Aldermore Group PLC

Report and Accounts

for the year ended 30 June 2023

Aldermore

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1. Company Information

Company Information

Non-Executive Directors

Pat Butler
Richard Banks CBE
Desmond Crowley
Ruth Handcock
John Hitchins
Harry Kellan
Romy Murray
Alan Pullinger
Cathy Turner – Resigned 31st October 2022

Executive Directors

Steven Cooper CBE
Ralph Coates

Secretary and Registered Office

Melissa Conway
Aldermore Group PLC
4th Floor, Block D
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Independent Auditor

Deloitte LLP
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London
EC4A 3BZ

Company number: 06764335

2. Strategic Report

Strategic Overview

About Aldermore

As a specialist bank we are driven by our purpose to back more people to go for it, in life and business. Having been founded in 2009 to challenge the high street banks and do more to address the needs of those overlooked and underserved by mainstream providers, we remain focused on delivering for SMEs, homeowners, landlords, intermediaries and individuals.

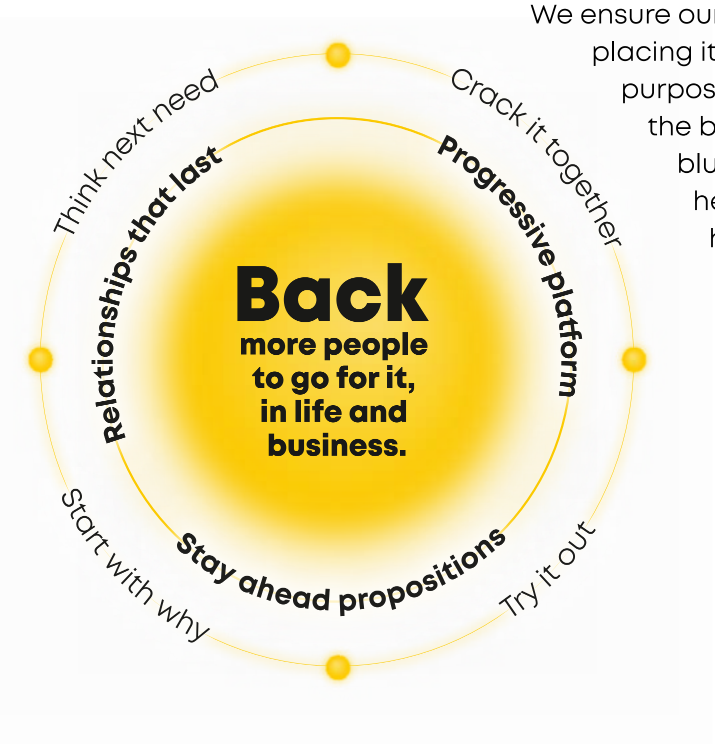
On integrating with MotoNovo Finance Limited in 2019, the Aldermore Group collectively expanded its offering to address a wider set of needs, by helping people buy their next car, van or motorcycle. MotoNovo is recognised as a market leader in the industry, possessing the knowledge and expertise to back customers and intermediaries.

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

Our blueprint and purpose

As a Group, Aldermore's enduring purpose supports FirstRand's commitment to enrich lives, by backing more people to go for it, in life and business. Our purpose guides everything we do and extends beyond just the products and services we offer. Our aim is to seek out more undervalued and underserved people and do good by helping them take the action needed to move forward in life, ensuring we meet the needs other institutions do not. Our Environment, Social & Governance ("ESG") ambitions further underpin our Group Strategy by focusing on intentional actions that create lasting value to society, across four areas of impact: financial inclusion, financial wellbeing, climate impact and economic transformation. More information on our approach to ESG can be found on page 23.

We ensure our purpose remains central to our activity, by placing it at the heart of our blueprint; bringing our purpose together with our three strategic drivers and the behaviours necessary to deliver against it. Our blueprint serves as a daily reminder of why we are here, what we must do to back more people, and how we will collectively make it happen.



Business Model

What we do

As a multi-specialist lending and savings provider, we operate across four markets, where we utilise our proven expertise to back more people:

Property Finance – offering mortgages to landlords and homebuyers, working with intermediaries.

Motor Finance – providing user vehicle finance to customers, working with our dealer partners.

Structured and Specialist Finance ("SaS") – offering distinctive, specialist lending across Asset Finance, Invoice Finance and Commercial Real Estate, working with intermediaries.

Savings – offering rewarding savings solutions to customers and businesses via our online channel.

