

Aldermore Group PLC
Report and Accounts for the
year ended 30 June 2019

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For more information on our business visit:
www.aldermore.co.uk

Company Information

Non-Executive Directors

Pat Butler
Johan Burger – Resigned 31 August 2018
Danuta Gray
John Hitchins
Harry Kellan – Appointed 8 October 2018
Alan Pullinger
Peter Shaw
Christopher Stamper – Resigned 3 July 2019
Cathy Turner

Executive Directors

Phillip Monks
James Mack
Christine Palmer

Secretary and Registered Office

Marius Van Niekerk
c/o Aldermore Bank Plc
4th Floor, Block D
Apex Plaza, Forbury Road
Reading
Berkshire
RG1 1AX

Independent Auditor

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

Company number: 06764335

Strategic Report

Strategic Overview

Aldermore's ambition is to help customers seek and seize opportunities in their professional and personal lives by providing innovative financing and deposit products. The customer need for this support remains as strong and as necessary today as it did when we launched following the 2008 banking crisis.

Group restructuring

It has been a landmark year, marking Aldermore Bank's tenth anniversary and our first full year of trading under our new parent FirstRand Group. We have also restructured to bring Aldermore and FirstRand's other UK business MotoNovo, a leading motor finance company, together.

A new entity, MotoNovo Finance Limited ("MotoNovo Finance"), was established under Aldermore Group as a sister subsidiary to Aldermore Bank. On 4 May 2019, in addition to all of the employees of MotoNovo transferring to this new company, certain trading assets and liabilities, along with the balance of dealer financing, were acquired by MotoNovo Finance from the London branch of FirstRand Bank Limited (the "Branch"). As the acquisition was deemed to have been a "common control transaction", i.e. within the same group, the assets and liabilities transferred have been recognised at their existing book values within the Aldermore Group accounts.

Capital to support the first 15 months of trading was injected by the FirstRand Group into Aldermore Group with sufficient capital to support regulatory requirements downstreamed to MotoNovo Finance.

On 5 May 2019, MotoNovo Finance began trading as part of the Aldermore Group with all new MotoNovo Finance lending from this date funded via a liquidity facility with Aldermore Bank and reported as part of the Aldermore Group financial results. MotoNovo Finance is also responsible for servicing, on behalf of the Branch, the existing back book of loans which are expected to run off over the next three to four years. These outstanding back book loans are not included within the Aldermore results as at 30 June 2019 but remain on the balance sheet of the Branch. The costs of servicing the back book are recharged to the Branch under a transfer pricing agreement at arm's length.

Continued growth

Aldermore Bank provides financing to support UK small and medium sized enterprises ("SMEs"), and supports investors and home-buyers with mortgage finance, while offering a dynamic online savings proposition. We serve our customers and intermediary partners online, by phone, and face to face through eight offices in the UK.

MotoNovo Finance, based in Cardiff, helps UK consumers by bringing straight forward finance to people looking to buy their next car, van or motorcycle. See page 15 for further details.

Together, we have grown to almost 2,000 colleagues serving over 300,000 customers, with both businesses being leaders in their specialist fields.

Strong leadership and effective governance

Although no longer listed on the London Stock Exchange, we are committed to maintaining the highest standards of corporate governance. We intend to adopt the Wates Corporate Governance principles for the financial year ending 30 June 2020.

During the year, we welcomed Harry Kellan, Chief Financial Officer of the FirstRand Group, to the Board as a Non-Executive Director. The year also saw the departure of Johan Burger and Christopher Stamper from the Board. We thank them for their valuable contributions.

We also continued to strengthen our leadership team, welcoming Zish Khan as Chief Operating Officer and, following the departure of Carl D'Amassa, Tim Boag joined us as Interim Group MD, Business Finance. Mark Standish, CEO of MotoNovo, is another experienced and entrepreneurial addition to the Aldermore Group leadership team.

A bright combined future

Our latest results demonstrate the strength of the Aldermore and MotoNovo Finance brands and propositions in increasingly challenging markets. The Aldermore Group is well placed to capitalise on future opportunities and we move forward with great optimism.

Business Model

We operate in select areas of the UK banking market, chosen specifically for their size, attractive returns and strong collateral characteristics including Asset Finance, Invoice Finance, SME Commercial Mortgages, Residential Owner Occupied Mortgages, Buy-to-Let and Motor Finance. For the majority of the financial year to 30 June 2019, Aldermore was structured as two distinct customer facing businesses: Business Finance, comprising Asset Finance, Invoice Finance and SME Commercial Mortgages, and Retail Finance, comprised of Residential Owner Occupied Mortgages, Buy-to-Let Mortgages and Savings. As of 5 May 2019, we have an additional customer facing division in MotoNovo Finance.

Aldermore's DNA is built around helping our customers to seize opportunities by being reliable, expert, dynamic and straightforward in everything that we do. Culturally, MotoNovo is a strong fit, with a closely aligned approach in providing straight forward products and keeping the customer at the core of everything it does, which gives us confidence for our joint future.

We use systems to intelligently support specialist underwriters to make quick and informed lending decisions delivering award-winning customer service to our intermediary partners and direct customers. Our credit experts help to ensure that our lending decisions are aligned to our prudent risk appetite. We use our combined expertise to manage risk across our diversified portfolio with this robust approach to risk extending to our prudent management of capital and liquidity. Our lending is primarily funded by retail and business customer savings, with the balance coming principally from wholesale markets.

Market Overview

Macro-economy

Despite the ongoing uncertainty posed by Brexit, the economy remained resilient during the year. The Bank of England base rate increased to 75bps in August 2018 and remained at this level for the rest of the year with unemployment continuing to trend at historic lows. As Aldermore is a UK-based company, the main impact of Brexit on Aldermore would be potential deterioration in the UK economy such as higher interest rates and house prices declining. In preparation for whatever Brexit scenario the UK faces, Aldermore has established a Brexit Working Group made up of senior managers across the business which feeds into the Group's Executive Risk Committee. Aldermore is also engaged with industry wide preparations via the sector trade body, UK Finance. Overall, we are well prepared, taking all necessary precautions and are in a strong position to deal with Brexit and its impacts.

According to the Office of Budget Responsibility in the Government's Spring Statement in March 2019, the outlook for UK GDP economic growth is set to be 1.2% for 2019 with the medium term forecasting remaining around 1.5%.

Whilst our SME Future Attitudes report indicates that customers maintain a positive yet cautious outlook for their businesses, lower GDP growth could be challenging for lending markets. Aldermore continues to engage with our customers to ensure we offer appropriate products and services to help with their investment and saving needs.

Legal and regulation

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

- In the Spring Statement, the Chancellor announced HM Treasury's Future Regulatory Framework Review. The call for evidence is the first phase in a number of planned interventions to determine the long-term effectiveness of the regulatory regime with one key focus being the impacts of Brexit.

Aldermore waits to see the outcomes from the Future Regulatory Framework Review later this year as well as assessing and adjusting to the impacts of Brexit.

- The FCA published its report into the motor finance sector. It raised concerns regarding product commissioning such as insurance and finance and has outlined its intention to come forward with new regulations in the near future.

These could impact the cost of motor vehicles, especially in the used car market, with car dealerships increasing the cost of vehicles as they seek to recoup the income they currently make from the commission on insurance or finance products, from consumers at the point of sale. The effects on MotoNovo Finance are not likely to be material given our risk adjusted pricing methodology.

- Aldermore has been active in the buy-to-let market, which serviced the rising need for rented accommodation. Market conditions were extremely positive for many years. However, tax and fee changes have started to have a significant impact.

Since April 2017, the way landlords have to declare their rental income has started to change, meaning most will see their tax bills rise significantly and tax relief on mortgage interest has been gradually phased out. By April 2020, landlords will not be able to deduct any mortgage expenses from rental income to reduce their tax bill. Instead, a tax-credit will be received, based on 20% of the mortgage interest payments. This is less generous for higher-rate taxpayers, who effectively received 40% tax relief on mortgage payments under the old rules. The new system is being phased in over several years.

Government and regulatory interventions in the buy-to-let market are expected to contribute to a contraction in the size of the overall market. In 2018, gross buy-to-let lending was £37 billion, down from £41 billion in 2016, according to UK Finance. The market is also expected to further professionalise, as investors develop property portfolios and use incorporated structures or special purpose vehicles ("SPVs") to buy property. Aldermore and other specialists already have strong relationships with professional landlords but may see increased competition from new entrants into this area of the market.

Landlords have also been impacted from a ban on lettings fees that was introduced by the government as of the 1 June 2019. Previously, tenants could be charged administration fees – such as tenancy renewal fees, referencing fees and credit check fees – by landlords and letting agents. Landlords and their agents will no longer be able to charge such fees with any costs now being met by the landlord.

- The FCA released its full Mortgage Market Study in March 2019, concluding that the mortgage market was in general working well for the majority of borrowers but they have announced more action on helping 'mortgage prisoners'. A consultation closed in June with a policy statement on 'mortgage prisoners' expected later in 2019.

Competition

Competition has continued to intensify in the business finance, mortgage, and car finance markets in which the Group operates. In the banking sector, technology and reputational issues experienced by some participants have hindered the reputation and public perception of challenger banks.

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

Customer behaviour

Aldermore has remained alert to the changing preferences of customers in managing their financing needs. Our retail savings proposition was moved online for new accounts in 2018, reflecting the way the majority of customers choose to do business with us and was positively received. The Business Finance division continues to invest in technology and processes to improve the customer journey as does MotoNovo Finance which launched www.findandfundmycar.com in direct competition to more established car search and buying websites. Since www.findandfundmycar.com adopted a "fee free" model in September 2018, it has seen a significant uptake from dealers and car registrations on the site and is now a serious competitor in the consumer car search and purchase market.

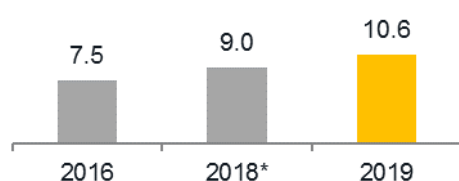
Our specialist underwriting expertise and focus on putting the customer at the forefront of what we do, enables us to continue helping more customers to seek and seize opportunities in their professional and personal lives. This enables our continued profitable growth which also allows us to continue to invest in our products and services, the result of which is reflected in the high levels of customer advocacy we enjoy.

Financial Highlights

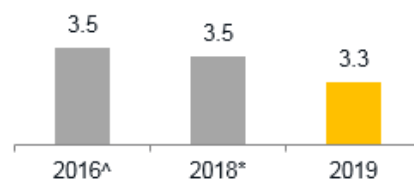
A year of continued growth at sustained margins

- Net loans to customers up by 18% to £10.6 billion (2018: £9.0 billion)
- Statutory profit before tax of £129.6 million (18 month period to 30 June 2018: £195.3 million)
- Underlying profit before tax of £135.0 million¹ (18 months to 30 June 2018: £231.7 million)
- Underlying cost/income ratio increased to 52%¹ (2018: 46%) including the cost of MotoNovo Finance for 2 months
- Cost of risk at 24bps (2018: 16bps) mainly reflecting the adoption of IFRS9 and the inclusion of MotoNovo Finance
- CET1 ratio has strengthened to 14.9% (30 June 2018: 12.3%) reflecting capital injection
- Underlying return on equity decreased to 11.4%¹ (2018: 17.2%) and return on equity decreased to 10.9% (from 13.9%) due to capital injection to support MotoNovo Finance

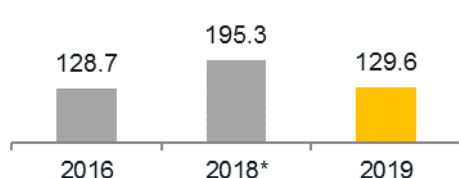
Net loans (£bn)



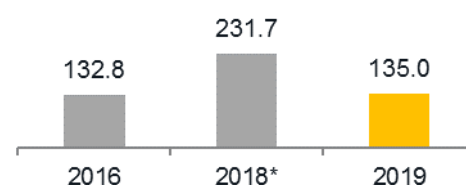
Net Interest Margin (%)



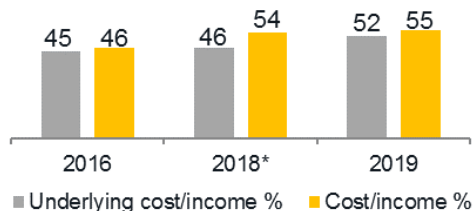
Statutory profit before tax (£m)¹



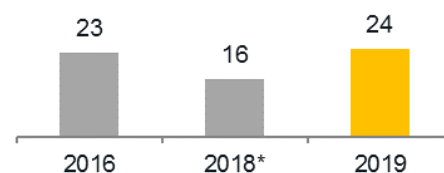
Underlying profit before tax (£m)¹



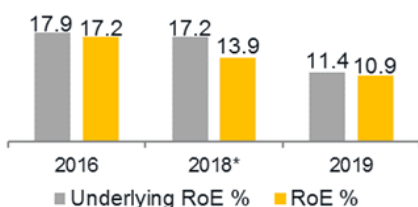
Cost/income ratio (%)¹



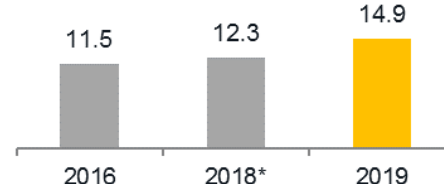
Cost of risk (bps)



Return on equity (RoE) (%)



CET1 ratio (%)



^ 2016 and 2018 NIM calculated in line with restated interest income to align with FirstRand Group policy. See point (i) in note 2(c) to the financial statements

* 2018 represents the 18 month period to 30 June 2018

¹ Underlying in 2019 excludes integration costs and the costs and income incurred in MotoNovo Finance for servicing the MotoNovo back book recharged to FirstRand London Branch. Underlying in 2018 excludes impairment of intangibles, transaction costs and integration costs. See page 10 for a reconciliation from the alternative profit measure to statutory profit

Business Overview

During 2018, Aldermore changed its financial year end to 30 June to align with FirstRand Group and as a result of the change in the year end, the 2018 results presented below are for the 18 month reporting period from 1 January 2017 to 30 June 2018. The 18 month period comparators have been restated to align the recognition treatment of the income or expense arising from derivatives held at fair value in hedging relationships with that of FirstRand. The restatement only impacts the Central Function and does not impact total operating income. More detail can be found in note 2(c) on page 82. As of 5 May 2019, MotoNovo Finance began trading as part of the Aldermore Group.

	2019	2018	Change
	£m	£m	%
Summary balance sheet			
Net loans	10,595.1	8,990.5	18
Cash and investments	1,835.9	1,397.7	31
Intangible assets	14.8	14.4	2
Fixed and other assets	84.5	30.1	182
Total assets	12,530.3	10,432.7	20
Customer deposits	8,971.8	7,776.3	15
Wholesale funding	2,291.2	1,811.5	26
Other liabilities	172.1	86.9	98
Total liabilities	11,435.1	9,674.7	18
Ordinary shareholders' equity	974.2	684.0	42
AT1	121.0	74.0	64
Equity	1,095.2	758.0	45
Total liabilities and equity	12,530.3	10,432.7	20

Net loans of £10.6 billion

Loan growth in the period was driven by strong levels of origination across both Business Finance and Retail Finance as we continue to build our diversified portfolio, plus £0.4 billion of lending from MotoNovo Finance driven by strong origination in the final two months of the year. Net loans to customers reached £10.6 billion (2018: £9.0 billion) as the number of customers grew by 44% including MotoNovo Finance (11% excluding MotoNovo Finance). Total assets exceeded £12.5 billion, an increase of 20% on 2018.

Deposit-led funding model

Our funding strategy continues to be deposit-led. In 2019, to fund our growing business and future ambitions, we have continued to complement our deposit base with additional wholesale funding through securitisations and Tier 2 debt securities. The mix across the funding book remains broadly stable, and as at 30 June 2019, our loan to deposit ratio was in line with the prior period at 118% (2018: 116%).

We continue to support our asset growth through diversified, deposit-led funding carefully managed to meet the Group's cashflow requirements. Deposits were up 15% to £9.0 billion (2018: £7.8 billion). We saw strong growth in our Personal and Business savings balances, up 16% and 7% respectively, as we built on our strong franchise in the market.

Our savings products won numerous industry awards in the year, including Best Cash ISA Provider and Best Business Savings Provider at the MoneyComms awards. We also retained c.80% of our maturing balances in the year through our consistently strong customer service, reflected by high Net Promoter Scores (NPS) in both Personal (+55) and Business Savings (+61), and remain committed to growing the deposits franchise in Personal, Business and Corporate markets to continue supporting our future lending ambitions.

Our actively managed wholesale funding was up 26% to £2.3 billion (2018: £1.8 billion) as we issued Residential Mortgage Backed Securities ("RMBS") of £325.0 million in October 2018, and called £78.0 million of RMBS, further diversifying our funding base. In addition, wholesale funding also includes £1.7 billion of Term Funding Scheme and £212.0 million of Tier 2 debt securities. The Group has a number of options to replace TFS funding as it matures, including further wholesale and deposit-led funding.

In May 2019, Aldermore Group issued £209.0 million of share capital to FirstRand to support the acquisition by MotoNovo Finance of the trading assets of MotoNovo from the Branch and pre-fund 15 months of lending growth. The transaction was further supported by the issuance of £47.0 million Additional Tier 1 Notes and £52 million Tier 2 Notes. Total liabilities and equity have increased by 20% to £12.5 billion (2018: £10.4 billion).

	12 month period to 30 June 2019 £m	18 month period to 30 June 2018 (restated) £m
Summary income statement		
Interest income	467.3	594.4
Interest expense	(149.2)	(168.0)
Net interest income	318.1	426.4
Net fee and other operating income	18.2	34.6
Net derivatives expense and gains on disposal of debt securities	4.0	6.4
Operating income	340.3	467.4
Expenses, depreciation and amortisation	(181.3)	(216.5)
Share of Profit of Associate	0.5	0.3
Transaction and Integration costs	(5.4)	(22.2)
Impairment of intangibles and goodwill	(0.7)	(14.2)
Impairment losses on loans and advances to customers	(23.8)	(19.5)
Profit before tax	129.6	195.3
Tax	(32.7)	(56.7)
Profit after tax	96.9	138.6

Key performance indicators	2019	2018	Change %
Net interest margin %	3.3	3.5	(0.2)
Underlying cost/income ratio %	52	46	(6)
Cost of risk (bps)	24	16	(8)
Underlying return on equity %	11.4	17.2	(5.8)

¹ Underlying in 2019 excludes integration costs and the costs and income incurred in MotoNovo Finance for servicing the MotoNovo back book recharged to FirstRand London Branch. Underlying in 2018 excludes impairment of intangibles, transaction costs and integration costs. See page 10 for a reconciliation from the alternative profit measure to statutory profit

Interest income reflects continued loan growth

Interest income was £467.3 million (18 months to 30 June 2018: £594.4 million) reflecting the size of the loan book. Despite market driven rate pressures, our gross interest margin remained robust at 4.8% (2018: 4.8%).

Interest expense of £149.2 million (18 months to 30 June 2018: £168.0 million) reflects the increased funding base required to support the growth of our lending book. The 15% growth in customer deposits, which is relatively higher cost, coupled with the UK Base Rate increase of 25bps in August 2018, slightly increased our cost of funds to 1.5% (2018: 1.4%).

As a result, the Bank delivered net interest income of £318.1 million (18 months to 30 June 2018: £426.4million) with our net interest margin reducing to 3.3% (2018: 3.5%).

Other operating income reflects market changes

Net fee and other operating income of £18.2 million (18 months to 30 June 2018: £34.6 million) includes £10.5 million of income received from the Branch in relation to the cost incurred to support the MotoNovo back book operations plus an arm's length mark-up. Excluding this, net fee and other operating income of £7.7 million was impacted by the continued market trend towards fee free products.

Continued investment

Operating expenses were £187.4 million (18 months to June 2018: £252.9 million) reflecting continued investment in the business, primarily within increased people costs. The additional roles were largely to strengthen our front office propositions, drive transformation and change, and further develop back office support functions. We also continued to invest in IT to improve our products and customer journey, cyber security and have undertaken work to improve data quality in line with regulations. The addition of MotoNovo Finance to the Group in May 2019, increased our overall cost base by £13.6 million which includes £9.8 million cost incurred in servicing the back book operations at arm's length that is recharged to the Branch. We also incurred £5.4 million integration costs relating to the integration of MotoNovo Finance into Aldermore.

Our underlying cost to income ratio, which excludes £10.5 million cost and fee income related to MotoNovo back book operations, increased to 52%.

Cost of risk remains well controlled at 24bps

Credit impairment charges were £23.8 million (18 months to 30 June 2018: £19.5 million), reflecting growth of the lending book, the application of a management overlay to the portfolio for the possibility of a severe economic downturn resulting from a disorderly (no deal) Brexit and a small number of specific individual provisions in Business Finance, the inclusion of MotoNovo Finance and the adoption of IFRS 9. Whilst we maintain a robust approach to risk management, our cost of risk has increased to 24bps (2018: 16bps).

Statutory profit of £129.6 million

Profit before tax was £129.6 million (18 months to 30 June 2018: £195.3 million) reflecting the strong interest income performance, continued investment in the business and £5.5 million loss from MotoNovo Finance as costs to support the business written since 5 May 2019 are incurred ahead of revenue generation from lending originated in the last few months of the year. In the period we also saw our capital base increase due to retained earnings and additional equity injected by the FirstRand Group to support further lending growth in MotoNovo Finance. As a result of this capital pre-funding, our return on equity was 10.9% (2018: 13.9%) and we would expect RoE to continue to be impacted until MotoNovo Finance grows into the current capital base available.

Alternative profit measure reconciliation to Statutory Profit

Alternative profit measure reconciliation to Statutory profit	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Underlying profit before tax	134.3	231.7
FirstRand transaction costs	-	(19.8)
FirstRand integration costs	-	(2.4)
MotoNovo back book recharges	0.7	-
MotoNovo Finance integration costs	(5.4)	-
Impairment of intangibles and goodwill	-	(14.2)
Statutory profit before tax	129.6	195.3

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Aspects of the results are adjusted for certain items, which are described below, to reflect how management assesses the Group's underlying performance without distortions caused by items that are not reflective of the Group's ongoing business activities. The following items have been excluded from underlying profits for the year ended 30 June 2019:

- **MotoNovo back book recharges**
These are the net impact of the recharges (costs incurred plus an arm's length mark-up) to the Branch in relation to MotoNovo Finance servicing the MotoNovo backbook business. Further details can be found in note 10.
- **MotoNovo Finance integration costs**
These costs relate to the work to integrate MotoNovo Finance into the Aldermore Group. Further details can be found in note 10.

The following items were excluded from underlying profits for the period ended 30 June 2018:

- **FirstRand transaction costs**
These costs related to the acquisition of Aldermore by FirstRand Group and primarily consist of broker and legal expenses. Further details of the transaction costs can be found in note 10.
- **FirstRand integration costs**
These costs related to the work to integrate Aldermore into the FirstRand Group. Further details can be found in note 10.
- **Impairment of intangibles and goodwill**
The £14.2m impairment of intangibles in the period ended 30 June 2018 resulted from an impairment review. Further details can be found in note 24.

Business Review

Business Finance

For the majority of the financial year to 30 June 2019, Aldermore was structured as two distinct customer facing businesses: Business Finance (comprised of Asset Finance, Invoice Finance and SME Commercial Mortgages) and Retail Finance (comprised of Buy-to-Let Mortgages, Residential Owner Occupied Mortgages, and Savings). From a financial perspective, Savings is reported with the rest of the funding base in Central Functions. As of 5 May 2019, MotoNovo Finance began trading as part of Aldermore Group and is hence reported as a separate business segment.

Highlights

- Organic origination of £1.8 billion (18 months to 30 June 2018: £2.3 billion)
- Net lending to customers up 12% to £3.4 billion (2018: £3.1 billion)
- Segmental profit of £102.9 million (18 months to 30 June 2018: £164.6 million)
- Net Interest Margin broadly maintained at 4.4% in a challenging marketplace (2018: 4.5%)
- The broker introduced Asset Finance market share has been maintained at 13% in a competitive market
- NPS of +52 in Invoice Finance and an increased customer retention rate

	12 month period to 30 June 2019 £m	18 month period to 30 June 2018 £m	Change %
Net loans to customers	3,438.7	3,072.8	12
Organic origination	1,832.2	2,345.3	(22)
Operating income	152.4	221.3	
Administrative expenses	(33.4)	(43.6)	
Impairment losses	(16.1)	(13.1)	
Segmental result	102.9	164.6	
Net interest margin (%)	4.4	4.5	(0.1)
Cost of risk (bps)	49	30	(19)

Performance

Business Finance loan balances were up by 12% to £3.4 billion (2018: £3.1 billion) with originations of £1.8 billion (18 months to 30 June 2018: £2.3 billion), primarily driven by Asset Finance (AF) and Invoice Finance (IF). Net lending in AF was up 10% to £2.0 billion (2018: £1.8 billion), with strong originations of £1.3 billion (18 months to 30 June 2018: £1.7 billion) across both Broker and Wholesale channels. There was good growth in IF, with net loans up by 51% to £0.4 billion (2018: £0.3 billion) driven by a strong performance in Specialist IF and our continued strategy to attract and retain larger sized deals. SME Commercial Mortgages net lending grew 6% to £1.0 billion (2018: £965.9 million) as we have repositioned ourselves in the market in a bid to attract larger deals. Over the second half of the year, traction has increased in attracting larger commercial mortgage deals and we secured our largest single property development facility to date in November 2018.

Net interest margin (NIM) has remained broadly stable at 4.4% (2018: 4.5%) despite increased market competition and rate pressures, as our lending growth has been carefully managed to achieve desired returns. Administrative expenses were £33.4 million (18 months to 30 June 2018: £43.6 million) and include investment in SME Commercial Mortgages to support growth. Cost of risk has increased in the year to 49bps (2018: 30bps) largely due to AF, where there have been a small number of specific individual provisions. The movement also reflects the adoption of IFRS9. Segmental profit for the year was £102.9 million (2018: £164.6 million) with a stable margin on the growing loan book balancing increased impairments.

Market and Strategy

The Asset Finance market has grown 2%¹ in the past year and is now worth c.£32.0 billion¹. The broker segment has grown strongly in the past year, up 12%¹, and Aldermore continues to be a major player in this increasingly competitive segment with a 13%¹ share. In order to maintain our competitiveness we are investing in technology to simplify our credit assessment and underwriting, particularly in less complex cases, and are reviewing our business model to streamline the end-to-end deal process and increase sales coverage.

¹ FLA, Business Finance Additional Tables, July 2019

The total IF market continues to grow at c.5%¹ year on year, while our net lending grew 38%, largely driven by an increase in higher value lending particularly in our specialist business, increasing our market share by 0.4% to 1.8%¹. Growth in Aldermore's core target market (£0 - 25 million deal size) has only marginally increased, up 1% to £9.5 billion¹ over the same period, and our market share has remained broadly stable at 2.5%¹. Whilst the total value of loans in the market grew, the number of UK businesses using invoice finance facilities was similar throughout the year, less than 9,000¹ businesses changed funder, demonstrating the increasing competitiveness across existing providers and their desire to retain clients.

Our annual customer retention rate has increased by 2% to 76% and customers continue to be very satisfied with the service that we provide, awarding us an NPS of +52. We are now seeing the benefit of our strategic repositioning two years ago coming through in our strong performance and will seek to build on this going forward.

