.3**							**2.1**

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

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

a) Deferred Bonus Scheme

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

b) Long Term Incentive Plan (“LTIP”)

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

c) Covid-19 Conditional Incentive Plan

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

All the schemes identified above have employee service conditions.

35. Additional Tier 1 capital

	30 June 2022 £m	30 June 2021 £m
Perpetual subordinated capital notes - issued May 2019	47.0	47.0
Perpetual subordinated capital notes - issued April 2020	61.0	61.0
	108.0	**108.0**

Perpetual subordinated capital notes

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

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

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

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

36. Statement of cash flows

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

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Depreciation and amortisation	11.3	12.6
Impairment of intangibles / goodwill	5.5	-
Amortisation of securitisation issuance cost	0.8	0.1
Impairment losses on loans and advances	57.4	51.3
Lease modifications	-	0.8
Gains on hedged available for sale debt securities recognised in profit or loss	0.2	0.1
Net (losses)/gains on disposal of available for sale debt securities	(0.2)	2.6
Interest expense on subordinated notes	9.2	0.1
Interest income on debt securities	(9.2)	(8.1)
Interest expense on debt securities in issue	10.7	7.0
Share of profit of associate	(1.0)	(0.7)
	84.7	**65.8**

b) Increase in operating assets

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Loans and advances to customers	(1 368.3)	(1 046.8)
Loans and advances to banks	(21.3)	57.6
Derivative financial instruments	(272.0)	(10.3)
Fair value adjustments for portfolio hedged risk	213.4	43.9
Other operating assets	(13.5)	(18.2)
Dividend received from associate	0.6	0.5
	(1 461.1)	**(973.3)**

c) Increase in operating liabilities

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Amounts due to banks	15.1	(846.9)
Customers' accounts	1 678.1	1 540.9
Derivative financial instruments	(16.4)	(58.8)
Fair value adjustments for portfolio hedged risk	(12.2)	(2.1)
Increase/(decrease) in operating liabilities	25.4	30.1
Increase/(decrease) in provisions	14.9	0.6
	1 704.9	**663.8**

d) Cash and cash equivalents

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

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Cash and balances at central banks	838.3	688.5
Less restricted balances	(46.2)	(36.2)
Loans and advances to banks	105.3	123.0
	897.4	**775.3**

Restricted balances comprise minimum balances required to be held at the Bank of England as they are not readily convertible to cash in hand or demand deposits. Loans and advances to banks as at 30 June 2022 include £5.2 million held by the securitisation vehicles, which are not available to the other members of the Aldermore Group (30 June 2021: £15.2 million).

37. Commitments and contingencies

At 30 June 2022, the Group had undrawn commitments to lend of £636.0 million (30 June 2021: £412.4 million). These relate mostly to irrevocable lines of credit granted to customers.

Legislation

Aldermore Group is subject to a number of Regulations and other legislation as applicable to a financial services business. In the ordinary course of business, it is possible that the Group, in undertaking its activities, may result in a breach or non compliance with such Regulations and other legislation thereby resulting in a possible outflow of economic benefits to those parties impacted by such breaches.

38. Related parties

(a) Controlling parties

FirstRand International Limited acquired 100.0% of the share capital of Aldermore Group PLC in March 2018. It, therefore, became the immediate parent of Aldermore Group PLC. FirstRand International Limited is a company incorporated in Guernsey (registered number 17166), and is a wholly owned subsidiary of FirstRand Limited, a company incorporated in South Africa (registered number 1966/010753/06) and the ultimate parent and ultimate controlling party. Consolidated accounts are prepared by FirstRand Limited and copies are available to the public from the ultimate parent's registered office c/o 4 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton, Gauteng, South Africa, 2196.

During the year ended 30 June 2022, the Group also incurred fees of £208,500 (30 June 2021: £68,500) in relation to the Directors who represent the ultimate parent company.

As at 30 June 2022, the Group owed FirstRand Bank Limited a balance of £268.4 million (30 June 2021: £261.0 million) which includes subordinated securities totalling £260.8 million and were owed a balance of £10.9 million from FirstRand Bank Limited (30 June 2021: £6.0 million) consisting of recharged administrative and operational costs.