How we add value

- **Specialist expertise**
  Through maintaining specific focus on underserved segments where we utilise insight to understand customer needs, we are well placed to utilise our deep expertise to provide relevant solutions and achieve growth.
- **Distribution**
  Our business model offers diversified distribution, across intermediaries and direct digital marketplaces. Brokers remain a vital element of our lending business model and we are committed to continuously improving the service we offer to both brokers and customers.
- **Relationships**
  Building relationships that last with all stakeholders sits at the heart of what we do.
- **Purpose**
  Our strength of purpose drives us to find new ways to support people and advocate for social mobility. More information on our Leveling Up commitment can be found on page 23.

Our operating model

We recognise that our long-term sustainable success as a Group is only possible with a customer-centric business model. Re-energising our business means building upon the solid foundations we have in place, to further deepen our customer and intermediary relationships, increase efficiencies and deliver exceptional experience:

- We secure funding and capital from personal customer deposits, business customer deposits and our investors.
- Customers trust us to offer the experience they expect and keep their funds safe.
- We utilise funding to deliver lending against assets, through our intermediary partners.

Our stakeholders

Backing people to go for it, in life and business, requires continued focus on how we will create greater value for each of our key stakeholder groups. To deliver on our purpose we must ensure we back people in the right ways to address their needs, while achieving our growth ambitions. Our stakeholders are further detailed in the Section 172 statement on page 54.

- Customers – we put them at the centre of decision-making to help them find the right solutions to get more out of life and business, with the confidence of being backed by a company that champions them where others would not.
- People – We regard them as the foundation to success and have a clear value exchange, offering great benefits, working environments and development opportunities, while bringing clarity on what is expected in return.
- Distribution Partners: Brokers – we work with them to understand and meet the needs of both them and their clients, making it easy for them to do business with us.
- Distribution Partners: Dealers – we deliver products and services to support their business and ensure Motor dealer finance remains vibrant and sustainable in an evolving market.
- Society – we utilise our key strengths and capabilities to drive impactful change and make a sustainable difference to our communities, now and for the future.
- Investors – we generate sustainable returns by focusing on long-term growth in four of the most attractive markets in UK banking.
- Regulators – we maintain regular, open, and transparent dialogue, ensuring alignment on evolving regulatory priorities.

We recognise that the world continues to change rapidly, and the needs of our stakeholders are evolving. Our refreshed strategy was rolled out in 2022 to modernise and focus our business, ensuring we continue to meet the needs of all our stakeholders.

Our strategy sets out our focus across our four business divisions of Property Finance, Motor Finance, Structured and Specialist Finance and Savings.

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

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

Since rolling out our refreshed strategy, we have maintained focus on embedding our blueprint within the business, building collective understanding of our strategy, creating greater alignment and delivering at pace.

Our internal Strategy Hub was launched in March 2023, providing all colleagues with access to a central, interactive resource that aims to build understanding of what our strategy is, why it matters and how we are delivering against it. As part of this, we have increased our focus on the impact our activity has for the people we are backing, and the individual part each colleague plays in achieving our strategic ambitions.

How we are progressing in delivering our strategy is a key factor in building belief and engagement. We have identified both shorter-term and medium-term priorities that will enable us to achieve our strategy. While immediate focus was placed on simplification and targeted activity, further building our technology and data capabilities sit at the heart of our medium-term plans, including updating our platforms, increasing levels of automation and utilising data to improve risk management and customer opportunity.

To ensure ongoing delivery at pace we have established a new strategy execution governance structure, with focus on priority activities aligned to each of our strategic drivers. As part of this structure, regular two-way communication between the Executive Committee and Board ensures appropriate Board visibility of strategic delivery and input into key decision making. A defined Risk Oversight model has also been established to complement the strategy execution governance structure, leveraging established committees to promote consistent application of the risk management framework and provide appropriate Board oversight.

This structure provides appropriate oversight as we continue to execute our strategic plans, with focus on priority activities aligned to each of our strategic drivers.