The SME Commercial Mortgages market was worth c.£50.0 billion² in originations during 2018, of which Aldermore holds a share of 0.6%², focused on multi-let commercial investment property loans and property development to experienced regional developers.

Competition in this market is increasing, with both new entrants and traditional lenders looking to grow their current asset classes whilst exploring opportunities in new areas and the, as yet, largely untapped specialist markets. Our specialist underwriting capability puts us in a good place to explore new opportunities as we work hand in hand with customers and our approved panel of specialist brokers to understand the property use, the tenant covenant and the local market dynamics to underwrite effectively, providing a bespoke service and tailored funding solution.

¹ UK Finance, March 2019 statistics

² Cass Commercial Real Estate Lending Survey, May 2019

Retail Finance

Highlights

- Organic origination of £1.7 billion (18 months to 30 June 2018: £2.3 billion)
- Net lending to customers up 15% to £6.8 billion (2018: £5.9 billion)
- Segmental profit of £158.1 million (18 months to 30 June 2018: £214.8 million)
- Winner of Best service from a buy-to-let lender for the fourth consecutive year (Business Moneyfacts)
- Invested in customer proposition with development of broker portal and launch of Cascade product
- NPS has increased from +6 to +22 in the year highlighting increased focus on customer service

	12 month period to 30 June 2019 £m	18 month period to 30 June 2018 £m	Change %
Net loans to customers	6,791.6	5,917.7	15
Organic origination	1,725.0	2,334.4	(26)
Operating income	181.2	246.4	
Administrative expenses	(19.1)	(25.3)	
Impairment losses	(4.0)	(6.4)	
Segmental result	158.1	214.8	
Net interest margin (%)	2.9	3.0	(0.1)
Cost of risk (bps)	6	8	2

Performance

Retail Finance loan balances grew 15% to £6.8 billion (2018: £5.9 billion) with originations of £1.7 billion (18 months to 30 June 2018: £2.3 billion). Buy-to-let lending grew 14% in the year to £5.0 billion (2018: £4.4 billion) with strong originations in Specialist buy-to-let as we renewed our focus on this customer segment, leveraging our expertise and knowledge in this area. Residential Owner Occupied mortgage balances grew 18% to £1.7 billion (2018: £1.5 billion), as originations increased through new product launches, particularly Cascade our tiered mortgage offering based on the customer's credit profile, and redemptions reduced as we increased focus on our loyalty proposition.

Net interest income of £181.1 million (18 months to 30 June 2018: £240.5 million) was driven by the strong growth in loan balances, partially offset by rate pressure in a highly competitive environment and increased funding costs. As a result, net interest margin has reduced to 2.9% (2018: 3.0%). The market continues to be dominated by fee free products which has further impacted income. Administrative expenses were £19.1 million (18 months to June 2018: £25.3 million) as we invested in the future growth of the business and our proposition. Cost of risk fell to 6bps (2018: 8bps) demonstrating careful risk management across the portfolio.

Market and Strategy

Within the buy-to-let sector, Aldermore continues to have a strong reputation in an increasingly competitive market and our market share has remained broadly stable. The impact of tax and regulatory changes means that professional landlords now account for 48%¹ of the market, up from 38% in 2010, with this trend expected to continue. Through leveraging our expertise and experience in specialist buy-to-let, Aldermore holds an 11.2% share of this market and we are investing in our broker portal capabilities to further improve our offering in this space. As a result of the shift to professional landlords, there are fewer first time landlords entering the market, resulting in a decline in purchase activity and an increase in remortgage activity to c.80% of new lending (2018: 73%). Aldermore is investing for the future by developing our buy-to-let proposition with a focus on customer relationship, retention strategy and in-life account servicing.

Originations in the Residential Owner Occupied mortgage market have grown 7%² in the past 12 months, with Aldermore's share of originations increasing from 0.16% to 0.27%². In late 2018, we revised our high loan-to-value (LTV) proposition and launched Cascade, our tiered mortgage offering. Our market share of the First Time Buyer market steadily increased, to 0.4%² in the 5 months to May 2019 from 0.3% in December 2018, as we actively support people buying their first home.

¹ Intermediary Mortgage Lenders Association, Buy-to-let at a crossroads report, July 2019

² UK Finance, May 2019

Our strategy of focusing on specialist segments positions us well to move forward in a challenging market. Our specialist sales and underwriting teams enable us to support the needs of our desired customers while providing opportunities for margin growth in the future. We continue to develop our systems to provide simpler, clearer, automated solutions for customers and brokers with a number of key projects undertaken in the past year including credit risk affordability and online capability for brokers to automatically switch customers to an alternative Aldermore product. As we look to grow our market share, we are investing in our analytical capabilities to better understand our customer base, and further support the improvement of our retention strategy, particularly within buy-to-let.

We expect the buy-to-let market to remain relatively flat over the next year, whilst steady growth is expected in the owner occupied market. Established lenders, particularly those with ring-fenced capital and liquidity to put to work in the UK market, have started to enter areas of market which Aldermore and its peers have served over the last few years, resulting in some rate pressure and the continued trend towards fee free products. We believe that with our distinctive offering and our strength in underwriting and understanding of customer needs, we will continue to thrive and will continue focusing on specialist propositions in the segments where we operate to best serve the needs of our customers.

MotoNovo Finance

Highlights

- Organic originations of £293.1 million in first 2 months of trading
- Net lending to customers of £364.8 million
- Segmental loss of £5.5 million
- NPS of +72

	2 month period to 30 June 2019 £m
Net loans to customers	364.8
Organic origination	293.1
Operating income	1.1
Administrative expenses	(2.1)
Non-underlying expenses	(0.7)
Impairment losses	(3.8)
Segmental loss	(5.5)

Performance

MotoNovo Finance started trading on 5 May 2019. Over 700 colleagues were transferred into the Aldermore Group and the integration programme was formally closed at the end of May. All business written by MotoNovo Finance from 5 May 2019 is included within the financial statements of Aldermore Group. Net loans to customers also include £65.1 million of loans that were transferred from the Branch to MotoNovo Finance. Additionally, MotoNovo Finance is responsible for servicing the existing MotoNovo backbook business on behalf of the Branch, for which the Branch pay a service fee.

Since 5 May 2019, £10.5 million of operating expenses including an arm's length mark-up have been recharged to FirstRand in relation to MotoNovo servicing the MotoNovo backbook business. Both the operating expenses and income are excluded from the financial results presented above.

Additionally £0.7 million of non-underlying expenses relate to integration activity for MotoNovo Finance into Aldermore Group.

The financial performance of MotoNovo Finance is representative of 7 weeks of trading and as expected, costs have been incurred ahead of interest income being earned on the front book. However, it is pleasing that net lending was ahead of expectations.

Market and Strategy

Despite relatively benign macroeconomic conditions, uncertainty from Brexit continues to have an effect on the UK automotive sector and the Society of Motor Manufacturers and Traders (SMMT) has highlighted the potential repercussions a 'no deal' Brexit could have on the UK Motor Sector, including increased tariffs on imported vehicles.

Demand in the used car market for the first three months of 2019 was flat compared to the same period in 2018, although it was down 2%¹ in 2018 compared to 2017. The longer term trends of a fall in demand in the sector is starting to affect current used car prices which have suffered their largest cumulative reduction for over a decade reducing by 4.4%² in the six months to June 2019. Used car point of sale finance demand remains buoyant and for the 12 months to the end of June 2019, £18.0 billion³ of advances had been funded, an increase of 7%³ compared to the previous 12 months. Over the same period, point of sale finance aided the purchase of 1.47 million³ cars, an increase of 3% on the previous 12 months.

In January 2018, MotoNovo launched findandfundmycar.com, a direct to consumer website, which has quickly proved to be an effective acquisition tool and entry point into a key growth market. At the end of June 2019, almost 3,000 dealers are connected and over 150,000 vehicles were live on the site. Customer satisfaction with MotoNovo Finance is high, with an NPS of +72 and an 'Excellent' rating on Trust Pilot, while dealer satisfaction is also strong at 8.9 out of 10. MotoNovo has also won several awards in the year including Finance Provider of the Year (Motor Trader Industry Awards) and Best Car Finance Provider (Consumer Credit Awards 2018).

¹ SMMT, Used Car Sales, Q1 2019

² CAP Black Book

³ FLA, Consumer Car Finance News, May 2019

Central Functions

Savings, Treasury and Support Functions

Highlights

- Personal deposits up by 16% to £6.0 billion (2018: £5.2 billion)
- Business deposits up by 7% to £2.1 billion (2018: £2.0 billion)
- Corporate deposits up by 40% to £862.0 million (2018: £615.0 million)

Segmental result	2019 £m	2018 £m (restated)	Change %
Operating income / (loss)	(4.8)	(0.2)	
Underlying administrative expenses	(116.9)	(147.4)	
Non-underlying expenses ¹	(4.7)	(36.4)	
Segmental loss	(125.9)	(183.7)	
Retail Deposits	5,967.2	5,163.3	16
SME deposits	2,142.5	1,997.9	7
Corporate deposits	862.1	615.0	40

Segmental loss

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

Performance

Net interest income predominantly includes the interest expense relating to the Tier 2 Notes which is not recharged to segments.

Net fees and other income includes the income or expense arising from derivatives held at fair value in hedging relationships, the net expense or income from derivatives not currently recognised as being in hedging relationships and gains or losses on disposals of available for sale debt securities. In June 2019, a decision was made to align the accounting treatment of the income or expense arising from derivatives held at fair value in hedging relationships with that adopted by FirstRand whereby this is recognised through profit or loss instead of interest income and interest expense. The prior period comparators have been restated on this basis. More details are in note 2(c) on page 82.

Central administrative expenses were £116.9 million (18 months to 30 June 2018: £147.4 million) as we continue to invest in, and grow, the business. In addition to the increase in people costs, we continued to enhance of our IT capabilities to improve the service we offer to customers.

Additionally £4.7 million of non-underlying expenses relate to integration activity for MotoNovo Finance into Aldermore Group. In 2018, the charge of £36.4 million included expenses related to the FirstRand transaction, integration costs and intangible impairments.

The segmental result was a charge of £125.9 million (18 months to 30 June 2018: charge of £183.7 million).

Market and Strategy

The UK savings market reported a period of steady growth over the last 12 months, with total balances growing by around 3%¹, similar to the previous year. The Bank of England Base Rate has remained at 0.75% since increasing in August 2018 and, given Brexit uncertainty and a slowing global economic outlook, is expected to remain unchanged for most of 2019. This interest rate backdrop has resulted in competition for deposits remaining relatively benign despite the cessation of the Term Funding Scheme in February 2018, with average rates in most product categories staying broadly unchanged since the final quarter of 2018. Relatively few new entrants launched into the UK savings market over the last 12 months and the impact has generally been minimal, with only a couple of notable exceptions. New savings platforms have been launched, both by established and new competitors, although these have largely been in the investment management market.

Aldermore's funding strategy remains principally deposit-led complemented by wholesale sources to ensure that our funding is managed cost-effectively and diversified appropriately.

¹ Bank of England

Corporate Responsibility

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

Our people

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

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

- Monthly group-wide colleague newsletters;
- Intranet articles; and
- Regular face to face briefings from senior leaders at many of our sites.

We regularly consult our employees to ascertain their views on a range of issues, activities include:

- An annual employee survey;
- Colleague focus groups; and
- Network groups.

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

1. We are committed to diversity in the workplace

- Committed to equal opportunities for all our people, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status; and
- Have two networks in operation – one for Women in Finance and one for Inclusion which are responsible for organising a number of activities across the Bank including events to engage all employees with International Women's Day and mental health awareness.

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

- Throughout the period, we continued the *Big Conversation*, the Aldermore way of involving everyone in the continuous improvement of our business;
- Through the *Big Conversation*, our managers at all levels facilitate conversations with their teams about strategically important themes. In these conversations, we surface improvement ideas which are trialled and implemented on a team level, then shared via an online collaboration platform. In the period, over 220 new ideas have been generated by colleagues via this approach ensuring all our colleagues are included and involved in improving the performance of our business; and
- Our 2019 employee engagement survey gave our employees the opportunity to let us know how they are feeling and what we can improve. The response rate to the Bankwide survey was 88% and the results showed our overall Employee Net Promoter Score (eNPS) positively increase from +5 to +15.

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

- Our *Elevate* programme, a bank wide development programme for those employees who aspire to be managers, saw 47 Aldermore employees graduate;
- Launched unconscious bias e-learning for all employees;
- Welcomed to our business 10 new apprentices, taking us to 16 in total, ranging from level 2 to level 7 programmes;
- For senior leaders, ran 6 days in total of offsite leadership development training;
- 10 Aldermore mentees and 10 mentors participated in the '30% Club' mentoring scheme which offers cross-company, cross-sector mentoring to women at every layer of the career pyramid;
- Through the "More Awards", Aldermore's colleague recognition awards, saw 98 peer to peer nominations, with 24 bi-monthly winners and 7 annual winners recognised; and
- MotoNovo Finance colleagues recognised their top achievers through the MotoNovo Way annual awards ceremony. Colleagues from across the business were invited to nominate colleagues across 13 Award categories, designed to recognise individual and team achievement, from 'Community Hero' to 'Innovator of the Year' and 'Rising Star'. The winners were chosen from 470 nominations.

Below are our employee statistics for June 2019 and June 2018:

	June 2019	June 2018
Number of employees	1,806 ¹	950
Number of female employees	803	431
% of female employees	44%	45%
I am proud to work for Aldermore (<i>Big Conversation</i> survey January 2019)	78%	
How likely is it that you would recommend Aldermore as a place to work to a friend and colleague? (<i>Big Conversation</i> survey January 2019)	+15 ²	
% of new joiners who came through our refer a friend scheme	12.3%	24.0%

Our communities

The SMEs, landlords, homeowners, savers and vehicle owners that we work with, in turn support the communities in which they live and work. We understand that we have a responsibility to be part of these communities. We are also cognisant of the effects of our actions on the environment and ensure that these are managed in a way that limits these impacts. We use recycled paper for printing and have recycling facilities located in all offices in support of our undertaking to reduce the amount of waste we sent to land fill.

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

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

We give back to the communities where we operate

- Aldermore employees vote annually on a Charity of the Year they wish to support. In 2018, this charity was Independent Age, a national charity which provides free information and advice for older people and their families on care and support, money and benefits, and health and mobility. Colleagues raised £12,132 for Independent Age and over £30,000 for other good causes including Headway, the brain injury charity who we support every year in memory of an Aldermore colleague, Cancer Research and the National Autistic Society;
- In 2019, Aldermore's Charity of the Year is MIND; and
- Aldermore also operates a £ for £ charity matching scheme for employees. Many of our people raise funds for their charity of choice and we want to lend a hand in support of our employees. We will match whatever a colleague raises for charity up to a maximum of £250.

Human Rights and Modern Slavery Act

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

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

Aldermore 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 bank-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' business or supply chains.

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

¹ The June 2019 figures for number of employees, number of female employees and % of female employees includes MotoNovo Finance which became part of Aldermore Group in May 2019

² The score shown reflects a net rating for promoters minus detractors

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.

This Strategic Report on pages 3 to 19 and the principal risks and uncertainties on pages 37 to 40, were approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'James Mack', with a stylized, flowing script.

James Mack

Director

30 August 2019

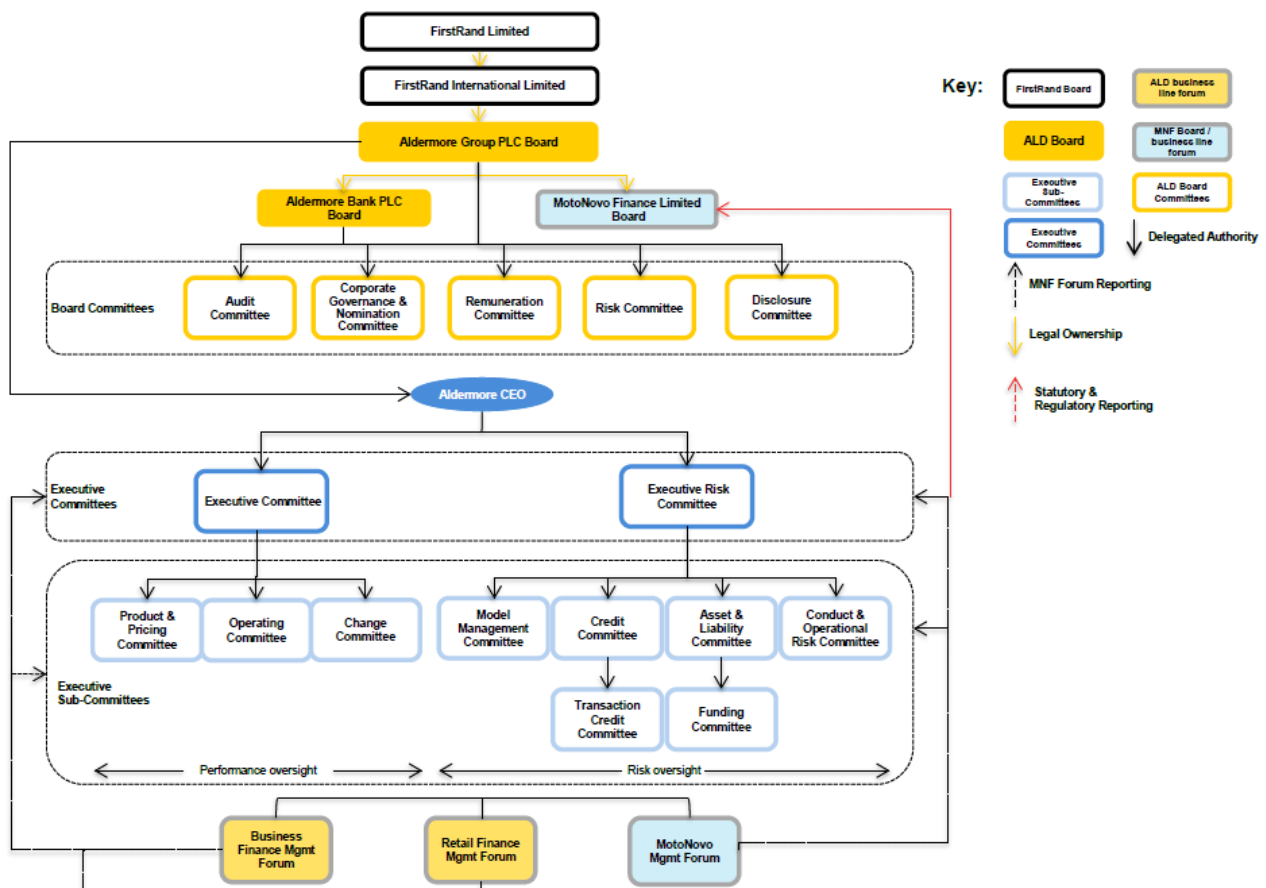
Corporate Governance Structure

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 Corporate Governance Structure has been updated to take into account the Aldermore Group's Board reporting to FirstRand International Limited and the completion of its integration with the vehicle finance business which was incorporated as a new company, MotoNovo Finance Limited within the Aldermore Group.

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

Since the delisting of Aldermore's shares from the London Stock Exchange on 15 March 2018, the Board remains committed to the highest standards of corporate governance and best practice. The Board recognises that effective governance is key to the implementation of our strategy for our shareholder and wider stakeholders. The Aldermore Group intends to apply the Wates Corporate Governance Principles for Large Private Companies for its financial year ending 30 June 2020.

Governance Structure Diagram



Audit Committee Report

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

The Committee's principal responsibilities are:

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

During 2018/19, the Committee approved Pillar 3 disclosures as at 30 June 2018, and recommended the Annual Report and Accounts for the 18 months to 30 June 2018 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 2019 were:

- Loan impairment provisions, including a detailed review of the Group's approach to implementing the new IFRS 9 accounting standard, the key assumptions and judgements underlying the provisions, and the adequacy of disclosures in the accounts surrounding the implementation of IFRS 9. The Committee concluded that management's approach and assumptions were appropriate;
 - Assumptions on loan asset expected lives within the Effective Interest Rate accounting models. The Committee endorsed the judgements made by management;
 - The appropriateness of adopting the going concern basis of accounting;
 - Accounting for the acquisition of the trading assets and liabilities of the MotoNovo Finance business; and
 - Accounting for new long term incentive arrangements for senior employees which were approved by the Remuneration Committee during the year to 30 June 2019.
- Monitoring the effectiveness of the Group's internal control systems.
- During 2018/19, the Committee:
- Approved the annual Money Laundering Officer's Report;
 - Conducted an annual review of the Group's whistleblowing arrangements, concluding that these were adequate;
 - Assessed the Group's systems of risk management and internal controls and concluded that these were satisfactory; and
 - Conducted an annual review of disclosure controls and procedures, concluding that these were operating effectively.
- Reviewing the effectiveness of the Group's Internal Audit ('GIA') function, and reviewing GIA reports and monitoring management's responsiveness to findings and recommendations. This evaluation was assisted by a questionnaire to Committee members and members of senior management which provided positive feedback on GIA's calibre and approach.

Specifically, during 2018/19, the Committee:

- Reviewed the approach to GIA assurance over the integration of the MotoNovo Finance business;
 - Approved audit plans for GIA reviews across both Aldermore and the MotoNovo Finance business covering the period from July 2019 to June 2020;
 - Approved an updated GIA Charter; and
 - Concluded that the GIA function was performing effectively and was adequately resourced.
- Overseeing the relationship with and independence of the external auditor, Deloitte LLP ('Deloitte'), appointed with effect from 1 January 2017.

Specifically, during 2018/19, the Committee:

- Reviewed the external audit plan for 2018/19, as well as Deloitte's terms of engagement and their fee proposal. This review included consideration of the experience of the audit team assigned;
- Considered the external auditor's assessment of their own independence;
- Reviewed the Group's Combined Policy on Non-Audit Services, Auditor Independence and employment of former employees of the Auditor, and monitored non-audit services provided by the external auditor. The Committee also monitored adherence to additional governance requirements in relation to the engagement for non-audit services of PricewaterhouseCoopers LLP, joint auditor with Deloitte for the FirstRand Group;
- Reviewed control observations made by the external auditor, including management's responses;
- Reviewed representation letters to the external auditor and recommended these for Board approval;
- Met privately with the senior members of the Deloitte audit team. In addition, the Audit Committee Chair met regularly with Deloitte during the period to facilitate effective and timely communication; and
- Assessed the effectiveness of the external auditor and recommended the re-appointment of the external auditor. In addition to the matters above, this assessment took into account the annual report by the Financial Reporting Council on its inspections of audits carried out by Deloitte and the Deloitte audit team's contribution to the Audit Committee's discussions.

Additionally, during 2018/19, the Committee undertook a review of its own effectiveness as part of the wider Board and Committee evaluation exercise. The review took the form of an internal evaluation and was principally conducted by way of a questionnaire that was issued to all Committee members.

The review covered various areas including: the role and remit of the Committee; the effectiveness of the Chair; the appropriateness of information provided to the Committee and the relationship with management. The Corporate Governance and Nomination Committee discussed the outcome of the review in June 2019, concluding that the Audit Committee operated effectively and there were no significant areas for concern.

The Committee also carried out a review of its own Terms of Reference during 2018/19.

Risk Committee Report

The Committee is comprised of Independent Non-Executive Directors. Peter Shaw was appointed as a member of the Committee on 4 September 2014, and as Chair with effect from 27 February 2015. The other members of the Committee are John Hitchins (appointed 28 May 2014), Danuta Gray (appointed 3 July 2019) and Cathy Turner (appointed 3 July 2019). Chris Stamper was a member of the Committee until his resignation from the Board on 3 July 2019.

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

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

Areas of focus

Key matters discussed by the Committee during the year are set out below. In addition, pages 37 to 38 provide a summary of the principal risks faced by the Group and key mitigating actions and an overview of emerging risks, along with recent and anticipated future developments. Further information on the Group's approach to risk, including the associated governance framework for managing risk, stress testing and a full analysis of the principal risks, are set out in the risk management section on pages 33 to 40.

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.

Integration

A key focus for the Group during 2018/19 was the integration of MotoNovo Finance into the Aldermore Group. The Committee scrutinised key risks associated with the integration programme and its impact on the Group's risk profile. In considering these risks, the Committee took the views of programme personnel, Risk and Internal Audit into account.

Frameworks

During the year, the Committee approved reviews of the effectiveness of Risk Frameworks and that of the Group Policy Framework, to ensure policies continued to be introduced and implemented effectively. The 'Policy Hub' was updated to be the single source and location of all Group policies. Further details of frameworks and policies approved by the Committee during the year are outlined in the following sections.

In addition, the Committee reviewed the enhancement of the Group's Models Management Framework.

The Committee also approved updated key risk documentation in light of the integration of MotoNovo Finance into the Group. The risk management approach applies to Aldermore Bank and MotoNovo Finance.

Risk culture

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

During the year the embedding of Risk Culture has contributed to enhanced risk management and the Committee continues to look at how we define and measure Risk Culture relative to our scale and ambition.

Credit risk

The Committee regularly reviews the credit risk profile of the Group, with a clear focus on performance against risk appetite statements and risk metrics. The Committee considered credit conditions during the year, how they compared to the period in the run up to the financial downturn of 2008, and their impact on the Group. The Committee considered key credit risk concentrations and performance against both credit risk appetite and a range of key credit risk metrics.

The current and future impact of emerging risks on the Group's credit risk profile and risk appetite was also a particular area of focus for the Committee. In addition, the Committee considered credit model performance metrics.

Capital and liquidity risk

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

The Committee also approved changes to the Capital Risk Appetite Framework, in light of the integration of MotoNovo Finance. The ICAAP process helped drive an enhanced understanding of the MotoNovo Finance risk profile.

Market risk

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

Operational risk

As part of the continued development of the systems and controls in place to support the control environment, the Committee (together with the wider Board) reviewed and approved the risks associated with the Group's IT infrastructure during the year.

The Committee received a number of updates on operational risk matters, including enhancements to business assurance (controls) testing and its evolution to key controls testing. Enhancements also included an alignment of controls testing across Aldermore and MotoNovo Finance.

The Committee also considered the results of the annual review of the Group's Operational Risk Management Framework, which had been deemed to be fit for purpose and proportionate, having been enhanced and more aligned with FirstRand's equivalent framework.

In terms of the operational risk profile, the Committee received regular updates on business continuity, disaster recovery, cyber security and cyber risk management. Cyber security remains an important area of concern for the Group as it increasingly focuses its attention on operational resilience. During the year, the Committee approved a refreshed cyber strategy, which had been updated to further align with the Group's overall business strategy. The Group's cyber strategy focuses on key areas such as access management and control, data protection, security architecture and governance.

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

As part of its focus on developing its approach to Operational Resilience, the Group has defined a number of resilience pillars and has undertaken a pilot assessment for its Payments process. The development of an Operational Resilience Framework is materially advanced and will be implemented in a phased approach.

The Committee also maintained a watching brief over the impact of the UK's decision to leave the EU on the Group, receiving updates from the Brexit Working Group (comprising senior representatives from across the Group) during the year, as further detail on the execution of Brexit developed.

Compliance, conduct and financial crime risk

Conduct risk management continues to be a key area of focus. The Committee approved updates made to the Conduct Risk Management Framework following the annual review of its effectiveness. In addition to regular reports on performance against conduct risk metrics and developments regarding new and existing products, the Committee also received customer journey mapping updates in respect of Business Finance and Retail Finance after a review of conduct risks had been carried out across these areas.