During the year ended 30 June 2022, the Group received income from FirstRand Bank Limited totalling £23.4 million (30 June 2021: £27.1 million) relating to administrative costs recharged to FirstRand Bank Limited by MotoNovo Finance Limited and were recharged expenses totalling £16.6 million (30 June 2021: £16.5 million) which includes a subordinated loan note coupon of £7.5 million, an AT1 coupon of £8.6 million and the remainder being software license costs and non-executive director fees.

FirstRand Limited has issued a guarantee to the Bank of England to cover Aldermore Group's drawings on the TFS and TFSME facilities. See page 93 for the Group's drawings at 30 June 2022.

b) Associates

The Group holds a 48% holding in AFS Group Holdings Limited which was acquired on 28 September 2017. During the year ended 30 June 2022, the Group paid commission of £3.0 million to the associate (year ended 30 June 2021: £1.6 million). The Group also received dividends totalling £0.6 million during the year (30 June 2021: £0.5 million).

c) Key management personnel compensation

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

	Year ended 30 June 2022 £'000	Year ended 30 June 2021 £'000
Emoluments	7 061.1	6 968.2
Payments in respect of personal pension plans	210.7	146.2
Contributions to money purchase scheme	64.2	51.6
Termination benefits	792.5	-
Share-based payments	318.0	1 871.9
	8 446.5	**9 037.9**

Key persons' emoluments include £1.7 million of deferred bonus (year ended 30 June 2021: £0.5 million).

Share-based payments ("SBP")

During the year ended 30 June 2022, KMP were granted awards which are linked to the share price of the ultimate parent FirstRand Limited. Further details of the schemes are provided in note 34.

39. Financial instruments and fair values

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

30 June 2022	Assets at amortised cost £m	Debt securities at FVOCI £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	838.3	-	-	-	-	838.3
Loans and advances to banks	226.6	-	-	-	-	226.6
Debt securities	391.4	1 947.8	-	-	-	2 339.2
Derivatives held for risk management	-	-	291.6	-	-	291.6
Fair value adjustment for portfolio hedged risk	-	-	-	(199.7)	-	(199.7)
Loans and advances to customers	14 731.3	-	-	-	-	14 731.3
Other assets	32.3	-	-	-	-	32.3
Total financial assets	**16 219.9**	**1 947.8**	**291.6**	**(199.7)**	**-**	**18 259.6**
Non-financial assets	-	-	-	-	-	89.4
Total assets	**16 219.9**	**1 947.8**	**291.6**	**(199.7)**	**-**	**18 349.0**
Amounts due to banks	-	-	-	-	1 341.8	1 341.8
Customers' accounts	-	-	-	-	14 105.5	14 105.4
Derivatives held for risk management	-	-	24.5	-	-	24.5
Fair value adjustment for portfolio hedged risk	-	-	-	(12.7)	-	(12.7)
Other liabilities	-	-	-	-	92.4	92.4
Debt securities in issue	-	-	-	-	1 170.2	1 170.2
Subordinated notes	-	-	-	-	152.8	152.8
Total financial liabilities	**-**	**-**	**24.5**	**(12.7)**	**16 862.7**	**16 874.4**
Non-financial liabilities	**-**	**-**	**-**	**-**	**-**	95.2
Total liabilities	**-**	**-**	**24.5**	**(12.7)**	**16 862.7**	**16 969.6**

30 June 2021	Assets at amortised cost £m	Debt securities at FVOCI £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	688.5	-	-	-	-	688.5
Loans and advances to banks	223.0	-	-	-	-	223.0
Debt securities	193.7	1 805.8	-	-	-	1 999.5
Derivatives held for risk management	-	-	19.6	-	-	19.6
Fair value adjustment for portfolio hedged risk	-	-	-	14.2	-	14.2
Loans and advances to customers	13 420.4	-	-	-	-	13 420.4
Other assets	29.4	-	-	-	-	29.4
Total financial assets	**14 555.0**	**1 805.8**	**19.6**	**14.2**	**-**	**16 394.6**
Non-financial assets	-	-	-	-	-	94.5
Total assets	**14 555.0**	**1 805.8**	**19.6**	**14.2**	**-**	**16 489.1**
Amounts due to banks	-	-	-	-	1 326.6	1 326.6
Customers' accounts	-	-	-	-	12 427.4	12 427.4
Derivatives held for risk management	-	-	40.9	-	-	40.9
Other liabilities	-	-	-	-	84.7	84.7
Debt securities in issue	-	-	-	-	1 085.7	1 085.7
Subordinated notes	-	-	-	-	213.6	213.6
Total financial liabilities	**-**	**-**	**40.9**	**-**	**15 138.0**	**15 178.9**
Non-financial liabilities	-	-	-	-	-	79.0
Total liabilities	**-**	**-**	**40.9**	**-**	**15 138.0**	**15 257.9**