Stay ahead propositions	Relationships that last	Progressive platform
What it means Using insight and foresight to build products and services that help underserved and undervalued customers across Property Finance, Motor Finance, Structured and Specialist Finance and Savings.	**What it means** Building loyalty with customers, colleagues and partners, by anticipating and responding to, their changing needs and circumstances.	**What it means** Creating systems, processes and capabilities that are easy and efficient, enabling us to live our purpose and grow our business.
What we've delivered • Redefined business lines and new strategies across our four business divisions; • Defined ESG strategy; • Strategically aligned proposition roadmaps.	**What we've delivered** • Reshaped organisation and new leadership appointments; • Refreshed employee value proposition; • Enhanced broker propositions.	**What we've delivered** • New Technology focused strategies; • Revised governance, risk and operating models.
What's next • New proposition launches across each business line.	**What's next** • Refreshed ways of working, aligned to future needs.	**What's next** • Driving efficient technology and reducing tech estate legacy.
How we're measuring success • Net lending; • Customer deposits; • Increased green propositions.	**How we're measuring success** • Colleague engagement; • Broker / dealer / customer satisfaction; • Number of customers.	**How we're measuring success** • Cost:income ratio; • Net Interest Margin ("NIM"); • Profit Before Tax ("PBT"); • Return on Equity ("RoE").

Through delivering against each of our strategic drivers, we are incrementally strengthening the positive impact we are making, as we seek to back more people to go for it, in life and business. As a result, we have seen successes across each of our business divisions, in turn generating growth and enhancing the value we offer to both our lending and savings customers:

Property Finance	Motor Finance	Structured and Specialist Finance	Savings
• Increased our application capacity; • Halved time taken to introduce new pricing; • Launched variable rate products and rate discounts for more energy efficient properties.	• Simplified our product range; • Reviewed dealer / broker relationships to drive greater value.	• Increased our average deal size; • Writing more complex, long-term business; • Focused on product development and enhancements in key markets.	• Surpassed £14bn in balances; • Increased business savings growth through targeted marketing; • Improved re-pricing capability to become quicker and more active.

Our behaviours

Delivering on our strategy would not be possible without our colleagues. Our people are our biggest asset and are the driving force behind collectively re-energising our business. The behaviours set out in our blueprint guide how we deliver on our ambitions and ensure every one of our people is unified in approach. Through providing a single-minded call to action, our four behaviours provide all colleagues with absolute clarity around what is expected of them as we progress our strategy. Further information regarding our Culture and People Strategy, can be found on page 25.

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

Market Overview

Macroeconomy

The past 12 months have been particularly volatile, with several factors impacting economic growth and September 2022's mini budget having significant political and economic consequences. In response to the mini budget the pound fell to a record low against the dollar, gilt prices decreased and the Bank of England triggered an emergency bond-buying programme to mitigate the risk of insolvency of entire pension funds. Although the period since launching our refreshed strategy has been challenging, the renewed focus it has provided has enabled strong delivery and robust plans that respond to ongoing market volatility.

Despite the level of challenge in the market, the Group's ownership structure and strong capital base allow it to take a long- term perspective on how best to support consumers and businesses. Aldermore has delivered a robust performance in the financial year with a profit before tax of £222.5 million (2022: £204.7 million). The increase in PBT is primarily driven by loan book growth and an improvement in net interest margin to 4.1% (2022: 3.8%), partly offset by a higher impairment charge and an increase in strategic investment in the Group's technology capability. The Group's capital and liquidity position has remained strong, with a CET1 ratio at the end of June 2023 of 14.8% (2022: 14.0%).

2023 began with warnings of the UK being on the brink of recession and while the country has now recovered to pre-COVID levels of output, the ONS reports the UK as being the last major economy to do so, with Brexit-related loss of trade a significant contributor to that slow recovery.

Although the Independent Office for Budget Responsibility no longer expects the UK economy to enter technical recession in 2023, there are persisting pressures for both consumers and businesses, with inflation remaining a critical concern. Having fallen less than expected in March 2023, pressure on households and businesses persists. Food prices rose 17.4% in the year to June (Office for National Statistics), representing the fastest increase in 45 years. While the rate of rise has since begun to slow, prices remain up 15% year on year. As businesses also struggle with higher energy costs and increasing wages, the UK is facing into the reality of having the highest inflation in the G7; significantly higher than several EU nations and twice as high as in the US.

Efforts to contain inflation continue to impact interest rates and present further challenge for homeowners. 1.4m homeowners coming to the end of fixed rate mortgage deals this year will be re-mortgaging at far higher rates, resulting in significant impact to both disposable income and savings. As we continue to develop stay ahead propositions, the need to stay abreast of such challenges will remain critical, to ensure Aldermore supports our existing customers in the right way and has solutions available to new customers whose needs are overlooked by other providers.

Businesses will be further impacted by corporation tax rises, having increased from 19 per cent to 25 per cent for companies with over £250,000 in profits. As other costs continue to increase, the higher rate of tax from April 2023 will exacerbate existing financial pressures. The Chancellor has, however, placed emphasis on spurring business investment through a range of tax breaks.