The Committee also received an update on vulnerable customers, which looked at how Aldermore identified and managed them, noting the importance of the most suitable treatment of all customers in respect of the fair provision of banking services. In conjunction with the Audit Committee, the Committee reviews the Group's arrangements for anti-money laundering on an annual basis. The effectiveness of the Financial Crime Risk Management Framework and Compliance Risk Framework were also reviewed and the Committee noted the significant enhancements made to key policies and procedures during the year and the strengthening of capabilities for regular monitoring of financial crime risk metrics. The Committee additionally considered the Anti-Bribery and Corruption Policy as part of its annual review.

To ensure the Group continued to improve its processes and governance, the Committee also reflected on lessons learned from the programme of work that brought the Group to a compliant status in respect of GDPR.

Reputational risk

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

Remuneration matters

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

In 2018/19, the Committee reviewed regular reports from the Chief Risk Officer in relation to these matters.

Risk management function

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

Risk Committee effectiveness

The Committee undertook a review of its own effectiveness during 2018/19 as part of the wider Board and Committee evaluation exercise. The review took the form of an internal evaluation and was principally conducted by way of a questionnaire that was issued to all Committee members.

The review covered various areas including the role and remit of the Committee, the effectiveness of the Chair, the appropriateness of information provided to the Committee and the relationship with management. The Corporate Governance and Nomination Committee discussed the outcome of the review in June 2019, concluding that the Risk Committee operated effectively and there were no significant areas for concern.

The Committee also carried out a review of its own Terms of Reference during 2018/19.

Remuneration Committee Report

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

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

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

Remuneration received by the Directors¹ in the year ended 30 June 2019 is shown below:

£'000	Total fixed pay	Annual Incentive Plan (AIP)	Long-term Incentive Plan (LTIP)	Total variable pay	Total pay
Pat Butler, Chairman	220.0	-	-	-	220.0
Phillip Monks, CEO	814.4	570.7	296.3	867.0	1,681.4
James Mack, CFO	546.7	381.6	207.4	589.0	1,135.7
Christine Palmer, CRO	611.0	351.2	109.5	460.7	1,071.7
Danuta Gray, Senior Independent Non Executive Director	90.0	-	-	-	90.0
John Hitchins, Independent Non Executive Director	90.0	-	-	-	90.0
Peter Shaw, Independent Non Executive Director	95.0	-	-	-	95.0
Cathy Turner, Independent Non Executive Director	85.0	-	-	-	85.0
Chris Stamper, Independent Non Executive Director	95.0	-	-	-	95.0

The aggregate emoluments (i.e. salary/fees, market adjusted allowances, benefits and AIP) for the Directors in the year was £4.6 million.

¹ Two non-executive directors are appointed by the FirstRand Group and receive no remuneration personally

Remuneration for other members of the senior management team

The senior management team consisted of 8 employees in the year. The aggregate total remuneration for the senior management team (including the Chief Executive Officer) was £6.4 million. Of this, £3.2 million was fixed pay (salary, market adjusted allowance, benefits and pension) and £3.2 million was variable pay (AIP and LTIP).

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

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

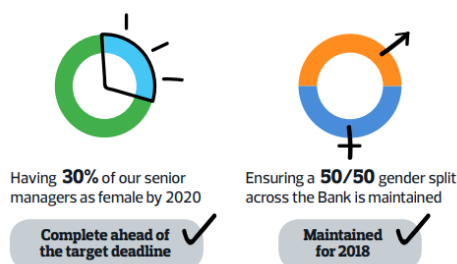
- AIP performance measures will be set on the basis of non-financial measures relating to personal performance and the effectiveness of their functions. Measures will not relate to the financial performance of the unit of which they have oversight; and
- Other than the Chief Risk Officer (given her status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

Remuneration for wider employees

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

We have reported our Gender pay gap twice and were early disclosers in 2017 and 2018. We are working on our reporting for 2019 and, while there is still a long way to go, we are working hard to ensure that our pay gap continues to come down.

We are signatories to the HM Treasury Women in Finance Charter, and we see gender representation as an integral part of our Diversity and Inclusion agenda. By signing up to the Charter, we have committed as a business¹ to:



¹ As at 31 December 2018

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

Directors' Remuneration policy

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

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

Remuneration committee effectiveness

The Remuneration Committee undertook a review of its own effectiveness during 2018/19 as part of the wider Board and Committee evaluation exercise. The review took the form of an internal evaluation and was principally conducted by way of a questionnaire that was issued to all Committee members.

The review covered various areas including the role and remit of the Committee, the effectiveness of the Chair, the appropriateness of information provided to the Committee and the relationship with management. The Corporate Governance and Nomination Committee discussed the outcome of the review in June 2019, concluding that the Remuneration Committee operated effectively and there were no significant areas for concern.

The Committee also carried out a review of its own Terms of Reference during 2018/19.

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

Long-Term Incentive Plan (LTIP)

To motivate Executive Directors and incentivise delivery of performance over the long-term

A long-term incentive plan which operates annually.

The maximum award is 135% of salary p.a.

Awards are settled 50% in equity linked instruments (where the headline amount vesting will be multiplied by the percentage change in FirstRand's share price) and 50% in cash if performance conditions are achieved over a 3-year performance measurement period.

Malus and clawback provisions apply to both the cash and equity portions of the LTIP.

Performance for the first awards is assessed 20% against FirstRand performance measures and 80% against a balanced scorecard of growth in earnings, return on equity and conduct risk.

In the view of the Remuneration Committee, the proposed performance measures for LTIP awards are supportive of the Company's risk appetite and do not promote undue risk inconsistent with that appetite.

Colleagues in control functions will be subject instead to conduct risk.

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

Element of remuneration	Policy and operation	Board flexibility
Fees <i>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</i>	Fees are reviewed annually, taking into account time commitments and equivalent benchmarks to those used for the Executive Directors. Fees are structured as a basic fee with additional fees for chairmanship or membership of Board Committees or further responsibilities (such as acting as Senior Independent Director). The Chairman receives a basic fee only.	The Company may permit the Chairman or Non-Executive Directors to participate in any benefits in kind.

Directors' Report

The Directors present their report and the financial statements of the Group for the twelve months ended 30 June 2019. As permitted by legislation, some of the matters normally included in the Directors' Report are included by reference as detailed below.

Requirement	Detail	Where to find further information:	
		Section	Location
Business Review	Information regarding the business review and future developments, key performance indicators and principal risks are contained within the Strategic Report.	Strategic Report	Pages 7 to 19 (Business Review) Page 6 (Key performance indicators) Pages 37 to 38 (Principal risks)
Strategic Report	The contents of the Strategic Report fulfil Section 414C of the Companies Act 2006.	Strategic Report	Pages 3 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 2019 was £129.6 million (18 months to 30 June 2018: £195.3 million). A review of the financial performance of the Group is included within the Strategic Report.	Income Statement Strategic Report	Page 71 Pages 3 to 19
Dividend	The Directors do not propose to recommend a final dividend in respect of the twelve months ended 30 June 2019 (2018: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	Pages 33 to 59
Post balance sheet events	On 29 August 2019, the Group successfully priced its third Residential Mortgage Backed Securities (Oak No.3 PLC) providing £343.5 million of funding. It is expected to settle on 12 September 2019.	Note 41 to the consolidated financial statements.	Page 138
Share capital	At 30 June 2019, the Company's share capital comprised 2,439,016,380 ordinary shares of £0.10 each. The Company did not repurchase any of the issued ordinary shares during the twelve months ended 30 June 2019 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 123
Rights and obligations attaching to shares	There are no restrictions on the transfer of the Company's ordinary shares or on the exercise of the voting rights attached to them, except for: – where the Company has exercised its right to suspend their voting rights or prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006; or – where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.	-	-

	All the Company's ordinary shares are fully paid and rank equally in all respects and there are no special rights with regard to control of the Company.		
Employee share scheme rights	Details of how rights of shares in employee share schemes are exercised when not directly exercisable by employees are provided in note 34 to the consolidated financial statements.	Note 34 to the consolidated financial statements	Page 124
Employees	The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status. The Group is committed to ensuring that disabled people are afforded equality of opportunity with respect to entering into and continuing employment with the Group. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development. Information on employee involvement and engagement can be found in the Strategic Report.	Corporate Responsibility	Pages 17 to 19
Directors	The names of the current Directors who served on the Board and changes to the composition of the Board that have occurred during 2018 and 2019 and up to the date of this report are provided on page 2 and are incorporated into the Directors' Report by reference.	Company Information	Page 2
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.	Company Information	Page 2
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	Aldermore Group PLC and FirstRand International Limited entered into a Co-operation Agreement effective 6 November 2017 whereby FirstRand became the Company's sole shareholder and under which FirstRand may appoint two representative directors to the Board. MotoNovo Finance Limited entered into a business transfer agreement with FirstRand under which it would purchase certain trading assets and liabilities of MotoNovo and also entered into a master services agreement with FirstRand in	-	-

	relation to the outsourced servicing by MotoNovo Finance Limited of the MotoNovo back book business.		
Political donations	The Group made no political donations during the twelve months period to 30 June 2019 (18 months to 30 June 2018: 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, campaigns and business initiatives are reviewed and approved by the Group's Product and Pricing Committee.	Note 24 to the consolidated financial statements	Page 118
Going concern	The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as twelve months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including under a range of stressed scenarios. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.	-	-
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 Group's auditor with effect from the 2018 AGM, at which a resolution authorising the Board to set Deloitte's remuneration was passed.	-	Page 62

This report was approved by the board on 30 August 2019 and signed on its behalf:



James Mack

Director

30 August 2019

Risk Management

All areas of the following report are covered by the external auditor's opinion on pages 62 to 70, except for those areas highlighted in grey which are the yield curve on page 56, the leverage ratio and the risk weighted assets and associated capital ratios on page 58.

The Group's approach to risk

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

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

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

In 2019, the integration of MotoNovo into Aldermore was completed. The Risk Management approach applies across Aldermore Bank and MotoNovo Finance.

Risk principles

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

- All colleagues should adopt the role of "risk manager" and take a prudent approach to risk management in all aspects of their role. The Board and senior management "lead from the front" and set the example with regard to risk management;
- Risk management is structured around the Group's principal risk categories, which are reviewed at least annually as part of the RMF;
- The Group maintains a robust Risk Appetite Framework, manages to a consistent appetite using an approved set of metrics, and reports to senior management at least monthly;
- The Group ensures that it remains sustainable, including during plausible but severely adverse economic and/or idiosyncratic conditions; and
- The approach to remuneration ensures that fair customer outcomes and prudent decision-making within risk appetite are incentivised. Colleagues are not unduly rewarded for driving sales and/or profits.

Risk management and internal control

The Group's risk management and internal control systems are designed to identify, manage, monitor and report on risks to which the Group is exposed. It can therefore, only provide reasonable but not absolute assurance against the risk of material misstatement or loss. Further details of the processes and procedures for managing and mitigating these risks are provided in the risk management section from page 37.

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

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

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

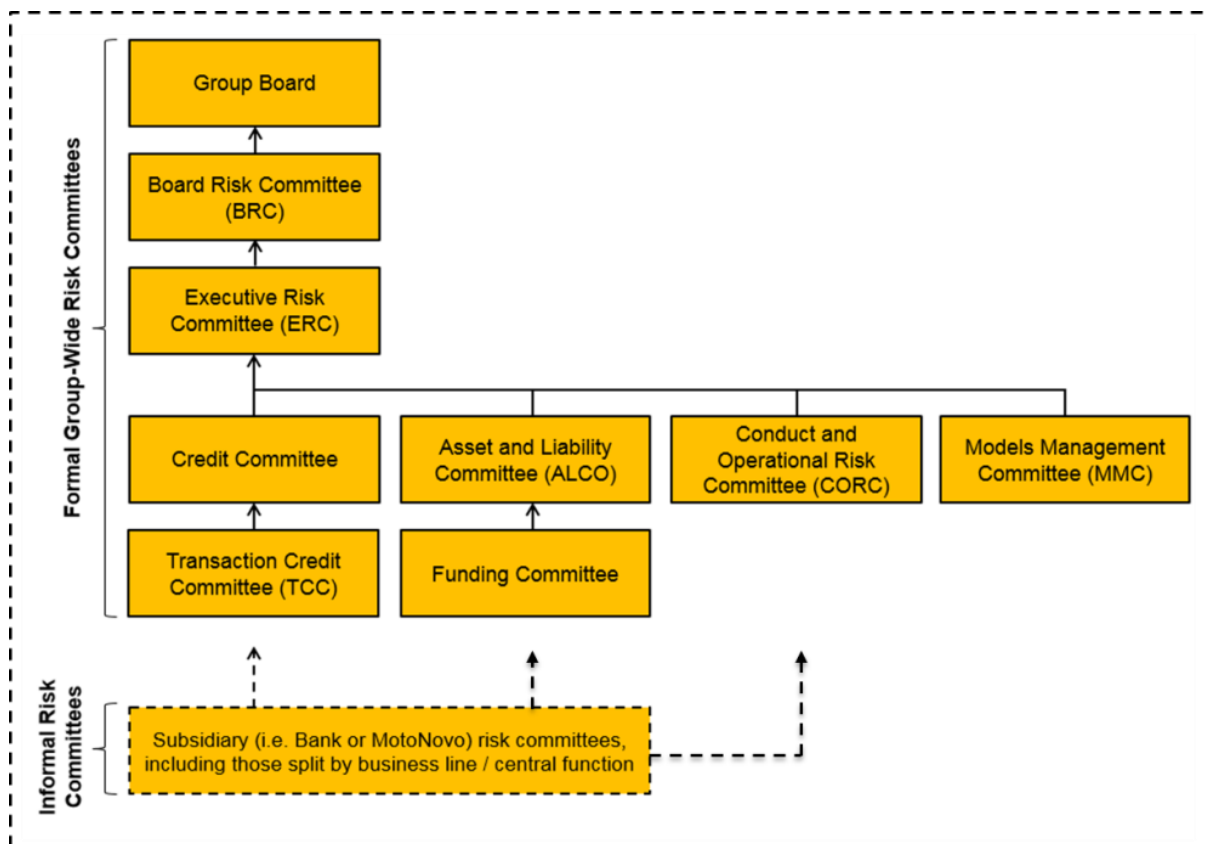
Risk management framework

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

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

Risk governance and oversight

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



Three lines of defence

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

First line of defence – Business lines and central functions

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

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

Second line of defence – Risk functions

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

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

Third line of defence – Internal Audit

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

- Provide independent assurance to the Board that first and second line functions are properly discharging their risk management responsibilities;

- Validate the appropriateness of risk management controls and governance; and
- Track internal and external audit actions to completion.

Risk appetite framework

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

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

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

Risk appetite statement

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

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

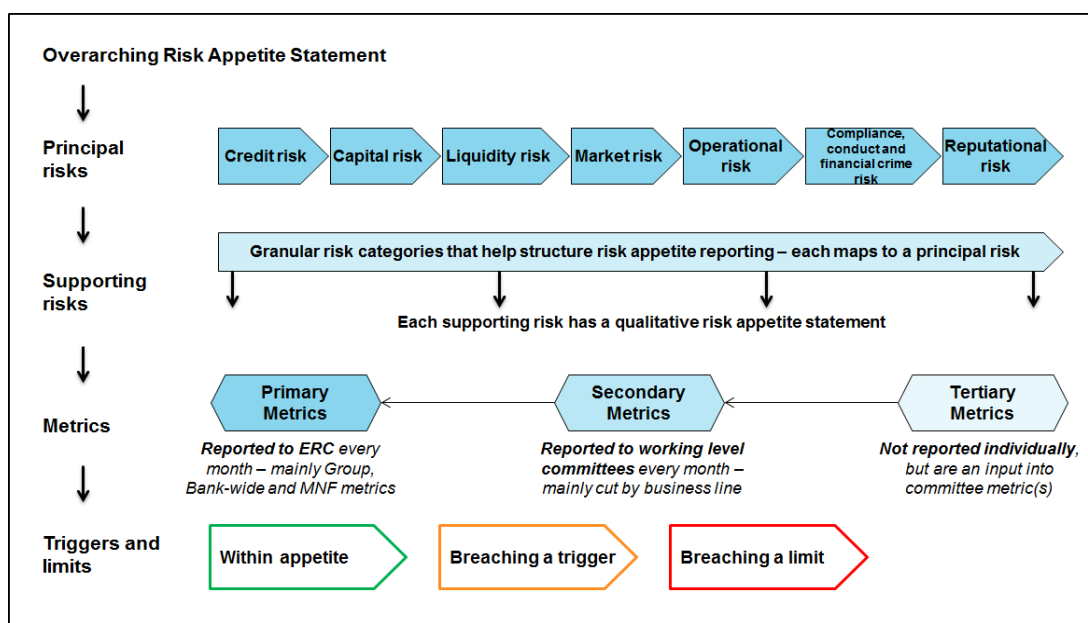
The principal risks identified within the Risk Management Framework have an overarching qualitative risk appetite statement and, where appropriate, quantitative metrics to measure the Group's tolerance and appetite for risk. The suite of risk appetite metrics enable systematic monitoring of the risk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

Risk culture

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

Risk culture is further embedded through:

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



Stress testing

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

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

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

Scope of the stress testing framework:

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

* Out of scope of this Framework

Stress testing governance

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

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

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

- Review the STF following annual review, and make a recommendation to the Board; and
- Review the ICAAP, ILAAP and Recovery Plan, and make recommendation to the Board to approve the documents. As part of this, the BRC will assess the approach to scenario design, stress testing methodologies and results.

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

Principal risks

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

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

Principal risk	Mitigation	Commentary
Credit risk The risk of financial loss arising from a borrower or a counterparty failing to meet financial obligations to the Group according to agreed terms. Refer to page 41.	• Operate in selected sectors and products, where we have expertise; • Consistently apply the approved credit policy, and price credit facilities for risk assured; • Where appropriate, obtain physical or financial collateral; and • Undertake robust in-life management of the credit portfolio, including providing, watch list and internal capital requirements; and perform strict daily management of customer credit risk, including adherence to explicit concentration and credit rating limits.	The Group's cost of risk remains well controlled at 24 bps reflecting our robust approach to risk management.
Capital risk The risk that the Group has insufficient capital resources, e.g. retained profits and qualifying financial instruments, to cover regulatory requirements and/or support growth plans. Refer to page 58.	• Maintain robust controls for Pillar 1 reporting; • Perform a comprehensive annual ICAAP assessment of all material capital risks; • Plan to meet capital requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules; and • To a quantity deemed appropriate, maintain an internal capital buffer over and above fully loaded regulatory requirements to protect against unexpected losses or risk-weighted asset growth.	The Group's capital remains stable, well above internal targets and regulatory minimums.
Liquidity risk The risk that we are unable to meet our financial obligations as they fall due, or can only do so at excessive cost. Refer to page 55.	• 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 and has been managed well within liquidity buffers.
Market risk The risk arising from adverse movements in market prices given long or short positions in impacted assets and/ or liabilities. Refer to page 56.	• Seek to match the interest rate structure of assets and liabilities, creating a natural hedge; • Where a natural hedge is not possible or desirable, hedge any material market risk exposure by using financial instruments as outlined in the Treasury Risk Limits and Standards; • Perform a comprehensive assessment of market risk drivers as part of the ICAAP and assess new/emerging risks on an ongoing basis; • Maintain a strong control framework to ensure exposures are managed in line with risk appetite; and • Monitor the Group's Market Risk exposure on a regular basis (including daily monitoring), with intra-month escalations as appropriate.	The Group's approach remains prudent and underlying risks remain unchanged.

Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	• Maintain a comprehensive Risk Control Self-Assessment (RCSA) process. Assess the efficacy of these controls by maintaining a robust approach to business assurance testing; • Maintain the risk event reporting process; • Mandate detailed and coherent Committee reporting that brings together a diverse range of supporting risks; • Ensure a significant emphasis on IT resilience given the pace of evolution of the business and continued exposure to the risk of cyber-crime; and • Systematically monitor operational losses on both a net (overall financial impact) and gross (excluding recoveries) basis to understand risk profile and identify trends.	The Operational risk profile remains stable. Over the last 12 months, the Group has improved a number of key controls, continues to invest in its IT infrastructure including cyber controls and continues to effectively manage its change portfolio.
Compliance, conduct and financial crime risk The risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of a failure to comply with applicable laws and regulations, codes of conduct and standards of good practice.	• Maintain a well-defined and embedded process for regulatory and legislative horizon scanning, and preparation for confirmed and potential changes; • Maintain processes that focus on fair customer outcomes, including the use of metrics on staff performance, training, customer feedback, complaints and product cancellation; • Ensure that recruitment and training processes have a clear customer focus, including the use of mandatory training modules; • Ensure the approach to remuneration incentivises fair customer outcomes and prudent decision-making within risk appetite; and • Perform the requisite checks on all customers – including money laundering, sanctions and fraud at origination – and where appropriate, on an ongoing basis. Tightly monitor remedial actions relating to financial crime breaches.	The Compliance and Financial Crime key risks remain unchanged in an environment where the continued pace and volume of regulatory change remains an ongoing challenge.
Reputational risk The risk of negative consequences arising from a failure to meet the expectations and standards of our customers, investors, regulators or other counterparties during the conduct of any business activities.	• Maintain a clear and explicit set of reputational risk policy requirements to which all colleagues must confirm their understanding and adherence; • Ensure that the reputational impact of changes to products, pricing, systems and processes is formally considered at the relevant Committee; and • Ensure that the Corporate Affairs function assesses material risk events for reputational impact and initiate mitigating actions as appropriate.	The Group's risk profile remains within appetite. We remain mindful of media focus and regulatory scrutiny as key drivers of the profile's ongoing status.

Emerging risks

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

Themes	Risk	What we are currently doing
Regulatory Change or Intervention		
Minimum Requirements for Own Funds and Eligible Liabilities (MREL) Funding Requirements	MREL is an EU regulation that supports orderly resolution and protects depositors and taxpayers in the event of bank failure. The Group is currently not considered in scope. However, over time, the Group may fall in scope for more complex resolution strategies and going concern requirements.	- The Group is to consider the potential impact of MREL as part of its strategic decision making. - We aim to have discussions with the PRA to understand at what point the Group may face MREL requirements to ensure we are fully prepared.
Securitisation Regulation	Two regulations were published in December 2017, to take effect on 1 January 2019. 1) The Securitisation Regulation (Regulation (EU) 2017/2402); and 2) The Regulation amending the Capital Requirements Regulation (Regulation (EU) 2017/2401).	The Group will manage and oversee compliance with the regulations under the new articles in conjunction with the appropriate internal/external stakeholders and advisors.
Transition from LIBOR to SONIA	UK regulatory authorities expect members to transition from LIBOR to SONIA by 2021. While industry generally accepts the principles driving this change, a number of very significant operational and technical challenges have become apparent.	- The Group have set up a working group that keep up-to-date with developments through UK Finance and Trade bodies. - LIBOR project. We have initiated a Group Programme focussed on preparing our strategy for contractual changes, alternative rates, communications and necessary operational changes ahead of 2021.
Financial Risks from Climate Change	The PRA is forming a strategic response to the financial risks faced by climate change and will produce a Supervisory Statement on Managing Financial Risks from Climate Change.	The Supervisory Statement on Managing Financial Risks from Climate Change was released on 15 April 2019. The Group have reviewed and completed an executive briefing. A working group has been set up by Enterprise Risk and met for the first time on 31 July 2019.
Economic and Political Environment		
Significant UK downturn	Emerging risks are growing in terms of a no-deal Brexit with the election of Boris Johnson as the Conservative leader and Prime Minister. He has been consistent that he will take the UK out of the EU by 31st October. The market reflects this as swap rates have continued to fall and GBP is nearing the lows of 2016.	The Group takes a wide range of mitigating actions as part of "business as usual", including the use of robust stress tests (both for individual loan applicants and the entire balance sheet), the purchase of Mortgage Indemnity Guarantees and the hedging of interest rate risk.
Over-indebtedness impacting mortgage affordability	- In July 2017, a PRA review noted the declining resilience of some consumer credit portfolios due to growth in higher-risk segments, lower pricing and banks being overly influenced by the benign economy. - The risk to Aldermore is twofold. Firstly, over-indebted consumers may affect residential mortgage affordability, particularly if unemployment rises. Secondly, the FCA and PRA reviews indicate that regulators may impose restrictions on consumer lending.	The mortgage portfolio remains resilient as demonstrated by affordability stress testing and a low expected loss.

Significant fall in diesel and petrol car prices	- Several factors may lead to reductions in values for used diesel and petrol vehicles. - Key factors include the emergence of electric cars, government initiatives to improve air quality (including local schemes that disincentivise diesels) and general anti-diesel sentiment following the recent emissions scandal.	The Group is monitoring data, consumer trends and national and local legislation to continue to form a view as to the expected path for diesel and petrol vehicle prices and implications for credit policy and back-book management.
Competitive Environment		
Heightened competition	- Competition in the Group's selected markets arises from a range of sources, including large high street banks, challengers and non-bank lenders. - Heightened competition may lead to margin compression and lower growth and therefore impact profitability.	- We continue to monitor trends in the external environment and the impact on pricing, mindful of the increase in savings stock required into 2020. - The business lines continue to take a disciplined approach to pricing with the aim of maintaining stable margins, risk profile and commission arrangements.
Technology Risk		
Cyber-crime incident	Cyber-crime remains significant and high profile across all industries. Coupled with an increase in public awareness of data privacy as a result of GDPR, there have been numerous headlines regarding data breaches.	- The Group is continuing to progress key deliverables in its Information Security Portfolio. - Completion of final Non-Executive Director (NED) training provided by KPMG and further bank-wide awareness activities.
Failure of an outsource provider or supplier	The Group has a number of material and critical outsource or third-party arrangements that are core elements of the supply chain. The failure of one of these key partners could significantly affect the Group's customers, operations and reputation.	The Group continues to maintain controls and governance in relation to the operating framework for suppliers. The risk profile in this area has improved as the Group continues to embed enhanced governance and oversight in accordance with the Supplier Management Framework.
Detrimental impact on customers from an IT failure	- The Group deploys services through a mix of hosted systems, both externally hosted or hosted on behalf of the Group. - The risk is the potential detrimental impact to the Group from an IT failure.	- The Group continues to perform robust risk assessments and mitigation of the risks from an IT failure. - Scenarios and simulated exercises are run, as part of incident management testing, to mitigate this risk.

Credit Risk

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

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

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

Disclosures as at 30 June 2019 reflect the classification and measurement requirements of IFRS 9 and amendments made to the disclosure requirements of IFRS 7 made by IFRS 9. All comparative disclosures relating to credit risk as at 30 June 2018 are based on the classification and measurement requirements of IAS 39 and disclosure requirements of IFRS 7 before the IFRS 9 amendments.

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 2019 was £211 million (30 June 2018: £226 million), and net exposure was £210 million (30 June 2018: £225 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 2019 was £13,181.6 million (30 June 2018: £10,859.9 million), an increase of 21.4%. The main factors contributing to the increase were:

- i) the growth in gross loans and advances to customers (our largest credit risk exposure), by £1,633.2 million;
- ii) the growth in debt securities by £415.5 million; and
- iii) an increase in commitments to lend by £272.8 million.