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

	30 June 2022		30 June 2021	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Cash and balances at central banks	838.3	838.3	688.5	688.5
Loans and advances to banks	226.6	226.6	223.0	223.0
Loans and advances to customers	14 731.3	14 643.8	13 420.4	13 387.3
Debt securities	391.4	392.0	193.7	193.8
Other assets	32.4	32.4	29.4	29.5
Total financial assets	**16 220.0**	**16 133.1**	**14 555.1**	**14 522.1**
Amounts due to banks	1 341.8	1 341.8	1 326.6	1 326.6
Customers' accounts	14 105.4	14 085.2	12 427.4	12 453.5
Other liabilities	92.4	92.4	84.7	84.7
Debt securities in issue	1 170.2	1 172.3	1 085.7	1 089.4
Subordinated notes	152.8	150.0	213.6	227.6
Total financial liabilities	**16 862.6**	**16 841.7**	**15 138.0**	**15 181.8**

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

(a) Cash and balances at central banks

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

(b) Loans and advances to banks

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

(c) Loans and advances to customers

For fixed rate lending products, the Group has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent products plus the credit spread attributable to the borrower. The Group has calculated the fair value of loans and advances to customers based on the present value of expected future principal and interest cash flows, discounted at appropriate market rates, and then adjusted for lifetime expected credit losses.

(d) Other assets and liabilities

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

(e) Amounts due to banks

These mainly represent securities sold under agreements to repurchase which were drawn down from the Bank of

England under the terms of the Funding for Term Funding Schemes (TFS and TFSME). These transactions are collateralised by UK Government Treasury Bills, which have a low susceptibility to credit risk, so adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying values of the liabilities are not considered to be materially different from their fair value.

(f) Customers' accounts

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

(g) Debt securities in issue

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

(h) Subordinated notes

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

(i) Debt securities

Debt Securities held with Capital Investment Strategy are classified as amortised cost only if they meet both the business model assessment and SPPI tests. These debt securities are publicly traded in the market and the quoted prices are used as a fair value disclosure.

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

30 June 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	291.6	-	291.6
Debt securities:				
Asset-backed securities	-	145.9	-	145.9
UK Gilts and Supranational bonds	1 120.6	-	-	1 120.6
Covered bonds	681.2	-	-	681.2
	1 801.8	**437.5**	**-**	**2 239.3**
Financial liabilities:				
Derivatives held for risk management	-	24.5	-	24.5
	-	**24.5**	**-**	**24.5**

30 June 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	19.6	-	19.6
Debt securities:				
Asset-backed securities	-	115.4	-	115.4
UK Gilts and Supranational bonds	1194.5	-	-	1194.5
Covered bonds	495.9	-	-	495.9
	1 690.4	**135.0**	**-**	**1 825.4**
Financial liabilities:				
Derivatives held for risk management	-	40.9	-	40.9
	-	**40.9**	**-**	**40.9**

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

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

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

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

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

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

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

The debt securities falling into the Capital Investment business model are classified at amortised cost. The fair value of the debt securities classified at amortised cost is based on quoted bid prices in active markets.

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

Fair value of transferred assets and associated liabilities

Securitisation vehicles

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

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

The results of the securitisation vehicles listed in note 30 are consolidated into the results of the Group. The table below shows the carrying values and fair value of the assets transferred to the securitisation vehicles and its associated liabilities. The carrying values presented below are the carrying amounts recorded in the Group accounts. Some of the notes issued by the securitisation vehicles are held by the Group and as such are not shown in the consolidated statement of financial position of the Group.