Having started out as a small business with an aim to support the undervalued and underserved, Aldermore understands the challenges currently being faced by people and businesses. Across each of our business divisions we continue to demonstrate this understanding through our focus on delivering against our purpose.

To support Property Finance customers, we have launched a new range of variable rate products with a 'switch for free' feature, providing flexibility to switch to a fixed-rate product at a later date without incurring Early Repayment Charges ("ERCs"). In addition, we have re-launched our 'pre-arrears' process, to identify customers potentially at risk of financial hardship, to offer support and reassurance, and agree early forbearance measures where appropriate.

Within Structured and Specialist Finance we have reshaped our business to focus on developing deep sector expertise and increasing our presence in key growth areas, such as Specialist Equipment and Asset Backed Lending. This refreshed strategy focuses on supporting underserved and undervalued UK businesses with specialist lending solutions, building stronger relationships with clients and key introducers.

In April 2023 we released updated Motor Finance pricing for customers, reducing the maximum rate of interest a customer will see on application to 19.9% APR. This change means that customers at the limit of MotoNovo's credit risk appetite will now pay lower rates of interest than previously, supporting good outcomes for our customers. Our focus on supporting our Motor Finance customers by meeting their evolving needs will remain as we refresh our Motor Strategy later on in 2023.

Our awards for Cash ISA provider of the Year and Best Business Savings Provider, at the 2023 MoneyComms Top Performers Awards, demonstrate our commitment to supporting both our retail and business savings customers. In the latter half of 2023 we will be looking to build on this recent success with further enhancements to our product range. The addition of both regular saver and tiered easy access products will encourage positive savings behaviours whilst enabling access to funds.

Following increases to our Personal Savings rates in August Aldermore has passed on 68% of rate increases to our Easy Access product since 2022. This positions Aldermore favourably in consideration of the recently published FCA Cash Savings Market Review, which established expectations from the FCA on the communications of savings rates to customers, and highlighted concerns that the major banks have passed only 28% of base rate increases on to customers over that period.

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

In recognition of our commitment to backing our people we have reviewed our colleague benefits and harmonised them across Aldermore Group, implementing changes that ensure all colleagues see improvement. Further information regarding our People Strategy and benefits, can be found on page 25.

Notwithstanding the many ways we have acted to back both our customers and colleagues, there will always be a requirement to use foresight to anticipate how we may need to respond in future, particularly when considering a volatile economic backdrop.

In June 2023 consumer confidence reached its highest level since the Russian invasion of Ukraine, with market research agency GfK's long-running Consumer Confidence Barometer reporting a three-point rise[1]; marking the fifth consecutive increase in a row. Whilst encouraging and an indicator of a sustained increase in optimism, a score of – 27 highlights the scale of recovery required to build confidence both in personal finances and wider economic prospects, particularly for those demographics most impacted by the cost of living crisis.

Although sentiment is improving among under 25s and over 65s, PwC report declining sentiment for other groups, leading to polarisation of spending intentions[2]. As significant numbers of consumers continue to take a cautious approach, cut back and vary where they shop, businesses are being faced with a growing need to innovate and deliver greater value. Our strategic drivers provide us with the focus needed to respond to these growing needs, as we continue to modernise our business and increase our use of insight to determine where and how we can add the greatest value.

Having weathered the storm brought about by unprecedented challenges in recent years, our commitment to support people remains stronger than ever before. Our strategy has provided the renewed focus required to respond to evolving consumer and business needs, enabling Aldermore to be led by its purpose and support economic growth.

Outlook

Tighter financial conditions are expected as we move through the remainder of 2023, as a result of current financial volatility. In an environment of prolonged real income decline and higher interest rates, further rises in insolvencies and redundancies are to be anticipated, requiring foresight and planning from financial institutions.

The Bank of England Monetary Policy Committee vote to raise interest rates in August, resulted in the 14th UK rate rise in a row, taking rates to their highest level since the height of the global financial crisis in October 2008.

With housing affordability and debt servicing measures still far above typical levels, further falls in house prices are expected this year, however the pace of fall may moderate. Robust cash buyer demand continues; however prices are falling faster for more expensive properties. Anecdotal evidence further suggests Buy-To-Let demand has been more resilient than homeowners and first-time buyers, with this pattern expected to persist as consumers continue to feel the pressures of the cost of living crisis.