	Note	30 June 2019 £m	30 June 2018 £m
<i>Included in the statement of financial position:</i>			
Cash and balances at central banks		482.9	508.8
Loans and advances to banks		145.2	96.6
Debt securities		1,207.8	792.3
Derivatives held for risk management		9.1	22.7
Loans and advances to customers	20	10,648.9	9,015.7
Other financial assets	39	25.9	6.2
		12,519.8	10,442.3
Irrevocable Commitments to lend	37	715.6	442.8
Gross credit risk exposure		13,235.4	10,885.1
Less: allowance for impairment losses	20	(53.8)	(25.2)
Net credit risk exposure		13,181.6	10,859.9

2. Credit quality and performance of loans

As at 30 June 2019 (IFRS 9)

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

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

	Asset Finance	Invoice Finance	SME Commercial Mortgages ¹	Buy-to- Let	Residential Mortgages	MotoNovo Finance	Total
30 June 2019	£m	£m	£m	£m	£m	£m	£m
Low risk	263.7	20.1	514.6	3,330.6	999.1	-	5,128.1
Medium risk	1,236.4	229.8	401.9	1,020.5	533.2	290.4	3,712.2
High risk	338.6	119.4	22.7	13.9	24.0	77.5	596.1
Total	1,838.7	369.3	939.2	4,365.0	1,556.3	367.9	9,436.4
Fair value of collateral held	1,201.7	369.3	846.3	4,356.0	1,555.0	367.9	8,696.2

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

	Asset Finance	Invoice Finance	SME Commercial Mortgages ¹	Buy-to- Let	Residential Mortgages	MotoNovo Finance	Total
30 June 2019	£m	£m	£m	£m	£m	£m	£m
Low risk	1.2	4.1	13.5	254.9	23.2	-	296.9
Medium risk	75.4	13.5	40.9	316.3	69.2	0.1	515.4
High risk	96.1	12.4	16.8	82.8	62.4	0.6	271.1
Total	172.7	30.0	71.2	654.0	154.8	0.7	1,083.4
Fair value of collateral held	96.0	30.0	70.8	654.0	154.8	0.7	1,006.3

Stage 3 per IFRS 9 – credit impaired assets

	Asset Finance	Invoice Finance	SME Commercial Mortgages ¹	Buy-to- Let	Residential Mortgages	MotoNovo Finance	Total
30 June 2019	£m	£m	£m	£m	£m	£m	£m
High risk	30.5	5.8	13.6	37.2	41.4	0.6	129.1
Total	30.5	5.8	13.6	37.2	41.4	0.6	129.1
Fair value of collateral held	14.9	3.0	12.2	35.8	40.1	0.6	106.6

¹ The above analysis includes Property Development

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

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

¹ This analysis excludes Property Development.

Not included in the above are £280.7 million of irrevocable commitments to lend for Property Development. We use “loan-to-gross-development-value” as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan-to-gross-development-value is a measure used to monitor the loan balance compared with the expected gross development value once the development is complete. The anticipated gross development value of the committed lending for Property Development is £853.4 million.

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

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

As at June 2018 (IAS 39)

The tables below provides a split of our £9,015.7 million credit risk exposure to loans, gross of impairments, on the basis of:

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

30 June 2018	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages ¹ £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
A Neither past due nor individually impaired	1,837.5	267.6	961.0	4,408.2	1,449.8	8,924.1
B Past due but not individually impaired	6.7	-	6.0	21.1	23.9	57.7
C Individually impaired	6.1	0.8	3.0	13.5	10.5	33.9
	1,850.3	268.4	970.0	4,442.8	1,484.2	9,015.7

¹ This analysis includes Property Development.

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

All figures for 2018 exclude MotoNovo Finance which was not established as at 30 June 2018.

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

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

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages ¹ £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
30 June 2018						
Low risk	-	-	456.8	3,693.3	1,074.8	5,224.9
Medium risk	1,369.5	42.3	267.3	661.6	330.2	2,670.9
High risk	468.0	225.3	11.0	53.3	44.8	802.4
Total	1,837.5	267.6	735.1	4,408.2	1,449.8	8,698.2
Fair value of collateral held	1,220.8	266.0	735.1	4,406.1	1,449.3	8,077.3

¹ This analysis excludes Property Development.

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

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

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

	30 June 2018 £m
- Up to 2 months past due	45.5
- 2 to 3 months past due	12.2
Total	57.7
<i>Fair value of collateral held</i>	<i>55.8</i>

The above analysis includes Property Development.

C. Loans and advances that have been individually impaired

Individually impaired balances are further analysed as follows:

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages ¹ £m	Buy-to-Let £m	Residential Mortgages £m	Total £m
30 June 2018						
Impaired but not past due	0.3	-	-	3.3	0.3	3.9
Past due less than 3 months	1.7	-	0.2	2.2	1.8	5.9
Past due 3 - 6 months	2.6	-	0.4	5.7	5.2	13.9
Past due 6 - 12 months	0.9	0.3	1.0	1.3	1.9	5.4
Past due over 12 months	0.6	0.5	1.4	1.0	1.3	4.8
Total	6.1	0.8	3.0	13.5	10.5	33.9
<i>Of which: Possessions</i>	<i>0.3</i>	<i>-</i>	<i>0.6</i>	<i>3.6</i>	<i>1.0</i>	<i>5.5</i>
<i>Non-performing Loan Ratio %</i>	<i>0.33</i>	<i>0.30</i>	<i>0.31</i>	<i>0.30</i>	<i>0.71</i>	<i>0.38</i>

¹ The above analysis includes Property Development.

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

The movement in impaired loans for the period ended 30 June 2018 is analysed as follows:

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

¹ The above analysis includes Property Development.

3. Forbearance granted through the flexing of contractual agreements

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

The most widely used methods of forbearance are temporarily reduced monthly payments, loan term extension, deferral of payment and a temporary or permanent transfer to interest only payments to reduce the borrower's financial pressures. Where the arrangement is temporary, borrowers are expected to resume normal payments within six months. Both temporary and permanent concessions are reported as forborne for twenty-four months following the end of the concession. 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 remain low. The balance of forborne accounts by payment status is shown in the tables below:

	Asset Finance	Invoice Finance	SME Commercial Mortgages ¹	Buy-to- Let	Residential Mortgages	MotoNovo Finance	Total
30 June 2019 (IFRS 9)	£m	£m	£m	£m	£m	£m	£m
Stage 1	0.2	2.3	5.7	0.1	1.9	-	10.2
Stage 2	3.2	1.0	2.9	2.5	4.7	-	14.3
Stage 3	5.3	1.4	0.8	1.5	8.5	-	17.5
Total	8.7	4.7	9.4	4.1	15.1	-	42.0

	Asset Finance	Invoice Finance	SME Commercial Mortgages ¹	Buy-to-Let	Residential Mortgages	Total
30 June 2018 (IAS 39)	£m	£m	£m	£m	£m	£m
A Neither past due nor individually impaired	6.8	5.4	11.0	0.7	5.1	29.0
B Past due but not individually impaired	0.8	0.7	0.1	0.7	1.3	3.6
C Individually impaired	0.3	-	0.9	-	2.2	3.4
Total	7.9	6.1	12.0	1.4	8.6	36.0

¹ The above analysis includes Property Development.

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

	30 June 2019 £m	30 June 2018 £m
Asset Finance		
Capitalisation	0.6	1.8
Reduced monthly payments	0.8	1.7
Loan-term extension	4.0	2.0
Deferred payment	3.3	2.4
Total Asset Finance	8.7	7.9
Forborne as a percentage of the total divisional gross lending book %	0.43%	0.42%
Invoice Finance		
Agreement to advance funds in excess of normal contractual terms	4.7	6.1
Total Invoice Finance	4.7	6.1
Forborne as a percentage of the total divisional gross lending book %	1.16%	2.26%
SME Commercial Mortgages¹		
Temporary or permanent switch to interest only	2.6	4.7
Reduced monthly payments	0.5	0.8
Accounts linked to forbearance	6.3	6.5
Total SME Commercial Mortgages	9.4	12.0
Forborne as a percentage of the total divisional gross lending book %	0.92%	1.25%
Buy-to-Let		
Temporary or permanent switch to interest only	-	0.5
Reduced monthly payments	0.8	0.4
Payment, waiver or lower rate product switch	1.1	-
Deferred payment	2.2	0.5
Total Buy-to-Let	4.1	1.4
Forborne as a percentage of the total divisional gross lending book %	0.08%	0.03%
Residential Mortgages		
Temporary or permanent switch to interest only	2.4	3.9
Reduced monthly payments	9.5	4.2
Payment, waiver or lower rate product switch	0.5	-
Deferred payment	2.7	0.5
Total Residential Mortgages	15.1	8.6
Forborne as a percentage of the total divisional gross lending book %	0.86%	0.58%
Total forbearance²	42.0	36.0
Total forbearance as a percentage of the total gross lending book %	0.39%	0.40%

¹ The above analysis includes Property Development.

² The above analysis excludes MotoNovo Finance.

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 2019		30 June 2018	
	£m	%	£m	%
Asset Finance	2,017.7	19	1,841.7	21
Invoice Finance	400.4	4	265.2	3
SME Commercial Mortgages ¹	1,020.6	10	965.9	11
Buy-to-Let	5,043.7	48	4,436.8	49
Residential Mortgages	1,747.9	16	1,480.9	16
MotoNovo Finance	364.8	3	-	-
	10,595.1	100	8,990.5	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 2019	30 June 2018
	%	%
East Anglia	9.9	10.1
East Midlands	5.9	5.3
Greater London	17.5	21.8
North East	3.1	2.8
North West	10.7	10.4
Northern Ireland	1.6	0.3
Scotland	6.4	5.2
South East	18.1	20.3
South West	9.0	9.1
Wales	4.3	2.7
West Midlands	6.6	6.4
Yorkshire and Humberside	6.9	5.6
	100.0	100.0

¹ The above analysis includes Property Development.

Credit concentration by sector¹

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

	30 June 2019	30 June 2018
	%	%
Agriculture, hunting and forestry	0.5	0.8
Construction	5.2	5.2
Education	0.2	0.1
Electricity, gas and water supply	0.4	0.5
Financial intermediation	2.0	1.9
Health and social work	0.3	0.3
Hotels and restaurants	0.4	0.4
Manufacturing	2.4	2.8
Mining and quarrying	0.2	0.2
Private households with employed persons	2.2	1.4
Real estate, renting and business activities	19.4	18.6
Residential	61.1	61.7
Transport, storage and communication	3.2	3.5
Wholesale & retail trade; repair of motor vehicles & household goods	2.5	2.6
	100.0	100.0

¹ The above analysis includes Property Development.

Credit concentration by quantum of exposure

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

30 June 2019	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages ¹ £m	Buy-to-Let £m	Residential Mortgages £m	MotoNovo Finance £m
£0 - £50k	786.8	4.2	1.6	43.6	15.4	286.0
£50 - £100k	420.2	9.7	25.3	644.4	266.5	10.8
£100 - £150k	219.9	9.9	30.6	650.4	429.5	6.7
£150 - £200k	139.4	12.3	30.7	621.8	329.7	9.9
£200 - £300k	137.5	18.9	48.5	1,179.7	422.0	10.8
£300 - £400k	76.3	16.5	39.6	835.7	165.3	6.3
£400 - £500k	55.6	17.4	44.0	373.6	44.7	7.6
£500k - £1m	104.7	60.8	142.7	466.0	75.1	19.6
£1m - £2m	46.4	45.7	166.0	153.3	2.2	6.0
£2m+	55.1	209.7	284.1	87.7	2.0	5.5
Total	2,041.9	405.1	813.1	5,056.2	1,752.4	369.2

¹ The above analysis excludes Property Development

30 June 2018	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages ¹ £m	Buy-to-Let £m	Residential Mortgages £m
£0 - £50k	688.4	4.6	1.8	33.1	12.1
£50 - £100k	398.2	9.6	23.4	580.6	242.2
£100 - £150k	188.3	11.7	29.2	570.9	385.3
£150 - £200k	124.0	10.1	28.9	533.7	285.7
£200 - £300k	139.5	20.5	49.0	1,016.8	336.4
£300 - £400k	69.8	15.1	37.5	742.8	126.4
£400 - £500k	45.8	15.8	39.9	333.9	27.8
£500k - £1m	97.4	51.4	136.3	410.0	60.8
£1m - £2m	43.1	29.7	151.6	120.8	2.2
£2m+	47.2	96.7	243.7	94.2	2.0
Total	1,841.7	265.2	741.3	4,436.8	1,480.9

¹ The above analysis excludes Property Development and MotoNovo Finance (which was not established as at 30 June 2018).

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 Mortgages¹

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

	30 June 2019 £m	30 June 2018 £m
100%+	0.1	0.1
95-100%	-	-
90-95%	0.1	0.1
85-90%	2.3	0.2
80-85%	4.1	0.1
75-80%	15.0	2.1
70-75%	61.6	23.5
60-70%	238.5	196.4
50-60%	195.9	220.6
0-50%	295.5	298.2
	813.1	741.3
Capital repayment	522.2	509.6
Interest only	290.9	231.7
	813.1	741.3
Average loan-to-value percentage	53.90%	51.64%

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 2019 was 61.0% (30 June 2018: 60.0%).

Buy-to-Let

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

	30 June 2019 £m	30 June 2018 £m
100%+	1.6	0.4
95-100%	0.3	0.6
90-95%	1.6	3.8
85-90%	19.5	11.6
80-85%	233.0	140.0
75-80%	1,172.7	915.7
70-75%	1,208.4	974.7
60-70%	1,290.0	1,217.3
50-60%	648.7	661.9
0-50%	480.4	510.8
	5,056.2	4,436.8
Capital repayment	301.6	281.2
Interest only	4,754.6	4,155.6
	5,056.2	4,436.8
Average loan-to-value percentage	67.10%	65.71%

Residential Mortgages

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

	30 June 2019 £m	30 June 2018 £m
100%+	-	-
95-100%	19.1	14.6
90-95%	213.3	171.3
85-90%	186.8	160.4
80-85%	110.6	113.5
75-80%	144.5	132.0
70-75%	246.9	192.8
60-70%	317.7	266.0
50-60%	210.6	179.8
0-50%	302.9	250.5
	1,752.4	1,480.9
Capital repayment	1,553.8	1,301.5
Interest only	198.6	179.4
	1,752.4	1,480.9
Average loan-to-value percentage	68.42%	68.39%

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

As at 30 June 2019, 99% of the exposures with an LTV in excess of 85% relate to either HTB or MIG (30 June 2018: 99%). The average indexed LTV for mortgages with a guarantee was 87% (30 June 2018: 87%). As at 30 June 2019, the average indexed LTV of the non-mortgage guarantee owner occupied book is 59% (30 June 2018: 59%).

Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 30 June 2019, 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 70.0% (30 June 2018: 66.2%).

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 2019, the total amount of such unsecured lending was £40.1 million (30 June 2018: £41.1 million, restated from £191.8 million. The £191.8 million figure included lending which upon review was deemed to be secured).

MotoNovo Finance

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

	30 June 2019 £m	30 June 2018 £m
100%+	107.9	-
95-100%	39.9	-
90-95%	35.3	-
85-90%	29.3	-
80-85%	21.8	-
75-80%	17.8	-
70-75%	14.2	-
60-70%	18.7	-
50-60%	11.7	-
0-50%	9.4	-
	306.0	-

Group impairment coverage ratio

Impairment coverage is analysed as follows:

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

	Gross carrying amount £m	Provisions £m	Coverage ratio %
At 1 July 2018 (post IFRS 9 transitional adjustment)			
Stage 1	8,370.8	14.8	0.18%
Stage 2	550.1	7.3	1.33%
Stage 3	94.8	12.6	13.49%
Undrawn loan facilities	442.8	0.4	0.09%
Total	9,458.5	35.1	0.38%

	Gross carrying amount £m	Provisions £m	Coverage ratio %
At 30 June 2018 (IAS 39)			
Total	9,015.7	25.2	0.28

Under IAS 39 the coverage ratio was calculated as individual provisions divided by individually impaired loans. In the above analysis under IFRS 9 the coverage ratio has been calculated as total provisions divided by total gross loans.

The total value of individually impaired loans has increased, with the coverage ratio also increasing by 10bps from 1 July 2018 (IFRS 9 transition date). The inclusion of MotoNovo lending in the 30 June 2019 results has increased the coverage ratio due to the higher provisions required for vehicle finance. Stage 3 Expected Credit Loss ('ECL') has increased due to a number of new individually assessed provisions entering stage 3 during the year, it should be noted that £1.4 million of the stage 3 balances at 30 June 2019 no longer meet the criteria for inclusion but remain in stage 3 pending completion of the agreed probation periods. The increase in provisions is also partly driven by the application of a management overlay to the portfolio for the possibility of a severe economic downturn resulting from a disorderly (no deal) Brexit. See note 3(a) for further detail on management overlays which the Bank applies to the modelled IFRS 9 ECL provisions.

Offsetting financial assets and liabilities

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

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

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

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

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

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

6. Information on credit risk within our treasury operations

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

Credit quality of treasury assets

The table below sets out information about the credit quality of treasury financial assets. As at 30 June 2019 and at 30 June 2018, all treasury assets were classified as stage 1 assets per IFRS 9 and no treasury assets were past due or impaired. No significant impairment provision was booked as at 30 June 2019 or 1 July 2018 (under IFRS 9) or at 30 June 2018 (under IAS 39).

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 2019 £m	30 June 2018 £m
Cash and balances at central banks and loans and advances to banks		
- Rated AAA	-	-
- Rated AA+ to AA-	517.7	525.8
- Rated A+ to A-	68.7	51.2
- Rated BBB+	41.7	28.4
	628.1	605.4
High quality liquid assets included in the liquidity buffer		
- Rated AAA	959.9	574.6
- Rated AA+ to AA-	227.9	187.6
- Rated A+ to A-	-	-
- Rated BBB+	-	-
Debt securities: Asset backed securities		
- Rated AAA	20.0	30.1
- Rated AA+ to AA-	-	-
- Rated A+ to A-	-	-
- Rated BBB+	-	-
	1,207.8	792.3
Derivatives held for risk management purposes		
- Rated AAA	-	-
- Rated AA+ to AA-	-	-
- Rated A+ to A-	9.1	22.7
- Rated BBB+	-	-
	9.1	22.7
	1,845.0	1,420.4

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

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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 2019 £m	30 June 2018 £m
<i>Level 1</i>		
Bank of England reserve account and unencumbered cash and bank balances	462.4	492.5
UK gilts and Treasury bills, other Sovereign, Supranational and Covered bonds	1,124.4	707.3
<i>Level 2</i>		
Covered bonds	63.4	54.9
Asset backed securities	20.0	30.1
Total liquidity buffer	1,670.2	1,284.8
<i>As a % of funding liabilities</i>	<i>14.51%</i>	<i>13.06%</i>

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 2019, deposits have grown by 15.4% to £9.0 billion (30 June 2018: £7.8 billion) and we continued to maintain a diversified source of funding, 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 £263.2 million in issue as at 30 June 2019. The underlying mortgages within the outstanding Oak No.2 securitisation will continue to be repaid with a call option in February 2023. In May 2019, the Group exercised its call option on the Oak No.1 securitisation. The Group issued two further tranches of Tier 2 subordinated debt, to its fellow subsidiary FirstRand Bank during the year, the first tranche of £100 million was issued in November 2018 and the second tranche of £52 million in May 2019.

	30 June 2019 £m	30 June 2018 £m
Retail deposits	5,967.2	5,163.4
SME deposits	2,142.5	1,997.9
Corporate deposits	862.1	615.0
Customer deposits	8,971.8	7,776.3
Term Funding Scheme ("TFS")	1,674.1	1,673.1
Other eligible schemes	140.5	-
Residential Mortgages Backed Security ("RMBS")	263.2	77.9
Subordinated liabilities	213.4	60.5
Wholesale funding	2,291.2	1,811.5
Total funding	11,263.0	9,587.8

Interest rate and market risk

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

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 LIBOR and SONIA assets and liabilities..

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

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

	30 June 2019 £m	30 June 2018 £m
2% shift up of the yield curve:		
As at period end	(4.6)	(5.9)
Average of month end positions	(5.6)	(5.9)
2% shift down of the yield curve:		
As at period end	1.7	2.9
Average of month end positions	3.1	2.2

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.

	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
30 June 2019						
<i>Non-derivative liabilities</i>						
Amounts due to banks	3.1	147.3	9.3	1,689.8	-	1,849.5
Customers' accounts	2,021.2	3,184.1	2,473.1	1,383.7	0.1	9,062.2
Other liabilities	6.9	51.6	-	-	-	58.5
Debt securities in issue	-	15.3	41.7	217.5	-	274.5
Subordinated notes	-	-	12.6	247.1	-	259.7
Unrecognised loan commitments	715.6	-	-	-	-	715.6
	2,746.8	3,398.3	2,536.7	3,538.6	0.1	12,220.0
<i>Derivative liabilities</i>						
Derivatives held for risk management settled net	(0.4)	(0.9)	(7.9)	(27.7)	(1.1)	(38.0)
Derivatives held for risk management settled gross:						
Amounts received	-	8.8	-	-	-	8.8
Amount paid	-	(8.8)	-	-	-	(8.8)
	(0.4)	(0.9)	(7.9)	(27.7)	(1.1)	(38.0)

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

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 2019 and the 18 months ended 30 June 2018.

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

	30 June 2019 £m	1 July 2018 (IFRS 9) £m	30 June 2018 (IAS 39) £m
<i>Common Equity Tier 1</i>			
Share capital	243.9	34.9	34.9
Share premium account	74.4	74.4	74.4
Capital redemption reserve	0.1	0.1	0.1
FVOCI reserve	0.4	1.1	1.1
Retained earnings	655.4	565.5	573.5
IFRS 9 Transitional adjustment ¹	9.6	7.8	-
Less: intangible assets	(14.8)	(14.4)	(14.4)
Total Common Equity Tier 1 capital (CET1)	969.0	669.4	669.6
Additional Tier 1	121.0	74.0	74.0
Total Tier 1 capital	1,090.0	743.4	743.6
<i>Tier 2 capital</i>			
Subordinated notes	212.0	60.0	60.0
Collective impairment allowance	-	-	17.4
Total Tier 2 capital	212.0	60.0	77.4
Total capital resources	1,302.0	803.4	821.0
Risk weighted assets – Pillar 1²	6,484.4	5,441.2	5,441.2
Capital ratios – regulatory basis²			
Common Equity Tier 1 ratio	14.9%	12.3%	12.3%
Tier 1 capital ratio	16.8%	13.7%	13.7%
Total capital ratio	20.1%	14.8%	15.1%
Leverage ratio (%)	8.6	7.0	7.0

¹ Under the regulatory rules, an addback to CET1 for the transitional adjustment arising on the implementation of IFRS 9 on 1 July is permitted in the following five years. The permitted addback is 95% in the year following transition reducing to 85%/70%/50%/25% in the second/third/ fourth/fifth years respectively following transition. On a fully loaded basis, with no addback for the IFRS 9 transitional adjustments, the Groups's capital ratios would be as follows:

² Risk weighted assets, and the capital ratios are not covered by the external auditor's opinion.

	30 June 2019 £m	1 July 2018 £m
Capital ratios– fully loaded basis²		
Common Equity Tier 1 ratio	14.8%	12.2%
Tier 1 capital ratio	16.7%	13.5%
Total capital ratio	19.9%	14.6%

Reconciliation of equity per statement of financial position to capital resources

	30 June 2019 £m	1 July 2018 (IFRS 9) £m	30 June 2018 (IAS 39) £m
Equity per statement of financial position	1,095.2	750.0	758.0
Add: subordinated notes	212.0	60.0	60.0
Add: collective impairment allowance	-	-	17.4
Add: IFRS 9 transitional adjustment	9.6	7.8	-
Less: intangible assets	(14.8)	(14.4)	(14.4)
Total capital resources	1,302.0	803.4	821.0

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report on pages 3 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.



James Mack,
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALDERMORE GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Aldermore Group PLC (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of cash flows;
- the consolidated and parent company statements of changes in equity;
- the related group notes 1 to 42; and
- the related company notes 1 to 15.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Expected Credit Losses for loans and advances to customers; and • Effective Interest Rate income recognition.
Materiality	The materiality that we used for the group financial statements was £6.5m, 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. Our audit of financial information for these entities provided us with coverage of all material balances as measured by revenue, profit before tax and total assets.
Significant changes in our approach	There were no significant changes to our audit approach from the prior year albeit our approach did entail an audit of newly introduced methodologies and internal models for the determination of provisions for Expected Credit Losses under <i>International Financial Reporting Standard 9 ("IFRS 9") Financial Instruments</i> adopted in these accounts for the first time.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

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

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

Key audit matter description



The group adopted IFRS 9 from 1 July 2018. IFRS 9 requires impairment losses to be evaluated on an Expected Credit Loss (“ECL”) basis.

ECL provisions as at 30 June 2019 were £53.8m (2018: £25.2m), which represented 0.5% (2018: 0.3%) of loans and advances to customers. The Income Statement charge for the year was £23.8m (2018: £19.5m).

As detailed in note 3 on pages 92-95 ‘Use of estimates and judgements’, determining ECL estimates is complex and highly judgmental because it involves a high degree of estimation uncertainty. Due to the considerable judgement required to estimate the ECL and given estimates, by their nature, give rise to a higher risk of material misstatement due to error or fraud, we have identified the determination of the ECL provision as a key audit matter.

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

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

ECLs are calculated on a portfolio basis and require the use of statistical models incorporating loss data and assumptions on the recoverability of customers’ outstanding balances, which are not always necessarily observable.

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

- the assumptions and methodologies applied to estimate the probability of default (“PD”), exposure at default (“EAD”) and loss given default (“LGD”);
- the assessment of whether there has been a Significant Increase in Credit Risk (“SICR”) since origination date of the exposure to the reporting date (i.e. a trigger event that will cause a deterioration in credit risk and result in migration of the loan from stage 1 to stage 2);
- the incorporation of forward looking information and macro-economic inputs into SICR; and
- the assumptions used for estimating the recoverable amounts (including collateral) and timing of future cash flows, particularly for stage 3 loans.

Overlays

Management apply judgement in certain circumstances when recognising additional ECLs to the model output. Management make adjustments when, in their judgement, there is uncertainty in respect of the models’ ability to address specific trends or conditions. This can occur given the inherent limitation of modelling based on past performance, the maturity of the models, the timing of model updates and macro-economic events that could affect customers’ ability to repay their outstanding borrowings.

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



We audited the ECL models by evaluating the design and implementation and where relevant, the operating effectiveness of controls over the ECL calculation.

We also reviewed management’s accounting policies and assessed whether they are reasonable and in accordance with accounting standards. In addition, for all portfolios we focused our procedures in the following areas:

Model Validity and Model Changes

To test the changes to the model methodology and model inputs during the year, we engaged Credit Modelling Experts to review the code and evaluate the appropriateness of the changes made in the current period.

Data Inputs

We have tested management’s controls over the reconciliations of data inputs and we substantively tested the account level and historical data inputs into the ECL for completeness

and accuracy.

Model Inputs (PD, LGD and EAD)

We assessed whether PDs, LGDs and EADs were calculated in line with the model methodologies by performing a review and independent re-run of the SAS code that estimates them as at the reporting date.

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

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

SICR

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

We tested management's controls for identifying qualitative SICR triggers as part of the watch list process and for a sample of accounts, we substantively challenged the staging by performing an independent assessment to determine whether they have been appropriately allocated to the correct stage under IFRS 9 based on the details of the credit file and a research of publically available information.