30 June 2022	**Carrying amount of transferred assets not derecognised £m**	**Carrying amount of associated liabilities £m**	**Fair value of transferred assets not derecognised £m**	**Fair value of associated liabilities £m**	**Net position £m**
Oak No.2 PLC	95.9	64.5	99.8	65.7	**34.1**
Oak No.3 PLC	171.5	144.5	173.1	145.2	**27.9**
MotoMore Limited	753.9	682.2	709.1	682.1	**27.0**
Turbo Finance 9 PLC	330.9	278.0	300.9	279.3	**21.6**

30 June 2021	Carrying amount of transferred assets not derecognised £m	Carrying amount of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net position £m
Oak No.2 PLC	128.0	97.5	130.8	98.3	**32.4**
Oak No.3 PLC	215.7	219.2	220.3	221.5	**(1.2)**
MotoMore Limited	286.6	250.2	269.1	250.4	**18.7**
Turbo Finance 9 PLC	516.3	518.8	532.8	519.1	**13.7**

40. Country-by-Country

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

All companies consolidated within the Group's financial statements are registered entities in England and Wales. Note 20 to these financial statements include an analysis of subsidiary undertakings and their principal activities. All of the subsidiary undertakings were incorporated in the UK. The Group did not receive any public subsidies.

	Jurisdiction income/ expense arose	**Year ended 30 June 2022 £m**	Year ended 30 June 2021 £m
Total operating income	UK	**563.0**	470.9
Profit before tax	UK	**204.7**	157.8
Corporation tax (paid net of refunds received)	UK	**(64.1)**	(11.7)
Employees (average FTE equivalent)	UK	**2 198**	2 029

41. Post balance sheet events

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

The Company statement of financial position

As at 30 June 2022

	Note	**30 June 2022 £m**	30 June 2021 £m
Assets			
Loans and advances to banks		0.1	
Investment in Group undertakings	3	515.6	515.6
Investment in associated companies	5	4.8	4.8
Amounts receivable from Group undertakings	6	304.6	361.7
Total assets		**825.1**	**882.1**
Liabilities			
Amounts payable to Group undertakings	7	21.9	23.4
Subordinated notes	8	152.8	213.7
Total liabilities		**174.7**	**237.1**
Equity			
Share capital	9	243.9	243.9
Share premium account		74.4	74.4
Additional Tier 1 capital	10	108.0	108.0
Capital redemption reserve		0.1	0.1
Retained earnings		224.0	218.6
Total equity		**650.4**	**645.0**
Total liabilities and equity		**825.1**	**882.1**

The notes and information on pages 185 to 187 form part of these financial statements.
Aldermore Group PLC profit for the year ended 30 June 2022 was £13.9 million (30 June 2021: profit of £6.9 million)

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

Steven Cooper
Director
6 September 2022
Registered number: 06764335

Ralph Coates
Director
6 September 2022

The Company statement of cash flows
For the year ended 30 June 2022

	Note	**30 June 2022 £m**	30 June 2021 £m
Cash flows from operating activities			
Profit after taxation		13.9	6.9
Adjustments for non-cash items within the income statement		(1.5)	2.1
Net cash flows generated from operating activities		**12.4**	**9.0**
Cash flows from investing activities			
Investment in Subsidiaries	3	-	(50.0)
Net cash used in investing activities		-	**(50.0)**
Cash flows from financing activities			
Proceeds from deposit with Bank		57.1	49.6
Repayment of subordinated debt	31	(60.9)	-
Coupon paid on contingent convertible securities, net of tax		(8.6)	(8.6)
Net cash received from financing activities		**(12.4)**	**41.0**
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at start of the year		-	-
Movement during the year		-	-
Cash and cash equivalents at end of the year		-	-