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

Macroeconomic Scenarios

During the current period management have implemented new UK-specific macroeconomic scenarios. We have evaluated the methodology used to develop the forecasts and the weightings assigned to each scenario as well as the incorporation of a possible no-deal Brexit.

Management Overlays

We assessed the validity of the model overlays and tested their valuation.

We tested completeness of overlays by evaluating whether there are any additional material data or model methodology deficiencies, which need to be accounted for through an overlay.

ECL Assessment for Stage 3 Accounts

We tested the estimated provision for a sample of Stage 3 accounts. This included challenging management's collateral valuations, assessing whether the collateral was recoverable and legally perfected, evaluating valuation haircuts and costs to sell, and through enquiry of case managers to understand the possible workout scenarios.

To test the valuation of commercial property collateral we engaged our experts to assist us in independently challenging the valuation of three properties where a recent reliable third party valuation was not available.

In addition, we reviewed the disclosures in the financial statements relating to the ECL provisions to assess whether they are in compliance with IFRSs.

Key observations



We determined that the methodology used and the assumptions management have made in determining the ECL provisions as at 30 June 2019 are reasonable.

We did not identify any material misstatements in the balance sheet ECL provision or the Income Statement charge for the year ended 30 June 2019.

The disclosures made in the financial statements are in compliance with IFRSs.

Effective Interest Rate income recognition

Key audit matter description



Interest income is detailed in note 3, 'Use of estimates and judgements' on pages 92 to 95. The group's revenue recognition policy is detailed in note 2, 'Significant accounting policies' on pages 81-92. The group's net interest income was £318.1 million (18 months to June 2018: £426.4 million restated).

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

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

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

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



We audited the EIR models by evaluating the design and implementation of controls over the EIR calculation. In addition, for all portfolios we:

- reviewed management's accounting policies and assessed whether they are reasonable and in accordance with accounting standards. A particular focus was the fees included / excluded from the EIR models.
- we substantively tested the relevant loan data inputs, to check they had been completely and accurately included in the EIR models.
- we tested the mathematical integrity of management's EIR models by building our own models ("challenger models") and comparing the output from our models to the output from management's models.

Key observations



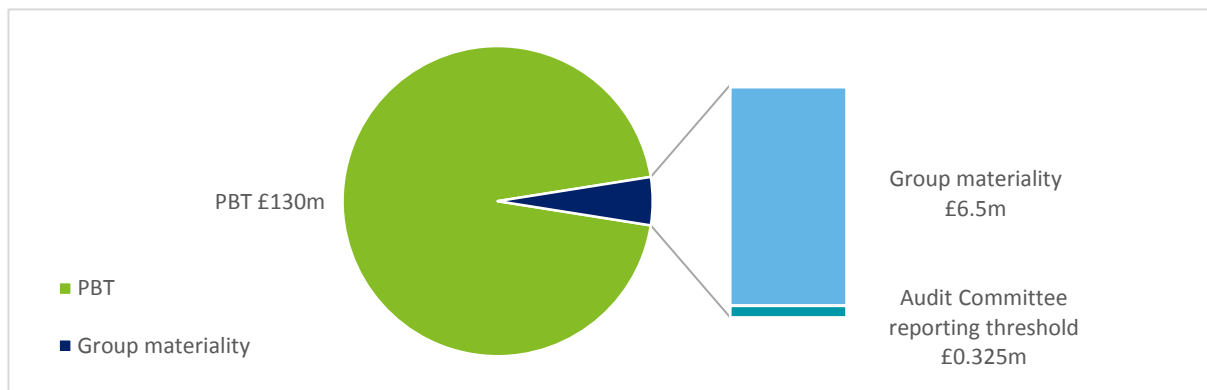
We determined that the EIR models used and the assumptions management have made are appropriate and that net interest income for the period is not materially misstated.

Our application of materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£6,500,000 (2018: £10,000,000)	£2,600,000 (2018: £4,000,000)
Basis for determining materiality	5% of profit before tax (2018: 5% of profit before tax)	For the 2019 Parent Company Financial Statements, we have determined our materiality to be £2.6m (2018: £4.0m) on the basis of 40% of Group materiality because the Parent Company is a component in scope for our Group audit.
Rationale for the benchmark applied	Profit before tax was used as the basis for determining materiality, as we believe it is the key metric used by members of the Parent Group and other relevant stakeholders in assessing financial performance.	



We agreed with the Audit Committee that we would report all audit differences in excess of £0.325m (2018: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the group level. Our Group audit focused on Aldermore Group PLC and its significant subsidiaries, Aldermore Bank PLC and MotoNovo Finance Limited which were subject to a full scope audit while the remaining subsidiaries were subject to specified audit procedures. The full scope audit of the three entities named above provided us with coverage of all material balances as measured by revenue, profit before tax and total assets. Our audits of each of the subsidiaries were performed using lower levels of materiality based on their size relative to the Group. The materiality for each subsidiary audit ranged from £0.065m to £6.435m. At the Group level we also tested the consolidation process.

Other information

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

We have nothing to report in respect of these matters.

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

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

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, our procedures included the following:

- enquiring of management, Internal Audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the group's 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 frauds;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team, and involving relevant internal specialists, including tax, valuations and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: Effective Interest Rate income recognition and Expected Credit Losses for loans and advances to customers; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified Effective Interest Rate income recognition and Expected Credit Losses for loans and advances to customers as key audit matters. 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 relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Internal Audit reports and reviewing correspondence with the Group's primary regulators the Prudential Regulatory Authority and the Financial Conduct Authority.
- 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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

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

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).

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 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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
30 August 2019

Consolidated income statement

For the year ended 30 June 2019

	Note	Year ended 30 June 2019 £m	Period ended 30 June 2018 (restated*) £m
Interest income	5	467.3	594.4
Interest expense	6	(149.2)	(168.0)
Net interest income		318.1	426.4
Fee and commission income	7	7.6	36.6
Fee and commission expense	8	(6.2)	(11.0)
Net gains from derivatives and other financial instruments at fair value through profit or loss	9	3.8	5.2
Gains on disposal of fair value through other comprehensive income (FVOCI) (2018: available for sale) debt securities		0.2	1.2
Other operating income		16.8	9.0
Total operating income		340.3	467.4
Provisions	29	(1.2)	(1.2)
Transaction costs	10	-	(19.8)
Integration costs	10	(5.4)	(2.4)
Impairment of intangibles and goodwill	24	(0.7)	(14.2)
Other administrative expenses	10	(175.0)	(206.9)
Administrative expenses	10	(182.3)	(244.5)
Depreciation and amortisation	14	(5.1)	(8.4)
Operating profit before impairment losses and share of profit of associate		152.9	214.5
Share of profit of associate	23	0.5	0.3
Impairment losses	20	(23.8)	(19.5)
Profit before taxation		129.6	195.3
Taxation	16	(32.7)	(56.7)
Profit after taxation - attributable to equity holders of the Group		96.9	138.6

The notes and information on pages 77 to 139 form part of these financial statements.

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

*Prior period amounts for interest income, interest expense and net gains from derivatives and other financial instruments at fair value through profit or loss have been restated to align with FirstRand Group policy. Total operating income has not changed. See point (i) in note 2(c).

Consolidated statement of comprehensive income

For the year ended 30 June 2019

		Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Profit after taxation		96.9	138.6
Other comprehensive income:			
<i>Items that may subsequently be reclassified to profit or loss:</i>			
Fair value movements		(0.2)	0.3
Amounts transferred to the income statement		(0.8)	(1.2)
Taxation		0.3	0.2
Total other comprehensive (expense) / income		(0.7)	(0.7)
Total comprehensive income attributable to equity holders of the Group		96.2	137.9

The notes and information on pages 77 to 139 form part of these financial statements.

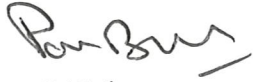
Consolidated statement of financial position

As at 30 June 2019

	Note	30 June 2019 £m	30 June 2018 £m
Assets			
Cash and balances at central banks		482.9	508.8
Loans and advances to banks	17	145.2	96.6
Debt securities	18	1,207.8	792.3
Derivatives held for risk management	19	9.1	22.7
Loans and advances to customers	20	10,595.1	8,990.5
Fair value adjustment for portfolio hedged risk		17.9	(15.7)
Other assets		25.9	6.3
Prepayments and accrued income		9.8	6.3
Deferred taxation	22	4.8	1.7
Investments in associates	23	5.4	5.1
Property, plant and equipment		11.6	3.7
Intangible assets	24	14.8	14.4
Total assets		12,530.3	10,432.7
Liabilities			
Amounts due to banks	25	1,814.6	1,678.2
Customers' accounts	26	8,971.8	7,776.3
Derivatives held for risk management	19	37.4	16.7
Fair value adjustment for portfolio hedged risk		1.0	0.2
Other liabilities	27	61.4	23.6
Accruals and deferred income	28	51.6	34.5
Current taxation		18.3	5.8
Provisions	29	2.4	1.0
Debt securities in issue	30	263.2	77.9
Subordinated notes	31	213.4	60.5
Total liabilities		11,435.1	9,674.7
Equity			
Share capital	33	243.9	34.9
Share premium account		74.4	74.4
Additional Tier 1 capital	35	121.0	74.0
Capital redemption reserve		0.1	0.1
FVOCI reserve (2018: Available-for-sale reserve)		0.4	1.1
Retained earnings		655.4	573.5
Total equity		1,095.2	758.0
Total liabilities and equity		12,530.3	10,432.7

The notes and information on pages 77 to 139 form part of these financial statements.

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



Pat Butler
Director

30 August 2019

Registered number: 06764335



James Mack
Director

Consolidated statement of cash flows

For the year ended 30 June 2019

	Note	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Cash flows from operating activities			
Profit before taxation		129.6	195.3
Adjustments for non-cash items and other adjustments included within the income	36	25.4	30.7
Increase in operating assets	36	(1,632.4)	(1,534.1)
Increase in operating liabilities	36	1,396.8	2,015.6
Taxation paid		(18.7)	(44.9)
Net cash flows (used in) / generated from operating activities		(99.3)	662.6
Cash flows from investing activities			
Purchase of debt securities	18	(810.6)	(703.7)
Proceeds from sale and maturity of debt securities	18	348.9	316.0
Capital repayments of debt securities	18	53.8	250.8
Interest received on debt securities	5	13.3	15.3
Acquisition of MotoNovo business from FirstRand Bank	36	(86.4)	-
Purchase of property, plant and equipment and intangible assets		(2.2)	(11.6)
Purchase of shares in associate	23	(0.5)	(3.8)
Net cash used in investing activities		(483.7)	(137.0)
Cash flows from financing activities			
Proceeds from the issue of share capital	33	209.0	-
Proceeds from the issue of Additional Tier 1 capital	35	47.0	-
Proceeds from exercise of share options	33	-	1.0
Proceeds from the issue of subordinated notes	31	152.0	-
Repayment of subordinated notes	31	-	(40.0)
Proceeds from issue of debt securities	30	323.3	-
Capital repayments on debt securities issued	30	(138.9)	(53.1)
Coupons paid on Additional Tier 1 capital	35	(8.9)	(17.8)
Interest paid on debt securities issued	30	(4.0)	(1.7)
Interest paid on subordinated notes	31	(7.5)	(10.2)
Net cash generated from / (used in) financing activities		572.0	(121.8)
Net (decrease) / increase in cash and cash equivalents		(11.0)	403.8
Cash and cash equivalents at start of the period	36	544.7	140.9
Movement during the period		(11.0)	403.8
Cash and cash equivalents at end of the period	36	533.7	544.7

Consolidated statement of changes in equity

For the year ended 30 June 2019

	Note	Share capital £m	Share premium account £m	Additional Tier 1 capital £m	Capital redemption reserve £m	FVOCI reserve (2018: Available-for- sale reserve) £m	Retained earnings £m	Total £m
Year ended 30 June 2019								
As at 30 June 2018		34.9	74.4	74.0	0.1	1.1	573.5	758.0
Adjustment for adoption of IFRS 9		-	-	-	-	-	(7.8)	(7.8)
Adjustment for adoption of IFRS 15		-	-	-	-	-	(0.2)	(0.2)
Restated balance as at 1 July 2018		34.9	74.4	74.0	0.1	1.1	565.5	750.0
Profit after taxation		-	-	-	-	-	96.9	96.9
Other comprehensive income		-	-	-	-	(0.7)	-	(0.7)
Transactions with equity holders:								
Share issue proceeds	33	209.0	-	-	-	-	-	209.0
Issuance of Additional Tier 1 capital	35	-	-	47.0	-	-	-	47.0
Coupon paid on Additional Tier 1 capital securities, net of tax		-	-	-	-	-	(7.0)	(7.0)
As at 30 June 2019		243.9	74.4	121.0	0.1	0.4	655.4	1,095.2
Period ended 30 June 2018								
As at 1 January 2017		34.5	73.4	74.0	0.1	1.8	442.2	626.0
Profit after taxation		-	-	-	-	-	138.6	138.6
Other comprehensive income		-	-	-	-	(0.7)	-	(0.7)
Transactions with equity holders:								
Share-based payments, including tax reflected directly in retained earnings	34	-	-	-	-	-	6.4	6.4
Exercise of share options	33	0.4	1.0	-	-	-	(0.4)	1.0
Coupon paid on Additional Tier 1 capital securities, net of tax		-	-	-	-	-	(13.3)	(13.3)
As at 30 June 2018		34.9	74.4	74.0	0.1	1.1	573.5	758.0

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.

Both the Group consolidated financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) and as adopted by the European Union (“EU”).

During the year ended 30 June 2019, the Group has adopted the following new standards and amendments to existing standards which were effective for accounting periods starting on or after 1 July 2018:

New IFRS	Description of change	Impact on the Group
IFRS 9	The Group adopted IFRS 9 in the current year. The following resulted from the implementation: - the classification of financial assets under IFRS 9 is based on both the business model for holding the instruments as well as the contractual characteristics of the instruments; - impairments in terms of IFRS 9 are determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default; - the requirements for the classification of liabilities remained unchanged; - IFRS 7 has been amended to include additional disclosures as a result of the introduction of IFRS 9. The general hedge accounting requirements under IFRS 9 are more closely aligned to how entities undertake risk management activities when hedging financial and non-financial risk exposures. However, at present, IFRS 9 does not address the portfolio hedging of interest rate risk currently undertaken by the Group. Pending development of the IASB's proposals for dynamic risk management (macro hedge accounting), IFRS 9 allows the option to continue to apply the existing hedge accounting requirements of IAS 39.	The main impacts on the Group's financial statements from the adoption of IFRS 9 were the following: - certain items have been reclassified based on the new classification rules. The details of these reclassifications are provided in note 42 of the financial statements; - the loss allowance on financial assets has increased because of the change from an incurred loss to an expected credit loss model. For details refer to note 42 of the financial statements; - the amended disclosure requirements of IFRS 7 will be prospectively applied by the Group. Therefore, all comparative disclosures relating to financial instruments are based on the classification and measurement requirements of IAS 39 and disclosure requirements of IFRS 7 before the IFRS 9 amendments. As the Group's hedging is predominantly made up of portfolio hedges of interest rate risk the Group has elected to exercise its accounting policy choice to continue IAS 39 hedge accounting, and consequently there is no impact on the Group's hedge accounting arising from the adoption of IFRS 9.

New IFRS	Description of change	Impact on the Group
IFRS 15	IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all of the current revenue recognition guidance, except for contracts that are out of scope – e.g. leases and insurance. The model specifies that revenue is recognised as and when control of goods or services are transferred to a customer and that revenue is recognised at the amount which an entity expects to receive. Depending on certain criteria, revenue is recognised at a point in time or over time. IFRS 15 includes new quantitative and qualitative disclosure requirements to enable users of financial statements to understand the nature, amount and timing of revenue from contracts with customers.	IFRS 15 requires that goods and services are split out into their separate performance obligations and that the revenue from each performance obligation is recognised at a point in time or over time depending on the IFRS 15 criteria for revenue recognition. The impact on adoption of IFRS 15 is a reduction of £0.2 million to equity. This was not material as most revenue streams either fell under IFRS 9 or the approach to revenue recognition did not change following adoption of IFRS 15.

Other than for IFRS 9 and IFRS 15, there is no impact on these financial statements from new standards and amendments to existing standards effective for accounting periods starting on or after 1 July 2018.

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

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

b) Accounting period

Following the acquisition by FirstRand International Limited in March 2018, the Group changed its reporting period to 30 June in order to align with their reporting period. This change extended the reporting period of the Group to 18 months for the period ended on 30 June 2018, accordingly the current and prior period amounts disclosed are not comparable. The comparative periods amount disclosed are also not comparable as IFRS 9 was adopted prospectively with effect from 1 July 2018 and as a result there was no restatement of comparative amounts for IFRS 9.

c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company, (jointly referred to as the Group), for the year ended 30 June 2019.

Control is achieved when the Group:

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation.

Securitisation vehicles

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

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

d) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of profitability, cash flows, capital resources and the longer-term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group's forecasts and projections, including a range of stressed scenarios, show that it will be able to operate with adequate levels of both liquidity and capital for the foreseeable future.

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

e) Basis of measurement

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

- derivative financial instruments are measured at fair value through profit or loss;
- fair value through other comprehensive income (FVOCI) debt securities (2018: available for sale debt securities) are valued at fair value through other comprehensive income; and
- fair value adjustments for portfolios of financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships, which reflect changes in fair value attributable to the risk being hedged and are reflected through profit or loss in order to match the gains or losses arising on the derivative financial contracts that qualify as hedging instruments.

f) Use of estimates and judgements

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

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

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

g) Presentation of risk and capital disclosures

The disclosures required under IFRS 7: "Financial instruments: disclosures" and IAS 1: "Presentation of financial statements" have been included within the audited sections of the Risk Report on pages 41 to 59. 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 62.

h) Standards and interpretation issued not yet effective

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

Standard	Impact assessment	Effective date
IFRS 16	Leases IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will be effective for the Group from 1 July 2019. The accounting treatment of leases by the lessee will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single on-balance sheet model that is similar to the current finance lease accounting with the exception of low-value and short-term leases. The greatest impact of the standard will be on lessee accounting because of the requirement for lessees to recognise an asset and corresponding liability in respect of operating leases. Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. IFRS 16 requires that at the commencement date of the lease (regardless of whether it is finance or operating lease), a lessee shall recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. The exceptions available for lessees are leases of a short term (less than 12 months) for low-value assets. IFRS 16 is expected to result in the recognition of a lease commitment of £38.1 million and a right of use asset of £39.1 million, including an adjustment of £1.0 million in respect of lease prepayments as at 1 July 2019 in respect of the Group's existing lease commitments. The Group has made the policy choice to use the modified retrospective approach, and as a result there is no impact on the Group's retained earnings as at 1 July 2019. Lessor accounting remains similar to current accounting, whereby the lessor continues to classify leases as finance or operating leases. There are enhanced disclosure requirements for lessors under IFRS 16.	Annual periods commencing on or after 1 January 2019
Annual Improvements 2015-2017 cycle	Improvements to IFRS The IASB issued the Annual Improvements to IFRS Standards 2015-2017 cycle. The amendments are not expected to have any impact on the Group's financial statements on its adoption with effect from 1 July 2019, apart from the amendment to IAS 12 which will require the Group to recognise in profit or loss any tax relief received on payments on financial instruments included in equity. This will result in tax relief on Additional Tier 1 capital coupon payments being recognised in profit or loss rather than directly in equity with effect from 1 July 2019. The 2019 comparatives in the 2020 statements will be restated to reduce the tax charge and increase profit after tax in the profit or loss account by £1.9m, with a corresponding increase in the amount charged directly to equity in respect of Additional Tier 1 coupons.	Annual periods commencing on or after 1 January 2019

2. Significant accounting policies

(a) Interest income and expense

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

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

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

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

Interest income and expense presented in the income statement includes:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis;
- interest on FVOCI (2018: available for sale) debt securities calculated on an EIR basis;
- interest income recognised on finance leases where the Group acts as the lessor (see note 2(o)); and
- interest income charged to Invoice Finance clients each day on the balance of their outstanding loans on an EIR basis.

(b) Fee and commissions and other operating income

i. Fee and commission income

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

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

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

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

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

Arrangement fees, factoring fees for managing the customer sales ledgers within Invoice Finance and other fees relating to loans and advances which meet the criteria for inclusion within interest income are included as part of the EIR.

ii. Fee and commission expense

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

iii. Other operating income

Other operating income predominantly arises from the provision of Invoice Finance services and includes disbursements and collect out income. This income is recognised within other operating income when the Group satisfies its performance obligations.

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

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

i. Changes in accounting policy

The Group has decided to align its recognition treatment of net fair value gains / (losses) on derivatives held in qualifying fair value hedging arrangements, together with losses representing changes in the fair value of the hedged items attributable to the hedged interest rate risk on loans and advances to customers' with that of its parent company. The treatment now recognises the movements in net gains / (losses) from derivatives and other financial instruments at fair value through profit or loss instead of interest income and interest expense.

Following is an extract of the consolidated income statement before the change in recognition treatment:

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Interest income	472.5	602.2
Interest expense	(149.1)	(172.2)
Net Interest Income	323.4	430.0
Net (losses) / gains from derivatives and other financial instruments at fair value through profit or loss	(1.5)	1.6
Profit before taxation	129.6	195.3

The change in recognition treatment represents a change in accounting policy which must be accounted for retrospectively in the financial statements. Therefore the change must be applied as if the new accounting policy was always in place.

The consolidated income statement extract appears as follows after the retrospective application of the change in accounting policy:

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Interest income	467.3	594.4
Interest expense	(149.2)	(168.0)
Net Interest Income	318.1	426.4
Net gains from derivatives and other financial instruments at fair value through profit or loss	3.8	5.2
Profit before taxation	129.6	195.3

Note that the change is applied to both current period and prior period comparative amounts presented (i.e. retrospectively). There is no impact on the opening reserves as the profit before taxation amounts have not changed.

In addition to the above, IFRS 15 was implemented as detailed in section 1(a).

This resulted in a reduction in equity of £0.2 million as disclosed in the statement of changes in equity.

(d) Financial instruments - recognition and derecognition

IAS 39 applied previously, with implementation of IFRS 9 from 1 July 2018 (no impact on financial statements)

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) (2018: available for sale debt) in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through gains on disposal of fair value through other comprehensive income (FVOCI) (2018: available for sale debt) in the income statement.

iii. Term Funding Scheme ("TFS")

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

(e) Financial assets

IAS 39 applied previously, with implementation of IFRS 9 from 1 July 2018 (no impact on financial statements)

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.

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 securities 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 at the transition date to IFRS 9, 1 July 2018, and those subsequently acquired all passed the SPPI test and, as they are held as part of a mixed business model whose objectives include both the collection of contractual cash flows and the sale of financial assets, all debt securities have been classified as measured at fair value through other comprehensive income.

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 with effect from 1 July 2018 and throughout the year ended 30 June 2019.

ii. Measurement

Financial assets measured at amortised cost

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

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

These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current, quoted bid prices in active markets for identical assets that the Group can access at the reporting date. Where there is no active market, or the debt securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment provisions are recognised in the income statement. 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.

2018 Comparatives (under IAS 39 prior to the implementation of IFRS 9)

i. Overview

The Group classifies its financial assets (excluding derivatives) as either:

- loans and receivables; or
- available for sale.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately nor in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount, less impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to customers and banks.

iii. Available for sale

Available for sale financial assets are debt securities that are not held for trading and are intended to be held for an indefinite period of time. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current quoted bid prices in active markets for identical assets that the Group can access at the reporting date.

Where there is no active market, or the debt securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment losses are recognised in the income statement. Other fair value changes are recognised in other comprehensive income and presented in the available for sale reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

(f) Financial liabilities

IAS 39 applied previously, with implementation of IFRS 9 from 1 July 2018 (no impact on financial statements)

i. Overview

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

ii. Financial liabilities at amortised cost

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

iii. Subordinated notes

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

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

(g) Impairment—financial assets

From 1 July 2018 on implementation of IFRS 9

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, with expected credit losses measured and recognised on a lifetime basis.

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. This results in the production of models that are used to predict impairment parameters (PD, LGD, and EAD) based on the predictive characteristics identified through the regression process.

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

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

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

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

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

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

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

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

Definition of credit impaired (movement to stage 3)

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

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

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

Movements back to stages 1 and 2

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

Write-Off and Recoveries

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

Forward-looking macroeconomic scenarios

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

i. Assessment

At each reporting date, the Group assesses its financial assets not at fair value through profit or loss as to whether there is objective evidence that the assets are impaired. Objective evidence that financial assets are impaired may include:

- significant financial difficulty of the borrower;
- a breach of contract such as default or delinquency in interest or principal repayments;
- the granting of a concession for economic or legal reasons relating to the borrower's financial condition that the Group would not otherwise grant;
- indications that a borrower or issuer will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a debt security because of the issuer's financial difficulties; or
- national or local economic conditions that correlate with defaults within groups of financial assets e.g. increases in unemployment rates or decreases in property prices relating to the collateral held.

The Group considers evidence for the impairment of loans and advances at both the individual asset and collective level. In certain cases, where a borrower is experiencing significant financial distress, the Group may use forbearance measures to assist them and mitigate against default. Any forbearance measures agreed are assessed on a case by case basis.

ii. Scope

The Group considers evidence of impairment of financial assets at both an individual asset and collective level.

Individual impairment

All individually significant financial assets are assessed for individual impairment using a range of risk criteria. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets may be considered to be individually impaired where they meet one or more of the following criteria:

- a default position equivalent to three or more missed monthly repayments (or a quarterly payment which is more than 30 days past due);
- litigation proceedings have commenced;
- act of insolvency, e.g. bankruptcy, administration or liquidation, or appointment of an LPA Receiver;
- Invoice Finance accounts where there is cessation of additional advances and/or when the facility is in collect out;
- or
- where there is evidence of fraud.

Collective impairment

All financial assets that are not found to be individually impaired are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

iii. Measurement

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

When assessing collective impairment, the Group estimates incurred losses using a statistical model which multiplies the probability of default ("PD") for each class of customer (using external credit rating information) by the loss given default ("LGD") multiplied by the estimated exposure at default ("EaD") to arrive at the projected expected loss. An emergence period is subsequently applied to the projected expected loss to determine the estimated level of incurred losses at each reporting date. In addition, an adjustment is made to discount the inputted cash flows from the model at the assets' original EIR to arrive at the recorded collective provisions.

The model's results are adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to differ from those suggested by historical modelling.

Impairment losses are recognised immediately in the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of a financial asset is deemed uncollectable or forgiven after all collection procedures have been completed and the amount of the loss has been determined. Write-offs are charged against amounts previously reflected in the allowance account or directly to the income statement. Any additional amounts recovered after a financial asset has been previously written-off are offset against the write-off charge in the income statement. Allowances for impairment losses are released at the point when it is deemed that, following a subsequent event, the risk has reduced such that an allowance is no longer required.

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

(h) Financial instruments—fair value measurement

IAS 39 applied previously, with implementation of IFRS 9 from 1 July 2018 (no impact on financial statements)

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

IAS 39 applied previously, with implementation of IFRS 9 from 1 July 2018 (no impact on financial statements)

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 (no impact from the implementation of IFRS 9)

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 Group measures monthly the movements in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as a separate item, 'Fair value adjustment for portfolio hedged risk', either within assets or liabilities as appropriate. In terms of repricing, this amount is amortised on a straight line basis to the income statement over the remaining average life of the original hedge relationship from the month in which it is first recognised.

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

(k) Embedded derivatives

IAS 39 applied previously, with implementation of IFRS 9 from 1 July 2018 (no impact on financial statements)

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.

2018 Comparatives (under IAS 39 prior to the implementation of IFRS 9)

Prior to the implementation of IFRS 9 with effect from 1 July 2018, it was permitted to separate embedded derivatives from host contracts where the host was a financial asset subject to certain conditions. This treatment is no longer permitted under IFRS 9 given the revised approach to the classification and measurement of financial assets. There was no impact in respect of the Group as there were no embedded derivatives within financial assets, prior to the implementation of IFRS 9, that were required to be separated.

(l) Property, plant and equipment

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

- | | |
|------------------------------------|-------------------|
| • Fixtures, fittings and equipment | five years |
| • Computer hardware | one to five years |
| • Leasehold improvements | one to ten years |

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Brought forward cost and depreciation was £8.9 million and £5.2 million respectively, with £8.1 million recognised on transfer of MotoNovo business from the Branch, other additions of £1.6 million and depreciation of £1.8 million charged in the period, resulting in a closing cost of £18.6 million and accumulated depreciation of £7.0 million as at 30 June 2019.

(m) Intangible assets

i. Goodwill

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

ii. Computer systems

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

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

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

(n) Impairment of non financial assets

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

i. Goodwill

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

ii. Other intangible assets

If impairment is indicated, the asset's recoverable amount, being the greater of value in use and fair value less costs to sell, is estimated. If the carrying value of the asset is greater than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement.

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

(o) Assets leased to customers

Leases of assets to customers are finance leases as defined by IAS 17. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised within interest income in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return ignoring tax cash flows.

(p) Assets leased from third parties

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within administrative expenses or staff costs (in the case of company cars), on a straight line basis over the period of the lease. The Group holds no assets under finance leases.

(q) Provisions

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

Following the implementation of IFRS 9 with effect from 1 July 2018, the Group is now required to reflect provisions in respect of any impairment losses expected in respect of any outstanding irrevocable loan commitments. As the underlying loan commitments are not reflected in the statement of financial position, the impairment provisions required for expected losses from the date the commitment becomes irrevocable are recognised as provisions. The provisions are utilised when the loan commitment is drawn down, either in whole or part, and when an impairment provision is calculated for expected losses.

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

(r) Foreign currencies

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

(s) Taxation

Taxation comprises current and deferred tax and is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Pension costs

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

(u) Shareholders' funds

i. Capital instruments

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Company to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, or where the instrument will or may be settled in the Company's own equity instruments but includes no obligation to deliver a variable number of the Company's own equity instruments, then it is treated as an equity instrument. Accordingly, the Company's share capital and 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. Any related tax is accounted for in accordance with IAS 12.

ii. Share premium

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

(v) Capital raising costs

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

(w) Cash and cash equivalents

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

(x) Investment in group undertakings

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

(y) Share-based payment transactions

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

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

In respect of the equity-settled schemes entered into before the takeover, the grant date fair value is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The grant date fair value is determined using valuation models which take into account the terms and conditions attached to the awards. Inputs into valuation models may include the risk-free interest rate, the expected volatility of the FirstRand Limited share price and other factors related to performance conditions attached to the awards.

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

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

(z) Investment in associates

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

3. Use of estimates and judgements

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

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

(a) Loan impairment provisions

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

Definition of default

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

Significant increase in Credit Risk for classification in stage 2

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

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

As explained in note 1(g), loans are only considered for reclassification from stage 3 into stage 2 when they no longer meet the criteria for inclusion and have completed agreed probation periods. The probation periods are set according to the type of lending and are based upon professional judgement as to when the risk of a return to stage 3 is considered minimal. Stage 3 ECL has increased due to a number of new individually assessed provisions entering stage 3 during the year, it should be noted that £1.4 million of the stage 3 ECL at 30 June 2019 no longer meet the criteria for inclusion but remain in stage 3 pending completion of the agreed probation periods. The increase in provisions is also partly driven by the application of a management overlay to the portfolio for the possibility of a severe economic downturn resulting from a disorderly (no deal) Brexit. Reclassifications from stage 2 to stage 1 are only possible when the SICR criteria are no longer met.

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 £2.2 million as at 30 June 2019 (£1.8 million as at 1 July 2018 on the transition to IFRS 9).

LGD models

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

- a 10.0% absolute improvement in the cure rate would reduce total impairment provisions by £4.0 million as at 30 June 2019 (£4.1 million as at 1 July 2018 on the transition to IFRS 9).
- a 10.0% relative reduction in the HPI would increase the total impairment provisions for mortgage lending by £2.4 million as at 30 June 2019 (£2.6 million as at 1 July 2018 on the transition to IFRS 9).
- a 5.0% absolute increase in the FSD would increase the total impairment provisions for mortgage lending by £1.6 million as at 30 June 2019 (£2.2 million as at 1 July 2018 on the transition to IFRS 9).
- 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 £1.5 million as at 30 June 2019 (£1.2 million as at 1 July 2018 on the transition to IFRS 9).

Forward looking macroeconomic scenarios

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

From 1 July 2018 to May 2019, the forward-looking macroeconomic scenarios, were obtained from the Global Scenario Service (GSS) from Oxford Economics. In addition to the GSS scenarios the Group also applied the PRA ACS (Q1 2018) scenario with a probably weighting of 4.0%. The Annual Cyclical Scenario (ACS) is published by the Bank of England / PRA. The 2018 ACS was designed to test the resilience of the UK banking system to deep simultaneous recessions in the UK and global economies, large falls in asset prices and a separate stress of misconduct costs. From May 2019 to 30 June 2019 the forward-looking macroeconomic scenarios were obtained from the IFRS9 Scenario Service from Oxford Economics. The IFRS9 scenarios used at 30 June 2019 are outlined below:

- Upside scenario (5th percentile) - The UK economy expands rapidly. GDP growth accelerates at the fastest pace since before the financial crisis;
- Mild upside scenario (15th percentile) - The cyclical momentum in demand in the UK and other economies is stronger than currently thought, reflecting in part improved business, household and investor sentiment and more buoyant global trade;
- Stagnation scenario (75th percentile) - Spare capacity opens up in the economy as growth weakens and unemployment rises to a peak of 6.0% in Q3 2022;
- Downside scenario (85th percentile) - The UK enters recession during 2019, but the 1.0% contraction in output is very mild by historical standards and the UK economy then gradually recovers; and
- Severe Downside scenario (95th percentile) - The UK enters a recession in H2 2019 and contracts until late 2021. The level of UK GDP falls by 2.8% from peak to trough.

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 Committee prior to deployment for use in the ECL. Alternatively, and as adopted for the year ended 30 June 2019, the Group can apply an overlay rather than adjusting the underlying macroeconomic scenarios.

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

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

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

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

As at 30 June 2019, applying a 100% weighting to the severe downside scenario would result in an incremental £8.1 million of provisions being required. Applying a 100% weighting to the upside scenario would result in a £4.5 million reduction of provisions being required.

As at 1 July 2018 on transition to IFRS 9, details of the forward looking macroeconomic scenarios used to determine ECLs and impairment were as follows:

Scenario	Probability weighting	Economic variables per scenario – average next 5 years			
		GDP Growth	HPI	Bank of England Base Rate	Unemployment rate
Baseline forecast	50%	1.92%	2.55%	1.38	4.15
Trade war hits global growth	10%	1.81%	2.49%	0.77	4.34
Synchronised global slowdown	10%	1.73%	1.91%	0.77	4.44
Market turmoil amid late-cycle policy tightening	10%	1.71%	2.48%	0.99	4.55
Central bank tightening delayed amid subdued inflationary pressures	10%	2.21%	2.98%	0.85	3.50
PRA ACS (H1-2018)	4%	-0.01%	-5.2%	3.61	8.42

In the above table, the probability weightings do not add to 100% as the "PRA ACS (H1-2018) scenario" has been included as an additional scenario, the weightings used within the models are prorated down to 100%.

Management Overlays

The Group applies management overlays to the modelled IFRS 9 ECL provisions as listed below. Overlays are reviewed and approved on a quarterly basis at the Credit Committee and Audit Committee.

- End of Term (EoT) Risk overlay applied to the Commercial and Residential Mortgages portfolios to account for additional risk at EoT on Interest-only products;
- Overlay to compensate for a lack of historic impairments causing volatility in the observed defaults and loss given defaults; and
- Overlay to accommodate for the possibility of a severe economic downturn resulting from a disorderly (no deal) Brexit

The total value of ECL overlays as at 30 June 2019 is £8.9 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 £0.6 million as at 30 June 2019 (£1.3 million as at 1 July 2018 on the transition to IFRS 9).

(b) Effective interest rate ("EIR")

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

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

As at 30 June 2019, included within the overall Residential Mortgages book, are a small number of portfolios which were acquired by the Group and represent approximately 1.2% and 1.7% of Buy-to-Let and Residential Mortgages net loans respectively (30 June 2018: 1.5% and 2.4% respectively). These portfolios were acquired at a discount which is being recognised under the EIR method. As disclosed below, these portfolios, although representing a small proportion of overall lending, are sensitive to a change in the expected repayment profiles which would impact the periods over which the discount is to be unwound.

In the year ended 30 June 2019 and period ended 30 June 2018, a reassessment was made of the estimates used in respect of the expected lives of the SME Commercial, Buy-to-Let and Residential Mortgage portfolios and also of those for the Asset Finance portfolios. In addition, during the period ended 30 June 2018, adjustments were made to reflect certain fees and costs within interest income as it was considered that such amounts were now an integral part of the effective interest rate. As a consequence, an overall adjustment of £4.4 million (2018: £8.4 million decrease) was recorded to reduce the value of the loan portfolios and the interest income recognised in the current period, so that interest can continue to be recognised at the original effective interest rate over the remaining life of the relevant lending portfolios.

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

	Year ended 30 June 2019 interest income £m	Period ending 30 June 2018 interest income £m
Asset Finance - organic lending	(0.3)	3.1
SME Commercial - organic lending	(2.9)	1.3
Buy-to-Let - acquired portfolios	-	(8.8)
Buy-to-Let - organic lending	4.4	2.2
Residential - acquired portfolios	(0.8)	(4.5)
Residential - organic lending	(4.8)	(1.7)
	(4.4)	(8.4)

A change in the estimated expected lives to extend the expected lives of the SME Commercial, Buy-to-Let and Residential Mortgage portfolios by six months would have the effect of reducing the cumulative profit before tax recognised as at 30 June 2019 by £5.4 million (30 June 2018: £3.3 million). Included within this sensitivity of £5.4 million, is a £1.5 million cumulative reduction in profit relating to acquired portfolios (30 June 2018: £1.8 million) due to a change in the unwind of the discount together with a £3.9 million cumulative reduction in profit relating to the organic portfolios (30 June 2018: cumulative reduction in profit of £1.5 million).

A 0.5% increase in the rate of early redemptions, expressed as a percentage of the outstanding balance in respect of the Asset Finance portfolio would have the impact of increasing cumulative profit before tax recognised as at 30 June 2019 by £2.4 million (30 June 2018: cumulative reduction in profit of £0.1 million).

4. Segmental information

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

The organisation adjusted its operating model in 2018, where previously the business was divided into Business Finance, Mortgages and Savings, the operating segments are now allocated to three distinct customer facing businesses: Business Finance (made up of Asset Finance, Invoice Finance and Commercial Mortgages); Retail Finance (made up of Residential Owner Occupied Mortgages and Buy to Let Mortgages) and MotoNovo Finance. All 2019 financial reports have continued to detail performance on an operating segment basis. It is also possible to review performance aggregated by Business Finance and Retail Finance using data from the individual operating segments. As such, it is still deemed appropriate to split the segmental reporting by individual operating segments for the 2019 IFRS 8 disclosure.

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

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

Central Functions include the reconciling items between the total of the six reportable operating segments and the consolidated income statement. As well as common costs, Central Functions include the Group's Treasury and Savings functions which are responsible for raising finance on behalf of the operating segments. The costs of raising finance are all recharged by Central Functions to the operating segments, apart from those costs relating to the subordinated notes and the net gains / losses from derivatives held at fair value shown in note 19.

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

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 2019

	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	104.7	23.7	57.8	205.4	62.1	1.7	11.9	467.3
Interest expense – external customers	-	-	-	-	-	-	(149.2)	(149.2)
Interest (expense)/income – internal	(25.9)	(2.8)	(12.8)	(65.3)	(21.2)	(0.5)	128.5	-
Net fees and other income – external customers	2.2	4.6	0.9	-	0.1	10.4	4.0	22.2
Total operating income	81.0	25.5	45.9	140.1	41.0	11.6	(4.8)	340.3
Administrative expenses including depreciation and amortisation ¹	(17.0)	(9.6)	(6.8)	(12.4)	(6.7)	(13.3)	(121.6)	(187.4)
Impairment losses	(13.4)	(1.5)	(1.1)	(3.5)	(0.5)	(3.8)	-	(23.8)
Share of profit of associate	-	-	-	-	-	-	0.5	0.5
Segmental result	50.6	14.4	38.0	124.2	33.8	(5.5)	(125.9)	129.6
Tax	-	-	-	-	-	-	-	(32.7)
Profit after tax	-	-	-	-	-	-	-	96.9
Assets	2,017.7	400.4	1,020.6	5,043.7	1,747.9	364.8	1,935.2	12,530.3
Liabilities	-	-	-	-	-	-	(11,435.1)	(11,435.1)
Net assets/(liabilities)	2,017.7	400.4	1,020.6	5,043.7	1,747.9	364.8	(9,499.9)	1,095.2

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

Segmental information for the period ended 30 June 2018

	Asset Finance £m	Invoice Finance £m	SME Commercial Mortgages £m	Buy-to-Let £m	Residential Mortgages £m	Central Functions (restated) £m	Total (restated) £m
Interest income – external customers	141.8	12.3	93.5	255.5	95.1	(3.8)	594.4
Interest expense – external customers	-	-	-	-	-	(168.0)	(168.0)
Interest (expense)/income – internal	(36.6)	(2.6)	(15.4)	(80.3)	(29.8)	164.7	-
Net fees and other income – external	8.0	19.4	0.9	3.9	1.9	6.9	41.0
Total operating income	113.2	29.1	79.0	179.1	67.2	(0.2)	467.4
Administrative expenses including depreciation and amortisation ²	(23.2)	(14.8)	(5.7)	(18.0)	(7.4)	(183.8)	(252.9)
Impairment losses	(9.7)	(1.4)	(1.9)	(4.2)	(2.3)	-	(19.5)
Share of profit of associate	-	-	-	-	-	0.3	0.3
Segmental result	80.3	12.9	71.4	156.9	57.5	(183.7)	195.3
Tax	-	-	-	-	-	-	(56.7)
Profit after tax	-	-	-	-	-	-	138.6
As at 30 June 2018 per IAS 39							
Assets	1,841.7	265.2	965.9	4,436.8	1,480.9	1,442.2	10,432.7
Liabilities	-	-	-	-	-	(9,674.7)	(9,674.7)
Net assets/(liabilities) (per IAS 39)	1,841.7	265.2	965.9	4,436.8	1,480.9	(8,232.5)	758.0
Adjustment for adoption of IFRS 9							
Assets	(9.8)	(0.7)	1.5	(1.6)	0.9	2.4	(7.3)
Liabilities	-	-	-	-	-	(0.4)	(0.4)
Restated balance as at 1 July 2018 (per IFRS 9)	1,831.9	264.5	967.4	4,435.2	1,481.8	(8,230.5)	750.3

2 Administrative expenses include £36.4 million relating to the FirstRand transaction costs (£19.8m) and integration of Aldermore into the FirstRand Group (£2.4m), and an impairment charge relating to intangible assets (£14.2m). These costs were all charged to Central Functions.

Prior period amounts have been restated based on a change in accounting policy, see point (i) in note 2(c) and non-underlying administrative expenses have been included with Central Functions administrative expenses.

5. Interest income

	Year ended 30 June 2019 £m	Period ended 30 June 2018 (restated) £m
On financial assets not at fair value through profit or loss:		
On loans and advances to customers	455.3	598.1
On loans and advances to banks	4.8	2.1
On debt securities – measured at FVOCI (2018: measured as AFS)	14.7	14.5
	474.8	614.7
On financial assets at fair value through profit or loss:		
Net interest expense on financial instruments hedging assets	(7.5)	(20.3)
	467.3	594.4

Prior period amounts have been restated based on a change in accounting policy, see point (i) in note 2(c).

6. Interest expense

	Year ended 30 June 2019 £m	Period ended 30 June 2018 (restated) £m
On financial liabilities not at fair value through profit or loss:		
On customers' accounts	124.0	149.8
On amounts due to banks	12.7	7.9
On debt securities in issue	4.9	2.1
On subordinated notes	8.4	10.7
Other	0.2	0.7
	150.2	171.2
On financial liabilities at fair value through profit or loss:		
Net interest (income) / expense on financial instruments hedging liabilities	(1.0)	(3.2)
	149.2	168.0

Prior period amounts have been restated based on a change in accounting policy, see point (i) in note 2(c).

7. Fee and commission income

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Invoice Finance fees	0.8	16.5
Valuation fees	1.5	3.3
Documentation fees	-	4.8
Other fees	5.3	12.0
	7.6	36.6

The reduction in the amount of fee and commission income recognised during the current year compared with the prior period relates to the adoption of IFRS 15 with effect from 1 July 2019 (see note 1(a)). Amounts previously recognised as a fee and commission income in accordance with IAS 18, were considered to be more appropriately recognised as interest income (see note 5) in accordance with the Effective Interest Rate (EIR) method (see note 2(b)). There was no restatement of the amounts shown as fee and commission income for the period ended 30 June 2018, as the Group adopted the IFRS 15 transition option where no such restatement was required. An adjustment to equity of £0.2 million was made as a result of the transition to IFRS 15.

8. Fee and commission expense

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Introducer commissions	0.1	2.2
Legal and valuation fees	2.3	4.5
Company searches and other fees	2.5	2.5
Credit protection and insurance charges	1.3	1.8
	6.2	11.0

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

	Year ended 30 June 2019 £m	Period ended 30 June 2018 (restated) £m
Net (losses) / gains on derivatives	(2.6)	13.8
Net gains / (losses) on available for sale assets held in fair value hedges	6.4	(8.6)
	3.8	5.2

Prior period amounts have been restated based on a change in accounting policy, see point (i) in note 2(c).

Included within net gains / (losses) on derivatives on financial instruments at fair value through profit or loss are losses of £28.5 million (30 June 2018: £20.0 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 gains of £33.7 million (30 June 2018: £12.2 million loss) representing changes in the fair value of the hedged interest rate risk. Also included are gains of £0.9 million (30 June 2018: £2.7 million loss) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with customer deposits, together with losses of £0.8 million (30 June 2018: £1.4 million loss) representing changes in the fair value of the hedged interest rate risk.

10. Administrative expenses

	Note	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Staff costs	11	86.8	109.8
Legal and professional and other services		35.8	56.0
Information technology costs		23.8	33.5
Office costs		7.3	9.5
Provisions	29	1.2	1.2
Other		26.7	20.3
Impairment of intangibles	24	0.7	14.2
		182.3	244.5

Administrative expenses for the year ended 30 June 2019 included £12.5 million incurred by MotoNovo Finance, of which £9.8 million was incurred on behalf of and recharged back to the Branch. The administrative expenses comprise of staff costs of £6.0 million, legal and professional and other services of £3.5 million, information technology costs of £1.7 million and other expenditure of £1.3 million.

Included in other administrative expenses are costs relating to temporary staff of £17.7 million (period ended 30 June 2018: £18.7 million), travel and subsistence of £3.5 million (period ended 30 June 2018: £4.2 million) and staff recruitment of £1.5 million (period ended 30 June 2018: £1.9 million).

Disclosed on the face of the Income Statement are £5.4 million (period ended 30 June 2018: £2.4 million) of integration costs. £2.5 million of these costs relate to legal and professional and other services and £2.9 million relate to other expenditure. The current year costs relate to the integration of MotoNovo Finance into the Aldermore Group, whereas the prior period costs relate to the integration of Aldermore into the FirstRand Group.

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

11. Staff costs

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Wages and salaries	71.7	88.9
Social security costs	9.2	12.2
Other pension costs	3.0	3.1
Share-based payments	2.9	5.6
	86.8	109.8

The analysis above includes staff costs in relation to Executive and Non-Executive Directors, and includes MotoNovo Finance staff costs from May 2019 onwards.

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

	Year ended 30 June 2019	Period ended 30 June 2018
Central Functions	536	397
Business Finance and Retail Finance	514	539
MotoNovo Finance	124	-
	1,174	936

The staff numbers disclosed in the table above includes MotoNovo Finance from May 2019 onwards. Staff are all employed in Aldermore Bank PLC or MotoNovo Finance Limited.

12. Remuneration of Directors

	Year ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Directors' emoluments	3,969.2	5,542.2
Payments in respect of personal pension plans	104.7	159.6
Long term incentive schemes	613.2	8,777.7
	4,687.1	14,479.5

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

In the year ending 30 June 2019 the Group's securitisation vehicles paid third party fees of £21 thousand for corporate director services (period ended 30 June 2018: £19 thousand). While the share capital of these vehicles is not owned by the Group, the vehicles are included in the consolidated financial statements as they are controlled by the Group.

Long-term incentive schemes

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

Following the acquisition of Aldermore Group PLC by FirstRand International Limited in March 2018, all the share schemes to key personnel vested and FirstRand International Limited acquired 100.0% of the share capital of Aldermore Group PLC. The reported gains, at acquisition have been calculated as the market value offered for the shares by FirstRand (£3.13). The aggregate gains as at March 2018 on such shares held by directors were £5.9 million.

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

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

Highest paid director

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

	Year ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Emoluments	1,341.8	1,822.3
Payments in respect of personal pension plans	43.3	54.0
Long term incentive schemes	296.3	3,774.7
	1,681.4	5,651.0

13. Pension and other post-retirement benefit commitments

The Group operates three defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £3.0 million (30 June 2018: £3.1 million) were charged to the income statement during the period in respect of these schemes. The Group made payments amounting to £104,680 (30 June 2018: £159,600) in aggregate in respect of three Directors' individual personal pension plans during the period. There were outstanding contributions of £0.7 million at the year end (30 June 2018: £0.5 million).

14. Depreciation and amortisation

	Note	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Depreciation		1.8	2.2
Amortisation of intangible assets	24	3.3	6.2
		5.1	8.4

15. Profit before taxation

The profit before taxation is after charging:

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Operating lease rentals (including service charges)		
– land and buildings	3.3	4.7
– plant and equipment	0.3	0.4
The remuneration of the Group's external auditor, Deloitte LLP, and their associates (excluding VAT) is as follows:		
Fees payable to the Group's auditor for the audit of the annual accounts	0.1	0.1
Fees payable to the Group's auditor for the audit of the accounts of subsidiaries	0.7	0.7
Audit fees	0.8	0.8
Fees payable to the Group's auditor and its associates for other services (excluding VAT):		
Audit related assurance services ¹	0.2	0.3
Other assurance services ²	0.1	0.3
Non-audit fees	0.3	0.6
	1.1	1.4

1 Audit related assurance services for the periods ended 30 June 2019 and 30 June 2018 comprise services provided in relation to interim profit verifications during the year and work responding to FirstRand Group audit instructions.

2 Other assurance services for the year ended 30 June 2019 comprise work in relation to securitisation issuances. Other assurance services for the period ended 30 June 2018 comprise work in relation to the audit of the Group's 31 March 2018 Balance Sheet and work in relation to the Term Funding Scheme audit.

16. Taxation

a) Tax charge

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Current tax on profits for the year	33.6	47.5
Over provision in previous periods	(0.8)	(0.9)
Total current tax	32.8	46.6
Deferred tax	(0.2)	8.0
Under provision in previous periods	0.1	2.1
Total deferred tax (credit)/charge	(0.1)	10.1
Total tax charge	32.7	56.7

Current tax on profits reflects UK mainstream corporation tax levied at a rate of 19.0% for the year ended 30 June 2019 (18 months ended 30 June 2018: 19.2%) and the Banking Surcharge levied at a rate of 8.0% on the profits of banking companies chargeable to corporation tax after an allowance of £25.0 million per annum.

A tax credit of £0.3 million in respect of the fair value movements in FVOCI sale debt securities has been shown in other comprehensive income during the year ended 30 June 2019 (30 June 2018: £0.2 million credit in respect of AFS securities). A tax credit of £nil (30 June 2018: £1.5 million credit) has been recognised in equity in respect of tax relief on vesting of share awards.

A tax credit of £1.9 million (30 June 2018: £4.6 million credit) has been reflected directly in equity in respect of tax relief for contingent convertible securities coupon costs.

b) Factors affecting tax charge for the year

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax in the UK of 19.0% (30 June 2018: 19.2%). The differences are explained below:

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Profit before tax	129.6	195.3
Tax at 19.0% (2018: 19.2%) thereon	24.6	37.5
Effects of:		
Expenses not deductible for tax purposes	0.7	3.2
(Over)/under provision in previous periods	(0.7)	1.2
Deferred tax rate adjustment	0.4	0.6
Effect of the Banking tax surcharge	8.9	14.1
Other differences	(0.1)	0.1
Deferred tax recognition in MotoNovo Finance Ltd ¹	(1.1)	-
	32.7	56.7

¹ The deferred tax asset arose primarily as a result of fixed assets transferred from the integration of MotoNovo Finance into the Aldermore Group. It is a timing difference between the net book value and the tax written down value in the tax computations.

17. Loans and advances to banks

	30 June 2019 £m	30 June 2018 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	71.3	52.2
Cash collateral on derivatives placed with banks	69.0	33.6
Other loans and advances to banks	4.9	10.8
	145.2	96.6

£4.9 million is recoverable more than 12 months after the reporting date in respect of cash held by the Group's securitisation vehicles (30 June 2018: £nil).

All loans and advances to banks were stage 1 assets under IFRS 9 as at 30 June 2019 and on transition to IFRS 9 as at 1 July 2018. There were no significant impairment provisions in respect of expected losses as at 30 June 2019 or during the year then ended. There were no impairment provisions recognised under IAS 39 as at 30 June 2018.

18. Debt securities

	30 June 2019 £m	30 June 2018 £m
FVOCI (2018: Available for sale) debt securities:		
UK Government gilts and treasury bills	47.5	45.9
Supranational bonds	721.5	436.3
Asset-backed securities	20.0	30.1
Covered bonds	418.8	280.0
	1,207.8	792.3

At 30 June 2019, £1,110.2 million (30 June 2018: £732.4 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 2019 and on transition to IFRS 9 as at 1 July 2018. There were no significant impairment provisions in respect of expected losses as at 30 June 2019 or during the year then ended.

There were no impairment provisions recognised under IAS 39 as at 30 June 2018.

19. Derivatives held for risk management

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

	30 June 2019		30 June 2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Instrument type				
Interest rate (not in hedging relationships)	0.7	0.7	0.3	0.3
Interest rate (fair value hedges)	7.9	36.1	22.4	16.3
Equity	0.5	0.5	-	-
Foreign exchange	-	0.1	-	0.1
	9.1	37.4	22.7	16.7

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

a) Fair value hedges of interest rate risk

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

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

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

The Group has identified the following possible sources of ineffectiveness:

- the use of derivatives as a protection against interest rate risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into derivatives which are subject to daily margining through a recognised exchange;
- different amortisation profiles on hedged item principal amounts and interest rate swap notional;
- 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
- difference 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 2019	Carrying amount of the hedging instruments Year ended 30 June 2019		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness Year ended 30 June 2019
Fair value hedges Interest rate risk	£m	Assets £m	Liabilities £m		£m
Interest rate swaps	5,727.3	7.9	36.1	Derivatives held for risk	(34.2)

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

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

The table below summarises the hedge ineffectiveness recognised in profit or loss during the financial year ended 30 June 2019, for the Group's designated fair value hedge relationships.