The Company statement of changes in equity

For the year ended 30 June 2022

	Share Capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Year ended 30 June 2022						
As at 1 July 2021	243.9	74.4	108.0	0.1	218.6	645.0
Profit for the year	-	-	-	-	13.9	13.9
Transactions with equity holders:						
- Coupon paid on contingent convertible securities	-	-	-	-	(8.5)	(8.5)
As at 30 June 2022	**243.9**	**74.4**	**108.0**	**0.1**	**224.0**	**650.4**
Year ended 30 June 2021						
As at 1 July 2020	243.9	74.4	108.0	0.1	220.3	646.7
Profit for the year	-	-	-	-	6.9	6.9
Transactions with equity holders:						
- Coupon paid on contingent convertible securities	-	-	-	-	(8.6)	(8.6)
As at 30 June 2021	**243.9**	**74.4**	**108.0**	**0.1**	**218.6**	**645.0**

Notes to the Company financial statements

1. Basis of preparation

a) Accounting basis

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

b) Going concern

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

c) Income statement

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

2. Net profit attributable to equity shareholders of the Company

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Net profit attributable to equity shareholders of the Company	**13.9**	**6.9**

3. Investment in Group undertakings

	30 June 2022 £m	30 June 2021 £m
As at 1 July	515.6	465.6
Capital injection - Preference share capital (note 6)	-	50.0
As at Year End	**515.6**	**515.6**

As at 30 June 2022, £nil investments (30 June 2021: £nil) were classified as impaired.

Investment in subsidiaries

The Company owns 100.0% of the issued share capital of Aldermore Bank PLC, which is a registered bank, and 100.0% of MotoNovo Finance Limited, a company engaged in motor finance. Details of subsidiary undertakings are provided in note 20 to the consolidated financial statements. All the companies listed in note 38 to the consolidated financial statements are related parties to the Company.

Perpetual subordinated capital notes

On 29 April 2020, the Company issued £61.0 million of Perpetual Subordinated Capital Notes to FirstRand Bank Limited, a fellow subsidiary of FirstRand Limited. Simultaneously, the Company made a perpetual loan to Aldermore Bank PLC of £61.0 million. The capital loan is non-cumulative and redeemable at the option of Aldermore Bank PLC. The loan was classified as an investment in a subsidiary undertaking and is carried at cost in accordance with IAS 27.

4. Related party transactions

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

5. Investment in associated companies

	30 June 2022 £m	30 June 2021 £m
Investment in AFS Group Holdings Limited	4.8	4.8
	4.8	**4.8**

6. Amounts receivable from Group undertakings

	30 June 2022 £m	30 June 2021 £m
Subordinated loan to Aldermore Bank PLC	100.5	161.4
Deposit with Aldermore Bank PLC	204.1	200.3
	304.6	**361.7**

On the 28 October 2016 and 22 November 2018, the Company made a £60.0 million and £100.0 million subordinated 8.5% and 4.9% loans respectively to Aldermore Bank PLC, repayable in 2026 and 2028, with an option for the Bank to redeem after five years. The interest rates are fixed until October 2021 and November 2023 respectively. The loans are carried in the statement of financial position at amortised cost.

A £150.0 million deposit placed with Aldermore Bank PLC from the Group pays interest of 1.6% above SONIA on the outstanding balance. The interest is paid semi-annually.

The Group placed £52.0 million and £47.0 million of deposits with Aldermore Bank PLC with interest of 2.5% and 2.3% fixed rate on the outstanding balances. The interest is paid semi-annually.

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

7. Amounts payable to Group undertakings

	30 June 2022 £m	30 June 2022 £m
Intercompany loans from Aldermore Bank PLC	21.9	23.4
	21.9	**23.4**

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

8. Subordinated notes

	30 June 2022 £m	30 June 2021 £m
Subordinated notes	**152.8**	**213.7**

Details of subordinated notes issued by the Company are provided in note 31 to the consolidated financial statements.

9. Share capital

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

10. Additional Tier 1 capital

Details of the Additional Tier 1 capital issued by the Company are provided in note 35 to the consolidated financial statements.

11. Risk management

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

The risk management disclosures of the Group on page 67 apply to the Company where relevant and therefore no additional disclosures are included in this note.

12. Fair value of financial assets and liabilities

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

13. Controlling party information

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

14. Post balance sheet events

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

ALDERMORE GROUP PLC
Reports and Accounts for the year ended 30 June 2022

Aldermore