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

b) Other derivatives held for risk management

The Group uses other derivatives, not designated in qualifying hedge accounting relationships, to manage its exposure to the following:

- equity market risk on equity-linked products offered to depositors; and
- foreign exchange risk on currency loans provided to Invoice Finance customers.

20. Loans and advances to customers

	30 June 2019 £m	30 June 2018 £m
Gross loans and advances	10,648.9	9,015.7
less: allowance for impairment losses	(53.8)	(25.2)
	10,595.1	8,990.5
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	9,033.7	7,835.5

At 30 June 2019, loans and advances to customers of £3,303.0 million (30 June 2018: £3,032.7 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 2019, loans and advances to customers included £276.9 million (30 June 2018: £103.2 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.

Reconciliation of the gross carrying amount of loans and advances to customers measured at amortised cost

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 30 June 2018 (IAS 39)	8,981.9	-	33.8	9,015.7
IFRS 9 adjustments	(611.1)	550.1	61.0	-
Amount as at 30 June 2018 (IFRS 9)	8,370.8	550.1	94.8	9,015.7
Transfers to stage 1	1,050.3	(1,016.9)	(33.4)	-
Transfers to stage 2	(1,915.5)	1,928.0	(12.5)	-
Transfers to stage 3	(30.9)	(90.8)	121.7	-
Transfers from FirstRand Bank on acquisition of MotoNovo business	64.9	-	0.3	65.2
Repayments of loans and advances	(1,460.9)	(275.0)	(35.6)	(1,771.5)
Bad debts written off	-	-	(11.9)	(11.9)
New business and other changes in exposures	3,357.7	(12.0)	5.7	3,351.4
Amount as at 30 June 2019	9,436.4	1,083.4	129.1	10,648.9
Analysed between classes of lending:				
Asset Finance	1,838.7	172.7	30.5	2,041.9
Invoice Finance	369.3	30.0	5.8	405.1
SME Commercial Mortgages	939.2	71.2	13.6	1,024.0
Buy-to-Let	4,365.0	654.0	37.2	5,056.2
Residential Mortgages	1,556.3	154.8	41.4	1,752.5
MotoNovo Finance	367.9	0.7	0.6	369.2

Reconciliation of the allowance for impairment losses on total advances measured at amortised cost and related exposures (IFRS 9)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 30 June 2018 (IAS 39)	17.4	-	7.8	25.2
IFRS 9 adjustments	(2.2)	7.3	5.0	10.1
Amount as at 30 June 2018 (IFRS 9)	15.2	7.3	12.8	35.3
Transfers to stage 1	8.7	(8.6)	(0.1)	-
Transfers to stage 2	(14.9)	15.1	(0.2)	-
Transfers to stage 3	(2.7)	(16.7)	19.4	-
Repayments of loans and advances	(2.3)	(1.9)	(14.0)	(18.2)
Bad debts written off	-	-	(11.9)	(11.9)
Increase/decrease in impairment	17.5	13.7	14.9	46.1
Changes in models and risk parameters	(0.4)	-	(0.4)	(0.8)
New business and changes in exposure	20.8	(1.4)	13.9	33.3
Changes in economic forecasts	1.8	0.5	1.2	3.5
Provision created/(released) due to transfers	(5.2)	14.6	-	9.4
Transfers from FirstRand Bank on acquisition of MotoNovo business	0.5	-	0.2	0.7
Interest suspense	-	-	3.3	3.3
Amount as at 30 June 2019	21.5	8.9	24.2	54.6
Where recognised:				
Netted against loans and advances to customers	20.7	8.9	24.2	53.8
Included in provisions in respect of loan commitments	0.8	-	-	0.8
	21.5	8.9	24.2	54.6
Analysed between classes of lending:				
Asset Finance	7.5	5.4	11.3	24.2
Invoice Finance	2.4	0.4	1.9	4.7
SME Commercial Mortgages	2.4	0.3	1.2	3.9
Buy-to-Let	4.2	2.2	6.3	12.7
Residential Mortgages	1.1	0.5	3.1	4.7
MotoNovo Finance	3.9	0.1	0.4	4.4

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 30 June 2018 (IAS 39)	4.8	-	3.8	8.6
IFRS 9 adjustments	2.6	5.0	2.2	9.8
Amount as at 30 June 2018 (IFRS 9)	7.4	5.0	6.0	18.4
Transfers to stage 1	7.1	(7.0)	(0.1)	-
Transfers to stage 2	(10.2)	10.3	(0.1)	-
Transfers to stage 3	(1.8)	(13.8)	15.6	-
Repayments of loans and advances	(1.1)	(1.3)	(11.8)	(14.2)
Bad debts written off	-	-	(10.4)	(10.4)
Increase/decrease in impairment	6.1	12.2	12.1	30.4
Changes in models and risk parameters	(0.3)	(0.5)	(0.2)	(1.0)
New business and changes in exposure	11.0	-	12.3	23.3
Changes in economic forecasts	-	-	-	-
Provision created/(released) due to transfers	(4.6)	12.7	-	8.1
Interest in suspense	-	-	-	-
Amount as at 30 June 2019	7.5	5.4	11.3	24.2

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 30 June 2018 (IAS 39)	2.4	-	0.8	3.2
IFRS 9 adjustments	(0.6)	0.3	1.0	0.7
Amount as at 30 June 2018 (IFRS 9)	1.8	0.3	1.8	3.9
Transfers to stage 1	0.6	(0.6)	-	-
Transfers to stage 2	(2.5)	2.6	(0.1)	-
Transfers to stage 3	(0.4)	(1.4)	1.8	-
Repayments of loans and advances	(0.2)	(0.1)	(1.1)	(1.4)
Bad debts written off	-	-	(0.6)	(0.6)
Increase/decrease in impairment	3.1	(0.4)	0.1	2.8
Changes in models and risk parameters	(0.2)	-	(0.1)	(0.3)
New business and changes in exposure	3.3	(0.5)	0.2	3.0
Changes in economic forecasts	-	-	-	-
Provision created/(released) due to transfers	-	0.1	-	0.1
Interest in suspense	-	-	-	-
Amount as at 30 June 2019	2.4	0.4	1.9	4.7

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 30 June 2018 (IAS 39)	3.7	-	0.3	4.0
IFRS 9 adjustments	(2.2)	0.5	0.5	(1.2)
Amount as at 30 June 2018 (IFRS 9)	1.5	0.5	0.8	2.8
Transfers to stage 1	0.2	(0.2)	-	-
Transfers to stage 2	(0.4)	0.4	-	-
Transfers to stage 3	(0.2)	(0.1)	0.3	-
Repayments of loans and advances	(0.5)	(0.2)	(0.4)	(1.1)
Bad debts written off	-	-	(0.5)	(0.5)
Increase/decrease in impairment	1.8	(0.1)	0.6	2.3
Changes in models and risk parameters	(0.1)	-	(0.4)	(0.5)
New business and changes in exposure	1.8	(0.5)	0.8	2.1
Changes in economic forecasts	0.2	0.1	0.2	0.5
Provision created/(released) due to transfers	(0.1)	0.3	-	0.2
Interest in suspense	-	-	0.4	0.4
Amount as at 30 June 2019	2.4	0.3	1.2	3.9

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 30 June 2018 (IAS 39)	3.9	-	2.1	6.0
IFRS 9 adjustments	(0.4)	1.0	1.1	1.7
Amount as at 30 June 2018 (IFRS 9)	3.5	1.0	3.2	7.7
Transfers to stage 1	0.5	(0.5)	-	-
Transfers to stage 2	(1.3)	1.3	-	-
Transfers to stage 3	(0.2)	(0.9)	1.1	-
Repayments of loans and advances	(0.3)	(0.2)	(0.5)	(1.0)
Bad debts written off	-	-	(0.4)	(0.4)
Increase/decrease in impairment	2.0	1.5	1.3	4.8
Changes in models and risk parameters	0.2	0.3	0.3	0.8
New business and changes in exposure	0.9	(0.3)	0.3	0.9
Changes in economic forecasts	1.2	0.3	0.7	2.2
Provision created/(released) due to transfers	(0.3)	1.2	-	0.9
Interest in suspense	-	-	1.6	1.6
Amount as at 30 June 2019	4.2	2.2	6.3	12.7

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 30 June 2018 (IAS 39)	2.6	-	0.8	3.4
IFRS 9 adjustments	(1.6)	0.5	0.2	(0.9)
Amount as at 30 June 2018 (IFRS 9)	1.0	0.5	1.0	2.5
Transfers to stage 1	0.3	(0.3)	-	-
Transfers to stage 2	(0.5)	0.5	-	-
Transfers to stage 3	(0.1)	(0.5)	0.6	-
Repayments of loans and advances	(0.2)	(0.1)	(0.2)	(0.5)
Bad debts written off	-	-	-	-
Increase/decrease in impairment	0.6	0.4	0.4	1.4
Changes in models and risk parameters	-	0.2	-	0.2
New business and changes in exposure	0.4	(0.2)	0.1	0.3
Changes in economic forecasts	0.4	0.1	0.3	0.8
Provision created/(released) due to transfers	(0.2)	0.3	-	0.1
Interest in suspense	-	-	1.3	1.3
Amount as at 30 June 2019	1.1	0.5	3.1	4.7

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 30 June 2018 (IAS 39)	-	-	-	-
IFRS 9 adjustments	-	-	-	-
Amount as at 30 June 2018 (IFRS 9)	-	-	-	-
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Repayments of loans and advances	-	-	-	-
Bad debts written off	-	-	-	-
Increase/decrease in impairment	3.9	0.1	0.4	4.4
Changes in models and risk parameters	-	-	-	-
New business and changes in exposure	3.4	0.1	0.2	3.7
Changes in economic forecasts	-	-	-	-
Transfers from FirstRand Bank on acquisition of MotoNovo business	0.5	-	0.2	0.7
Interest in suspense	-	-	-	-
Amount as at 30 June 2019	3.9	0.1	0.4	4.4

Allowance for impairment losses (IAS 39)

	Individual £m	Collective £m	Total £m
Period ended 30 June 2018			
Balance as at 1 January 2017	14.3	13.1	27.4
Impairment loss for the period:			
Charge to the income statement	10.6	8.9	19.5
Unwind of discounting	(2.2)	(4.6)	(6.8)
Write-offs net of recoveries	(14.9)	–	(14.9)
Balance as at 30 June 2018	7.8	17.4	25.2

Finance lease receivables

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

	30 June 2019 £m	30 June 2018 £m
Gross investment in finance leases, receivable:		
Less than one year	849.4	568.4
Between one and five years	1,541.7	1,177.9
More than five years	24.5	21.8
	2,415.6	1,768.1
Unearned finance income	(290.4)	(187.3)
Net investment in finance leases	2,125.2	1,580.8
Net investment in finance leases, receivable:		
Less than one year	726.2	482.4
Between one and five years	1,375.7	1,077.3
More than five years	23.3	21.1
	2,125.2	1,580.8

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 £20.5 million (30 June 2018: £3.7 million).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 30 June 2019 (30 June 2018: no material residual values).

21. Investment in subsidiaries

The Company has an interest in the total ordinary share capital of the following subsidiaries (except the securitisation vehicles), all of which are registered in England and Wales and operate in the UK. All subsidiary undertakings are included in these consolidated financial statements.

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

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.

⁺⁺ The accounting reference date of this company is 31 December and was not changed to 30 June as the Group exercised its call option on the Oak No.1 securitisation in May 2019.

¹ Registered address 1st Floor, Block B, Western House Lynch Wood, Peterborough, England, United Kingdom PE2 6FZ

² Registered address One, Central Square, Cardiff, Wales, United Kingdom, CF10 1FS

³ Registered address 6 Coldbath Square, London, England, United Kingdom, EC1R 5HL

⁴ Registered address 35 Great St. Helen's, London, England, United Kingdom EC3A 6AP

⁵ Registered address 11th Floor, 200 Aldersgate Street, London, England, United Kingdom, EC1A 4HD

On 4 May 2019, certain assets and liabilities and the future business of MotoNovo, which was a part of the London Branch of FirstRand Bank, the Group's Parent Company, were transferred to MotoNovo Finance Limited. As the acquisition was a common control transaction, the assets and liabilities transferred have been recognised at their existing book values within the Group accounts. Details of the assets and liabilities acquired on the acquisition are provided in note 36.

22. 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 2018 (IAS 39) £m	IFRS 9 adjustment £m	Balance as at 1 July 2018 (IFRS 9) £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Balance as at 30 June 2019 £m
Year ended 30 June 2019						
Capital allowances less than depreciation	3.0	-	3.0	(0.5)	-	2.5
FVOCI (period ended 30 June 2018: AFS) debt securities transition adjustment	(0.5)	-	(0.5)	-	-	(0.5)
(Gains) / losses on debt securities recognised through other comprehensive income	(0.3)	-	(0.3)	-	0.3	-
Other temporary differences	(0.5)	-	(0.5)	1.1	-	0.6
IFRS 9 transition adjustment	-	2.4	2.4	(0.4)	-	2.0
Share-based payment timing differences	-	-	-	0.2	-	0.2
	1.7	2.4	4.1	0.4	0.3	4.8

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

The deferred tax asset at 30 June 2019 of £4.8 million has been calculated at an overall rate of 20.9%. This is based on substantively enacted tax rates at the balance sheet date. These are expected to apply when the temporary differences giving rise to the deferred tax are expected to reverse. The deferred tax asset relates largely to temporary differences between capital allowances and depreciation.

A reduction in the UK corporation tax rate from 19.0% to 17.0% from 1 April 2020 was substantively enacted on 15 September 2016.

There were no unrecognised deferred tax balances at 30 June 2019 (30 June 2018: £nil).

23. Investment in associate

On 28 September 2017, the Group acquired a 48% stake in AFS Group Holdings Limited 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, subject to certain targets being met. The first tranche was paid in full on 15 August 2018 and the second tranche is due to be paid in full on 30 August 2019. Details of the Group's material associate at the end of the reporting period is as follows:

Name of associate	Principal activity	Registered office 30 June 2019 and 2018	Proportion of ownership interest/voting rights held by the Group 30 June 2019 and 2018
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, UK, 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 2019 is £5.4 million (30 June 2018: £5.1 million). This includes a £0.5 million share of profit of associate which has been recognised in the Consolidated Income Statement for the period ended 30 June 2019 (30 June 2018: £0.3 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 2019 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 2019 (adjusted by the Group for equity accounting purposes).

AFS Group Holdings Limited

	As at 30 April 2019 £m	As at 30 April 2018 £m
Current assets	3.7	2.9
Non-current assets	0.4	0.1
Current liabilities	2.0	1.7
Non-current liabilities	0.2	0.1

	Year ended 30 April 2019 £m	Period from 28 September 2017 to 30 April 2018 £m
Revenue	14.7	7.0
Profit from continuing operations	1.5	0.6
Profit for the period	1.5	0.6
Total comprehensive income for the period	1.5	0.6
Dividends received from the associate during the period	0.2	-

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

	AFS Group Holdings Limited	
	30 June 2019	30 June 2018
	£m	£m
Net assets of the associate	1.9	1.2
Proportion of the Group's ownership interest in the associate	48%	48%
Goodwill	4.5	4.5
Carrying amount of the Group's interest in the associate	5.4	5.1

24. Intangible assets

	Computer Systems £m	Goodwill £m	Total £m
Cost			
1 July 2018	24.4	8.5	32.9
Additions	0.6	-	0.6
Retirements	(9.1)	-	(9.1)
Write-off	(0.9)		(0.9)
Transfers from FirstRand Bank on acquisition of MotoNovo business	3.8		3.8
30 June 2019	18.8	8.5	27.3
1 January 2017	35.1	8.5	43.6
Additions	8.7	-	8.7
Write-off	(19.4)	-	(19.4)
30 June 2018	24.4	8.5	32.9
Amortisation			
1 July 2018	18.5	-	18.5
Charge for the year	3.3	-	3.3
Retirements	(9.1)	-	(9.1)
Write-off	(0.2)	-	(0.2)
30 June 2019	12.5	-	12.5
1 January 2017	17.5	-	17.5
Charge for the year	6.2	-	6.2
Write-off	(5.2)	-	(5.2)
30 June 2018	18.5	-	18.5
Net book value			
30 June 2019	6.3	8.5	14.8
30 June 2018	5.9	8.5	14.4

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

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

The Goodwill disclosed above relates to the SME Commercial Mortgages segment. The Value in Use ("VIU") for SME Commercial Mortgages was determined by discounting the future cash flows to be generated from the continuing use of the segment. VIU at 30 June 2019 has been determined in a similar manner as at 30 June 2018.

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

- Cash flows were projected based on past experience, actual operating results and the five year business plan (30 June 2018: the five year business plan). Cash flows after the planning period were extrapolated using a constant growth rate of 2.0% (30 June 2018: 2.0%) into perpetuity; and
- A pre-tax discount rate of 11.1% (30 June 2018: 14.1%) was applied in determining the recoverable amounts for the SME Commercial Mortgages operating segment. These discount rates were based on the weighted average cost of funding for the segment, taking into account the Group's regulatory capital requirement and expected market returns for debt and equity funding, then adjusted for risk premiums to reflect the systemic risk of the segment.

IAS 36 requires an assessment of goodwill balances for impairment on an annual basis, or more frequently if there is an indication of impairment. An impairment charge should be recognised where the recoverable amount from the segment is less than the carrying value of the goodwill. Under IAS 36, the recoverable amount is the greater of either the VIU of a business or its Fair Value less Costs of Disposal ("FVLCD").

The VIU of the SME Commercial Mortgages segment is significantly above the carrying value of the attributable goodwill and net assets. The Group estimates that reasonably possible changes in the above assumptions are not expected to cause the recoverable amount of SME Commercial Mortgages to reduce below the carrying amount.

25. Amounts due to banks

	30 June 2019 £m	30 June 2018 £m
Amounts repayable within 12 months:		
Cash collateral received on derivatives	-	5.1
Due to banks – central banks – Term Funding Scheme interest accrual	3.1	2.1
Due to banks – central banks – other eligible schemes interest accrual	0.5	-
	3.6	7.2
Amounts repayable after 12 months:		
Due to banks – central banks – Term Funding Scheme	1,671.0	1,671.0
Due to banks – central banks – other eligible schemes	140.0	-
	1,814.6	1,678.2

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 20.

26. Customers' accounts

	30 June 2019 £m	30 June 2018 £m
Retail deposits	5,967.2	5,163.4
SME deposits	2,142.5	1,997.9
Corporate deposits	862.1	615.0
	8,971.8	7,776.3
Amounts repayable within one year	7,626.4	6,786.9
Amounts repayable after one year	1,345.4	989.4
	8,971.8	7,776.3

27. Other liabilities

	30 June 2019 £m	30 June 2018 £m
Amounts payable within 12 months:		
Amounts payable to Invoice Finance customers	11.2	9.9
Other taxation and social security costs	2.0	1.9
Trade creditors	7.3	9.5
Other payables	40.9	2.3
	61.4	23.6

The increase in other liabilities for the year ended 30 June 2019 include £38.4 million in other payables in respect of the transfer of the MotoNovo business into the Group. The other payables comprise of intercompany liabilities with FirstRand Group companies of £7.9 million (also see note 38) and MotoNovo Finance dealer commissions of £30.5 million.

28. Accruals and deferred income

	30 June 2019 £m	30 June 2018 £m
Amounts payable within 12 months:		
Accruals	51.0	30.1
Deferred income	0.6	4.4
	51.6	34.5

The increase in accruals for the year ended 30 June 2019 includes £12.5 million in respect of the transfer of the MotoNovo business into the Group.

29. Provisions

	Financial Services Compensation Scheme	Customer redress	Expected losses recognised on loan commitments	Total
	£m	£m	£m	£m
1 July 2018	1.0	-	-	1.0
Adjustment for adoption of IFRS 9	-	-	0.4	0.4
Utilised during the year	(0.6)	-	-	(0.6)
Provided/(released) during the year	(0.1)	1.3	0.4	1.6
30 June 2019	0.3	1.3	0.8	2.4
1 January 2017	0.8	-	-	0.8
Utilised during the period	(1.0)	-	-	(1.0)
Provided during the period	1.2	-	-	1.2
30 June 2018	1.0	-	-	1.0

Financial Services Compensation Scheme ("FSCS")

In common with all regulated UK deposit takers, the Group's principal subsidiary, Aldermore Bank PLC, pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays net of any recoveries it makes using the rights that have been assigned to it. The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits. The FSCS provision is recognised at the commencement of the scheme year in line with IFRIC 21.

The FSCS provision at 30 June 2019 of £0.3 million (30 June 2018: £1.0 million) represents the interest element of the compensation levy for the 2018/2019 scheme year (30 June 2018: interest levy for the 2017/2018 scheme year).

Customer redress

Following an internal compliance review, it became evident that a proportion of 500 customers that were sold mortgages to consolidate debt over a number of years were not given sufficient and appropriate advice. The sale of debt consolidation mortgages by the Group ceased from February 2019. Work is ongoing by the Group to evaluate which customers, past and present, did not receive sufficient and appropriate advice and calculate the redress due. A provision has been made at 30 June 2019 for £1.3 million (30 June 2018: £nil) for potential compensation based on an analysis of a sample of cases reviewed to that date.

Expected losses on loan commitments

On implementing IFRS 9 on 1 July 2018, the Group recognised impairment losses expected in respect of any outstanding irrevocable loan commitments of £0.4 million. The expected losses on loan commitments increased to £0.8 million as at 30 June 2019 reflecting the increase in committed irrevocable lending to customers.

30. Debt securities in issue

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

	30 June 2019 £m	30 June 2018 £m
Debt securities in issue – Oak No.1 PLC	-	77.9
Debt securities in issue – Oak No.2 PLC	263.2	-
	263.2	77.9

Debt securities in issue with a book value of £263.2 million (30 June 2018: £77.9 million) are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicles. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage customers in respect of the underlying assets. In May 2019, the Group exercised its call option in respect of the Oak No 1 PLC Notes. 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. There is no obligation for the Group to make good any shortfall. Further disclosure relating to the underlying assets is contained in note 20.

31. Subordinated notes

	30 June 2019 £m	30 June 2018 £m
Subordinated notes 2026	60.5	60.5
Subordinated notes 2028	100.6	-
Subordinated notes 2029	52.3	-
	213.4	60.5

On 28 October 2016, the Group issued £60.0 million subordinated 8.5% loan notes, repayable in 2026, with an option for the Group to redeem after five years. The interest rate is fixed until October 2021. The loan is carried in the statement of financial position at amortised cost using an EIR of 8.9%.

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

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

32. Financing activity

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

Year ended 30 June 2019

	As at 1 July 2018 £m	Financing cash flows- debt issued £m	Financing cash flows- repayment of debt £m	Financing cash flows - interest paid on debt £m	Non-cash changes- Interest expense per Income Statement £m	As at 30 June 2019 £m
Debt Securities in Issue - note 30	77.9	323.3	(138.9)	(4.0)	4.9	263.2
Subordinated notes - note 31	60.5	152.0	-	(7.5)	8.4	213.4

Period ended 30 June 2018

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

33. Share capital

	30 June 2019 £m	30 June 2018 £m
Type		
Ordinary shares of £0.10 each	243.9	34.9

As at 30 June 2019, there were 2,439,016,370 ordinary £0.10 shares in issue resulting in share capital of £243,901,637 (30 June 2018: 348,993,805 and £34,899,381 respectively).

2,090,000,000 Ordinary Shares of £0.10 each were issued to FirstRand International Limited (the Group's Parent company) on 3 May 2019 to ensure Aldermore Group was able to meet the additional capital requirements arising from new business that will be written by MotoNovo Finance Limited.

34. Share-based payments

The table below shows the charge to the income statement:

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Share plans issued in 2015	-	1.2
Share plans issued in 2016	-	1.9
Share plans issued in period ended 30 June 2018	2.0	2.5
Share plans issued in year ended 30 June 2019	0.9	-
Total share-based payment charge	2.9	5.6

Awards

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

Plan	Awards outstanding value 30 June 2018 £m ¹	Awards outstanding value 30 June 2019 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Employee Service Conditions	Non Market Performance Conditions Attached ³	Settlement	Liability transferred to RMBMS by assumption of liability agreement ⁴	Aldermore Group Residual Liability	Charge for current year £m
Sharesave Plan	0.2	-		No		No	Cash	No	No	-
Transition Award	4.0	2.5 ²	Oct 2019 Mar 2020	No	Yes	No	Cash	No	No	2.0
Deferred Bonus Scheme	-	0.5	Equal tranches: Sep 2019 Sep 2020 Sep 2021	Yes	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.3
LTIP awards (risk & compliance)	-	0.1	Sep 2021	Yes	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	-
LTIP awards	-	0.6	Sep 2021	Yes	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
LTIP awards (Exco)	-	1.4	Sep 2021	Yes	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
Conditional Share Plan (MotoNovo Finance) – CP16 & CP17	-	2.2	Sep 2019 (CP16) Sep 2020 (CP17)	Yes	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.3
Total	4.2	7.3								2.9

1. Sharesave value based on 97,110 shares at 200 pence per share. Transition award outstanding value based on 1,267,206 awards at 313 pence per award.
2. Transition award outstanding value based on 801,732 awards at 313 pence per award.
3. Non Market Performance Conditions - 40.0% of the conditional award will vest if: Increase in FirstRand normalised earnings per share equals or exceeds the South Africa CPI plus real GDP growth, on a cumulative basis, over the performance period; FirstRand Limited delivers ROE of at least 18.0% over the performance period; and 60.0% of the conditional award will be based on the performance conditions linked to Aldermore.
4. Aldermore entered into an assumption of liability and novation agreement with RMB Morgan Stanley Proprietary Ltd ('RMBMS'), a 50.0% owned JV of the FirstRand Group to hedge the cost of the awards linked to the FirstRand share price. In return for Aldermore making a payment to RMBMS, RMBMS is substituted in the agreement and will be 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 2018:

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

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

a) Sharesave Plan

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

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

Prior to the completion of the takeover of Aldermore by FirstRand Group, all participants in the Sharesave Plan were given the opportunity to use the savings in their accounts to purchase Aldermore Shares at the Option price set at the start of the relevant invitation. The Aldermore Shares were subsequently sold to FirstRand who paid the participant 313 pence in cash for each Aldermore Share. Alternatively, participants could elect to continue saving after the takeover and exercise their Option within the six-month period following the Court sanction of the Scheme. Again, these shares would be sold to FirstRand for 313 pence per Aldermore Share. Those participants who took up the 2015 and 2016 invitations to join the Sharesave Plan were eligible to receive a compensation payment in respect of options that lapsed as a result of their Option being exercised ahead of the usual maturity date (provided that they elected to exercise their Option ahead of the Court Sanction date).

b) Transition Award

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

c) Deferred Bonus Scheme

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

d) LTIP (Long Term Incentive Plan)

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

e) Conditional Share Plan (MotoNovo Finance)

The conditional award comprises a number of full shares with no strike price. These awards vest after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance targets set annually by the remuneration committee. The conditional share plan (CSP) is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash-settled and is therefore repriced at each reporting date.

35. Additional Tier 1 capital

	30 June 2019 £m	30 June 2018 £m
Contingent convertible securities – issued December 2014	74.0	74.0
Perpetual subordinated capital notes – issued June 2019	47.0	-
	121.0	74.0

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.

Contingent convertible securities

On 9 December 2014, the Company issued £75.0 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “Securities”). Net proceeds arising from the issuance, after deducting issuance costs and the associated tax credit, totalled £74.0 million.

The Securities are perpetual and have no fixed redemption date. Redemption of the Securities is at the option of the Company on 30 April 2020 and annually thereafter. The Securities bear interest at an initial rate of 11.9% per annum until 30 April 2020 and thereafter at the relevant Reset Interest Rate as provided in the Information Memorandum. Interest is payable on the Securities annually in arrears on each interest payment date commencing from 30 April 2015 and is non-cumulative. The Borrower has the full discretion to cancel any interest scheduled to be paid on the Securities.

The loan balance is written down to zero and all accrued but unpaid interest and any other amounts payable on the loan are cancelled in the event of either the Bank’s or the Group’s Common Equity Tier 1 ratio falling below 7.0%. As the Securities contain no obligation on the Company to make payments of principal or interest, they have been classified as equity instruments as required by IAS 32. Accordingly, the Securities have been included in equity at the fair value of the proceeds received less any direct costs attributable to the issue of the Securities, net of tax relief thereon. Any interest paid on the Securities, net of tax relief thereon, is a distribution to holders of equity instruments and has been recognised directly in equity on the payment date. The Group has not separated any embedded derivative features because the Group has an accounting policy not to separate a feature that has already been considered in determining that the entire issue is a non-derivative equity instrument.

36. Statement of cash flows

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

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Depreciation and amortisation	5.1	8.4
Impairment of intangibles and goodwill	0.7	14.2
Amortisation of securitisation issuance cost	0.6	0.5
Impairment losses on loans and advances and commitments ¹	26.8	19.5
Unwind of discounting ¹	(0.5)	(6.8)
Write-offs net of recoveries ¹	-	(14.9)
Interest in suspense	2.4	-
(Gains) / losses on hedged available for sale debt securities recognised in profit or loss	(6.4)	8.6
Net gains on disposal of FVOCI (2018: available for sale) debt securities	(0.8)	(1.2)
Interest expense on subordinated notes	8.4	10.7
Interest income on debt securities	(14.7)	(14.5)
Interest expense on debt securities in issue	4.3	1.6
Share of profit of associate	(0.5)	(0.3)
Equity-settled share-based payment charge	-	4.9
	25.4	30.7

1. Impairment losses as at 30 June 2019 reflect expected credit losses calculated in accordance with IFRS 9. Impairment losses as at 30 June 2018 reflect impairment losses calculated in accordance with IAS 39

(b) Increase in operating assets

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Loans and advances to customers	(1,578.2)	(1,511.0)
Loans and advances to banks	(29.1)	(12.3)
Derivative financial instruments	13.6	(10.3)
Fair value adjustments for portfolio hedged risk	(33.6)	12.2
Other operating assets	(4.9)	(12.7)
Dividend received from associate	(0.2)	-
	(1,632.4)	(1,534.1)

(c) Increase in operating liabilities

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Amounts due to banks	136.4	924.4
Customers' accounts	1,196.0	1,102.6
Derivative financial instruments	20.7	(19.1)
Fair value adjustments for portfolio hedged risk	0.8	1.4
Other operating liabilities	42.9	6.3
	1,396.8	2,015.6

(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.

	30 June 2019 £m	30 June 2018 £m
Cash and balances at central banks	482.9	508.8
Less restricted balances	(20.4)	(16.3)
Loans and advances to banks	71.2	52.2
	533.7	544.7

(e) Acquisition of MotoNovo business from FirstRand Bank

The following assets and liabilities were acquired from the London Branch of FirstRand Bank in respect of the transfer of the MotoNovo business to the Group.

	Book value of assets and liabilities transferred
Loans and advances to customers	64.4
Property, plant and equipment, and intangibles	11.9
Other operating assets	22.3
Other operating liabilities	(12.2)
	86.4

Cash and cash equivalents transferred to London Branch of FirstRand Bank in respect of the transfer of the MotoNovo business to the Group in May 2019 totalled £86.4 million.

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 2019 include £4.9 million held by the securitisation vehicles, which are not available to the other members of the Group (30 June 2018: £10.9 million).

37. Commitments and contingencies

At 30 June 2019, the Group had undrawn commitments to lend of £715.6 million (30 June 2018: £442.8 million). These relate mostly to irrevocable lines of credit granted to customers.

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

	30 June 2019 £m	30 June 2018 £m
Land and buildings		
In less than one year	4.7	2.8
Between one and five years	18.7	8.7
More than five years	9.5	3.7
	32.9	15.2
	30 June 2019 £m	30 June 2018 £m
Equipment		
In less than one year	0.2	0.3
Between one and five years	0.4	0.6
	0.6	0.9

At 30 June 2019, the majority of operating leases for equipment related to 115 cars that the Group held under lease (30 June 2018: 36). The majority of these leases are due to expire in 2020.

Legislation

As a financial services group, Aldermore Group PLC is subject to extensive and comprehensive regulation. The Group must comply with numerous laws and regulations which significantly affect the way it does business. Whilst the Group believes there are no unidentified areas of failure to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

38. Related parties

(a) Controlling parties

FirstRand International Limited acquired 100.0% of the share capital of Aldermore Group PLC in March 2018. It therefore became the immediate parent of Aldermore Group PLC. FirstRand International Limited is a company incorporated in Guernsey (registered number 17166), and is a wholly owned subsidiary of FirstRand Limited, a company incorporated in South Africa (registered number 1966/010753/06) and the ultimate parent and ultimate controlling party. Consolidated accounts are prepared by FirstRand Limited and copies are available to the public from the ultimate parent's registered office c/o 4 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton, Gauteng, South Africa, 2196.

Until the purchase by FirstRand International Limited in March 2018, AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P., AnaCap Derby Co-Investment (No.1.) L.P. and AnaCap Derby Co-Investment (No.2.) L.P held 5.2%, 6.9%, 7.1% and 6.0% of the Company's ordinary share capital respectively and until the purchase by FirstRand retained significant influence and were therefore considered to be a related party for the period ending 30 June 2018 from 1 January 2017 until 14 March 2018.

During the year ended 30 June 2019, the Group also incurred fees of £123,000 (period ended 30 June 2018: £30,000) in relation to the Directors who represent the ultimate parent company. Prior to the FirstRand International Limited acquisition the Group incurred fees of £0.1 million during the period ended 30 June 2018 in relation to the directors who represented the principal shareholders (Anacap) until March 2018.

On 4 May 2019, certain assets and liabilities and the future business of MotoNovo, which was a part of the London Branch of FirstRand Bank, the Group's Parent Company, were transferred to MotoNovo Finance Limited for the consideration of £86.4 million. Details of the assets and liabilities acquired on the acquisition are provided in note 36.

As at 30 June 2019, the Group owed FirstRand Bank Limited a balance of £208.7 million (period ended 30 June 2018: £nil) which includes subordinated securities totaling £199.8 million and were owed a balance of £7.9 million from FirstRand Bank Limited (period ended 30 June 2018: £nil) consisting of recharged administrative and operational costs.

During the year ended 30 June 2019, the Group received income from FirstRand Bank Limited totalling £10.5 million (period ended 30 June 2018: £nil) relating to administrative costs recharged to FirstRand Bank Limited by MotoNovo Finance Limited, and were recharged expenses totalling £4.2 million (period ended 30 June 2018: £nil) which includes a subordinated loan note coupon of £3.2 million and the remainder being software license costs.

The Group entered into an assumption of liability and novation agreement with RMB Morgan Stanley Proprietary Ltd ('RMBMS'), a 50% owned JV of the FirstRand Group to hedge the cost of the Share-Based Payment awards linked to the FirstRand share price. Further detail of this can be found in note 34.

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 2019, the Group paid commission of £2.6 million to the associate (2018: £1.4 million). The Group also received dividends totalling £0.2 million during the year (period ended 30 June 2018: £nil).

c) Key Management Personnel

Key Management Personnel ("KMP") comprise Directors of the Group and members of the Executive Committee. Details of the compensation paid (in accordance with IAS 24) to KMP are:

	Year ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Emoluments	5,578.3	7,938.8
Payments in respect of personal pension plans	154.6	181.3
Contributions to money purchase scheme	27.1	59.3
Termination benefits	-	780.0
Share-based payments	1,906.3	2,365.2
	7,666.3	11,324.6

Key persons' emoluments include £2.7 million of deferred bonus (period ended 30 June 2018: £2.4 million).

Share-based payments ("SBP")

As per note 34, the shares under PSP and RSP awards which lapsed as a result of the application of time pro-rating were rolled over into cash-settled Transition Awards.

During the year ended 30 June 2019, 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 2019	Assets at amortised cost £m	Debt securities at FVOCI £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	482.9	-	-	-	-	482.9
Loans and advances to banks	145.2	-	-	-	-	145.2
Debt securities	-	1,207.8	-	-	-	1,207.8
Derivatives held for risk management	-	-	9.1	-	-	9.1
Fair value adjustment for portfolio hedged risk	-	-	-	17.9	-	17.9
Loans and advances to customers	10,595.1	-	-	-	-	10,595.1
Other assets	25.9	-	-	-	-	25.9
Total financial assets	11,249.1	1,207.8	9.1	17.9	-	12,483.9
Non-financial assets	-	-	-	-	-	46.4
Total assets						12,530.3
Amounts due to banks	-	-	-	-	1,814.6	1,814.6
Customers' accounts	-	-	-	-	8,971.8	8,971.8
Derivatives held for risk management	-	-	37.4	-	-	37.4
Fair value adjustment for portfolio hedged risk	-	-	-	1.0	-	1.0
Other liabilities	-	-	-	-	61.4	61.4
Debt securities in issue	-	-	-	-	263.2	263.2
Subordinated notes	-	-	-	-	213.4	213.4
Total financial liabilities	-	-	37.4	1.0	11,324.4	11,362.8
Non-financial liabilities	-	-	-	-	-	72.3
Total liabilities						11,435.1

30 June 2018 (per IAS 39)	Loans and receivables £m	Available for sale £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	508.8	-	-	-	-	508.8
Loans and advances to banks	96.6	-	-	-	-	96.6
Debt securities	-	792.3	-	-	-	792.3
Derivatives held for risk management	-	-	22.7	-	-	22.7
Loans and advances to customers	8,990.5	-	-	-	-	8,990.5
Fair value adjustment for portfolio hedged risk	-	-	-	(15.7)	-	(15.7)
Other assets	6.3	-	-	-	-	6.3
Total financial assets	9,602.2	792.3	22.7	(15.7)	-	10,401.5
Non-financial assets	-	-	-	-	-	31.2
Total assets						10,432.7
Amounts due to banks	-	-	-	-	1,678.2	1,678.2
Customers' accounts	-	-	-	-	7,776.3	7,776.3
Derivatives held for risk management	-	-	16.7	-	-	16.7
Fair value adjustment for portfolio hedged risk	-	-	-	0.2	-	0.2
Other liabilities	-	-	-	-	21.8	21.8
Debt securities in issue	-	-	-	-	77.9	77.9
Subordinated notes	-	-	-	-	60.5	60.5
Total financial liabilities	-	-	16.7	0.2	9,614.7	9,631.6
Non-financial liabilities	-	-	-	-	-	43.1
Total liabilities						9,674.7

Details of the adjustments and reclassification of the above amounts on the adoption of IFRS 9 as at 1 July 2018 are provided in note 42.

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 2019		30 June 2018	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and balances at central banks	482.9	482.9	508.8	508.8
Loans and advances to banks	145.2	145.2	96.6	96.6
Loans and advances to customers	10,595.1	10,606.9	8,990.5	8,979.4
Other assets	25.9	25.9	6.2	6.2
Total financial assets	11,249.1	11,260.9	9,602.1	9,591.0
Amounts due to banks	1,814.6	1,814.6	1,678.2	1,678.2
Customers' accounts	8,971.8	8,978.1	7,776.3	7,778.8
Other liabilities	61.4	61.4	21.8	21.8
Debt securities in issue	263.2	265.2	77.9	78.3
Subordinated notes	213.4	220.9	60.5	61.9
Total financial liabilities	11,324.4	11,340.2	9,614.7	9,619.0

Key considerations in the calculation of the disclosed fair values for those financial assets and liabilities carried at amortised cost include the following:

(a) Cash and balances at central banks

These represent amounts with an initial maturity of less than three months and as such, their carrying value is considered a reasonable approximation of their fair value.

(b) Loans and advances to banks

These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to be not materially different from their fair value.

(c) Loans and advances to customers

For fixed rate lending products, the Group has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent products plus the credit spread attributable to the borrower. For standard variable rate lending products and fixed rate products when they revert to the Group's standard variable rate, the interest rate on such products is considered equivalent to a current market product rate and as such, the Group considers the discounted future cash flows of these mortgages to be equal to their carrying value. Expected credit losses as determined for IFRS 9 purposes are reflected in the fair value amounts.

(d) Other assets and liabilities

These represent short term receivables and payables and as such, their carrying value is not considered to be materially different from their fair value.

(e) Amounts due to banks

These mainly represent securities sold under agreements to repurchase which were drawn down from the Bank of England under the terms of the Funding for Lending and Term Funding Schemes. These transactions are collateralised by UK Government Treasury Bills, which have a low susceptibility to credit risk, so adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the liabilities are not considered to be materially different from their fair value.

(f) Customers' accounts

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

(g) Debt securities in issue

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

(h) Subordinated notes

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

The following table provides an analysis of financial assets and liabilities held on the consolidated statement of financial position at fair value, 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 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	9.1	-	9.1
Debt securities:				
Asset-backed securities	-	20.0	-	20.0
UK Gilts and Supranational bonds	769.0	-	-	769.0
Covered bonds	418.8	-	-	418.8
	1,187.8	29.1	-	1,216.9
Financial liabilities:				
Derivatives held for risk management	-	37.4	-	37.4
	-	37.4	-	37.4

30 June 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	22.7	-	22.7
Debt securities:				
Asset-backed securities	-	30.1	-	30.1
UK Gilts and Supranational bonds	482.2	-	-	482.2
Covered bonds	280.0	-	-	280.0
	762.2	52.8	-	815.0
Financial liabilities:				
Derivatives held for risk management	-	16.7	-	16.7
	-	16.7	-	16.7

Level 1: Fair value determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determined using directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable.

Level 3: Fair value determined using one or more significant inputs that are not based on observable market data.

The fair values of UK Gilts, Supranational bonds, Corporate bonds and Covered bonds are based on quoted bid prices in active markets.

The fair value of asset-backed securities are based on indicative prices provided by market counterparties, but before relying on these prices, the Group has obtained an understanding of how the prices were derived to ensure that each investment is assigned an appropriate classification within the fair value hierarchy.

The fair values of derivative assets and liabilities are determined using widely recognised valuation methods for financial instruments such as interest rate swaps and use only observable market data that require little management judgement and estimation. Credit value and debit value adjustments have not been applied as the derivative assets and liabilities are largely 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

All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for debt securities in issue which are Level 1 and loans and advances to customers which are Level 3.

Fair value of transferred assets and associated liabilities

Securitisation vehicles

The sale of the beneficial ownership of the loans and advances to customers to the securitisation vehicles by the Bank fail the derecognition criteria, and consequently, these loans remain on the statement of financial position of the Group. The Bank, therefore recognises a deemed loan financial liability on its statement of financial position and an equivalent deemed loan asset is held on the securitisation vehicle's statement of financial position. As the securitisation vehicle is consolidated into the Group with the Bank, the deemed loans net out in the consolidated accounts. The deemed loans are repaid as and when principal repayments are made by customers against these transferred loans and advances.

The securitisation vehicles have issued fixed and floating rate notes which are secured on loans and advances to customers. The notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgagors in respect of the underlying assets.

The Group retains substantially all of the risks and rewards of ownership. The Group benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of these mortgages. The Group continues to bear the credit risk of these mortgage assets.

The results of the securitisation vehicle listed in note 30 are consolidated into the results of the Group. The table below shows the carrying values and fair value of the assets transferred to the securitisation vehicle and its associated liabilities. The carrying value presented below are the carrying amounts recorded in the Group accounts. Some of the notes issued by the securitisation vehicle are held by the Group and as such are not shown in the consolidated statement of financial position of the Group.

	Carrying amount of transferred assets not derecognised £m	Carrying amount of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net position £m
30 June 2019					
Oak No.1 PLC	-	-	-	-	-
Oak No.2 PLC	277.4	263.2	277.9	265.2	12.7

	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
30 June 2018					
Oak No.1 PLC	103.2	77.9	110.8	78.3	32.5

40. Country-by-Country reporting

The Capital Requirements (Country-by-Country reporting) Regulations came into effect on 1 January 2014 and introduce reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

All companies consolidated within the Group's financial statements are registered entities in England and Wales. Note 21 to these financial statements includes an analysis of subsidiary undertakings and their principal activities. All of the subsidiary undertakings were incorporated in the UK. The Group did not receive any public subsidies.

	Jurisdiction income/ expense arose	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Total operating income	UK	340.3	467.4
Profit before tax	UK	129.6	195.3
Corporation tax (paid net of refunds received)	UK	(18.7)	(44.9)
Employees (average FTE equivalent)	UK	1,174	936

41. Post balance sheet events

On 29 August 2019, the Group successfully priced its third Residential Mortgage Backed Securities (Oak No.3 PLC) providing £343.5 million of funding. It is expected to settle on 12 September 2019.

42. Impact of adopting IFRS 9

The Group has adopted IFRS 9. As set out in accounting policy note 1(a), comparative information has not been restated, but retained earnings, as at the date of initial adoption of 1 July 2018, have been restated.

Impact on carrying values

Details of changes in the carrying values of assets, liabilities and equity on the adoption of IFRS 9 as at 1 July 2018 were as follows:

	At 30 June 2018 Per IAS 39 £m	Additional impairment provisions £m	Impact of reclassifications £m	At 1 July 2018 per IFRS 9 £m
Assets:				
Loans and advances to customers before impairment provisions	9,015.7	-	-	9,015.7
Less impairment provisions	(25.2)	(9.7)	-	(34.9)
Net	8,990.5	(9.7)	-	8,980.8
Deferred tax	1.7	2.4	-	4.1
Liabilities:				
Provisions	1.0	0.4	-	1.4
Equity:				
Retained earnings	573.5	(7.8)	-	565.7
Available for sale reserve	1.1	-	(1.1)	-
FVOCI reserve	-	-	1.1	1.1

Additional impairment provisions

The increase in impairment provisions relate to loans and advances to customers and undrawn balances relating to partially drawn down facilities as detailed in note 20. Expected losses on irrevocable loan commitments result in an increase in provisions as detailed in note 29.

Impact on reclassifications

All financial assets classified as loans and receivables as at 30 June 2018 per IAS 39 were reclassified as financial assets at amortised cost. Debt securities which were previously classified as available for sale financial assets were reclassified as fair value through other comprehensive debt securities, and the related available for sales reserve in equity was reclassified as a FVOCI reserve.

No changes were made to the classifications of financial liabilities or derivatives held for risk management.

The Company statement of financial position

As at 30 June 2019

	Note	30 June 2019 £m	30 June 2018 £m
Assets			
Loans and advances to banks	3	0.9	1.0
Investment in Group undertakings	4	478.9	419.9
Investment in associates	6	4.8	4.8
Amounts receivable from Group undertakings	7	411.3	60.9
Total assets		895.9	486.6
Liabilities			
Other liabilities		0.1	0.2
Amounts payable to Group undertakings	8	20.8	20.4
Subordinated notes	9	213.7	60.9
Total liabilities		234.6	81.5
Equity			
Share capital	10	243.9	34.9
Share premium account	10	74.4	74.4
Additional Tier 1 capital	11	121.0	74.0
Capital redemption reserve		0.1	0.1
Retained earnings		221.9	221.7
Total equity		661.3	405.1
Total liabilities and equity		895.9	486.6

The notes and information on pages 143 to 145 form part of these financial statements.

Aldermore Group PLC profit for the year ended 30 June 2019 was £6.6 million (period ended 30 June 2018: loss of £1.6 million).

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



Pat Butler
Director

30 August 2019

Registered number: 06764335



James Mack
Director

The Company statement of cash flows

For the year ended 30 June 2019

	Note	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Cash flows from operating activities			
Profit before taxation		8.9	1.1
(Decrease)/ Increase in operating liabilities		(0.1)	0.2
Adjustments for non-cash items within the income statement		-	0.1
Net cash flows generated from operating activities		8.8	1.4
Cash flows from investing activities			
Acquisition of investment in an associate	6	-	(4.8)
Acquisition of investment in Subsidiaries	4	(59.0)	-
Net cash used in investing activities		(59.0)	(4.8)
Cash flows from financing activities			
Proceeds from issue of shares	10	209.0	1.0
Proceeds from issue of subordinated notes	11	152.0	-
Subordinated loan made to subsidiary	9	(100.0)	-
Interest received on subordinated loan	9	7.4	7.6
Interest paid on subordinated notes	9	(7.4)	(7.6)
Proceeds from issue of AT1 capital		47.0	-
Coupon paid on contingent convertible securities, net of tax		(8.9)	(17.8)
Deposit placed with Aldermore Bank PLC		(249.0)	-
Proceeds received on new intercompany loan raised	8	-	20.4
Net cash received from financing activities		50.1	3.6
Net (decrease)/increase in cash and cash equivalents		(0.1)	0.2
Cash and cash equivalents at start of the year	3	1.0	0.8
Movement during the year		(0.1)	0.2
Cash and cash equivalents at end of the year		0.9	1.0

The Company statement of changes in equity

For the year ended 30 June 2019

	Share capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	Share-based payment reserve £m	Retained earnings £m	Total £m
Year ended 30 June 2019							
As at 1 July 2018	34.9	74.4	74.0	0.1	-	221.7	405.1
Profit for the year	-	-	-	-	-	6.6	6.6
Transactions with equity holders:							
Share issue proceeds	209.0	-	-	-	-	-	209.0
Additional Tier 1 capital issue proceeds	-	-	47.0	-	-	-	47.0
Coupon paid on contingent convertible securities	-	-	-	-	-	(6.5)	(6.5)
As at 30 June 2019	243.9	74.4	121.0	0.1	-	221.8	661.2
Period ended 30 June 2018							
As at 1 January 2017	34.5	73.4	74.0	0.1	6.9	226.0	414.9
Loss for the period	-	-	-	-	-	(1.6)	(1.6)
Transactions with equity holders:							
– Share-based payments, including tax reflected directly in retained earnings	-	-	-	-	4.9	-	4.9
– Coupon paid on contingent convertible securities issue costs	-	-	-	-	-	(15.0)	(15.0)
– Exercise of share options	0.4	1.0	-	-	-	(0.4)	1.0
– Release of loan payable by the Employee Benefit Trust	-	-	-	-	-	0.9	0.9
– Transfer of share-based payment reserve to retained earnings	-	-	-	-	(11.8)	11.8	-
As at 30 June 2018	34.9	74.4	74.0	0.1	-	221.7	405.1

Notes to the Company financial statements

1. Basis of preparation

a) Accounting basis

These standalone financial statements for Aldermore Group PLC (the “Company”) have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) and as adopted by the European Union (“EU”). The significant accounting policies adopted are set out in note 2 to the consolidated financial statements.

b) Going concern

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

c) Income statement

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

2. Net profit attributable to equity shareholders of the Company

	Year ended 30 June 2019 £m	Period ended 30 June 2018 £m
Net profit / (loss) attributable to equity shareholders of the Company	6.6	(1.6)

3. Loans and advances to banks

	30 June 2019 £m	30 June 2018 £m
Repayable on demand	0.9	1.0

There were no material impairment provisions against loans and advances to banks, all of which were stage 1 assets as at 30 June 2019. All amounts are considered to be cash and cash equivalents.

4. Investment in Group undertakings

	30 June 2019 £m	30 June 2018 £m
As at 1 July 2018/1 January 2017	419.9	415.0
Capital injections - Share capital	59.0	-
Capital contributions - Share-based payments	-	4.9
As at Period End	478.9	419.9

As at 30 June 2019, £nil investments (30 June 2018: £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 of the Bank are provided in note 21 to the consolidated financial statements. All the companies listed in note 21 to the consolidated financial statements are related parties to the Company.

Additional Tier 1 Perpetual Loan

On 9 December 2014, the Company made a perpetual loan of indefinite duration that is repayable at the option of the Bank, and bears interest at an initial rate of 11.9% per annum until 30 April 2020 and thereafter at the relevant Reset Interest Rate as provided in the loan agreement. The loan has been classified as an investment in a subsidiary undertaking and is carried at cost in accordance with IAS 27. Interest on the loan is recognised on payment as that is the point at which the unconditional receipt by the Company is established.

5. Related party transactions

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

6. Investment in associated companies

	30 June 2019 £m	30 June 2018 £m
Investment in AFS Group Holdings Limited	4.8	4.8
	4.8	4.8

Details of the acquisition of the associate can be found in note 23 to the consolidated financial statements. Aldermore Group PLC transferred consideration via Aldermore Bank PLC, with two tranches of £0.5m deferred and held in an escrow account in Aldermore Bank PLC until 2018 and 2019, subject to certain targets being met. The first tranche was paid in full on 15 August 2018 and the second tranche is due to be paid in full on 30 August 2019.

7. Amounts receivable from Group undertakings

	30 June 2019 £m	30 June 2018 £m
Subordinated loan to Aldermore Bank PLC	161.4	60.9
Deposit with Aldermore Bank PLC	249.9	-
	411.3	60.9

On the 28 October 2016 and 22 November 2018, the Company made a £60.0 million and £100.0 million subordinated 8.5% and 4.9% loans respectively to Aldermore Bank PLC, repayable in 2026 and 2028, with an option for the Bank to redeem after five years. The interest rates are fixed until October 2021 and November 2023 respectively. The loans are carried in the statement of financial position at amortised cost.

A £150.0 million deposit placed with Aldermore Bank PLC from the Group pays interest of 1.6% above SONIA on the outstanding balance. The interest is paid semi-annually.

The Group placed £52.0 million and £47.0 million of deposits with Aldermore Bank PLC with interest of 2.5% and 2.3% fixed rate on the outstanding balances. The interest is paid semi-annually.

8. Amounts payable to Group undertakings

	30 June 2019 £m	30 June 2018 £m
Intercompany loans from Aldermore Bank PLC	20.8	20.4
	20.8	20.4

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

9. Subordinated notes

	30 June 2019 £m	30 June 2018 £m
Subordinated notes	213.7	60.9

Details of subordinated notes issued by the Company are provided in note 31 to the consolidated financial statements.

10. Share capital

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

11. Additional Tier 1 capital

Details of the Additional Tier 1 capital issued by the Company are provided in note 35 to the consolidated financial statements.

12. Risk management

Through its Risk Management Framework, the Group is responsible for determining its principal risks, and the level of acceptable risks, as stipulated in the Group's risk appetite statement, thus ensuring that there is an adequate system of risk management so that the levels of capital and liquidity held are consistent with the risk profile of the business.

The risk management disclosures of the Group on page 33 apply to the Company where relevant and therefore no additional disclosures are included in this note.

13. Fair value of financial assets and liabilities

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

14. Controlling party information

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

15. Post balance sheet events

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