The pace of decline in capital values across UK commercial property has slowed markedly. Although the July 2023 decrease of 0.5% marked the second consecutive month of decline, it compares to a near 7% drop in October 2022.[3]

1 Consumer confidence continues to recover with three-point increase to -27 in May (gfk.com).

2 PwC Consumer Sentiment Survey - Spring 2023 - PwC UK.

3 Commercial Property Sees Slight Value Decline in February (cbre.co.uk); CBRE Monthly Index - October 2022.

Ongoing falls are expected to be more pronounced for the most overvalued sectors and property types, such as industrial, while subsectors more resilient to the current weak economic environment, such as student accommodation, healthcare, and professional services, are expected to outperform, presenting opportunity to back more people in these sectors that we play in and know well.

As the economy struggles for growth momentum, the UK's unemployment continues to rise, increasing to 4.2% in the three months to June (ONS). The 0.3 percentage point increase from the previous quarter puts unemployment at its highest since October 2021 and brings it above pre-pandemic levels. In parallel, ONS data points to average pay growing faster than expected and hitting a record high in the three months to May, with potential for interest rates to grow higher still, to contain further growth. These circumstances strengthen the need for financial providers who are willing to support people overlooked by the high street banks.

With the macroeconomic environment expected to remain unstable, our role in building consumer confidence has never been more important. Our strategy requires us to use insight and foresight to respond in the right ways to support people through challenging times. Through developing relationships that last, we will continue to build understanding of our customers, colleagues, intermediaries and partners, ensuring we are aware of their needs and respond with appropriate solutions.

Aldermore remains well positioned to navigate through these uncertain times given its strong stable capital and liquidity position, and targeted strategy. Through focused execution of the Group Strategy, the business now has enhanced talent that has brought both a wealth of experience and fresh perspectives. Our colleagues are re-energised and the transparency around delivery of our strategy is contributing to increased levels of engagement that fuel groupwide collaboration to produce better outcomes for all stakeholders.

Financial Highlights

- Price discipline and continued loan book growth deliver strong NIM, improved profitability and improved returns: The KPIs[4] presented on this page are based on the Group's statutory accounts, and include the following distorting items, which drive a net reduction in profitability and returns:
  - A step change in strategic technology investment spend;
  - Consumer credit remediation in the Group's Motor Finance division; partially offset by
  - Net derivatives gains, largely driven by fair value movements on instruments used to hedge interest rate risk, which will unwind over the life of the hedged exposure
- Net loans to customers increased by 3% to £15.2 billion (2022: £14.7 billion), supported by 7% growth in customer deposits to £15.0 billion (2022: £14.1 billion);
- Profit before tax of £222.5 million (2022: £204.7 million) driven by improved NIM and portfolio growth, partially offset by increased impairment charges and the net impact of the distorting items above;
- Cost/income ratio reduced to 49.5% (2022: 53.6%) on the back of strong financial performance;
- Cost of risk[5] increased to 73bps (2022: 40bps), driven by a deteriorating economic outlook. Underlying arrears performance has remained resilient and in line with expectation;
- Return on equity reduced to 12.0% (2022: 12.4%) as a result of higher average equity holdings in the year;
- Group CET1 ratio improved to 14.8% (2022: 14.0%). Group LCR remains robust at 265%[6]

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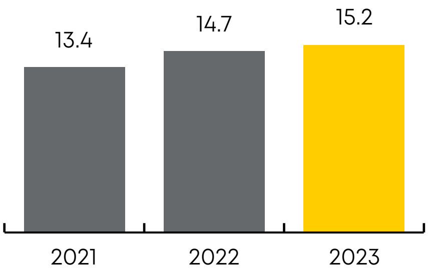
4 Net interest Margin, Cost of Risk and Return on Equity disclosures have previously been based upon a two-point average balance. These metrics have been recalculated and restated based on a thirteen-month average balance position to provide a more reliable and robust measure of in year performance.

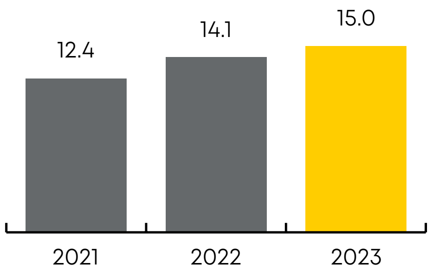
5 Cost of Risk has previously been calculated based on net lending balances. This metric has been recalculated and restated based on gross lending balances this year in-order to align to industry practice and improve the relevance of the Group's KPI disclosure.

6 Reported prior year LCR (324%) is not directly comparable due to changes to the Group's application and interpretation of PRA guidelines.

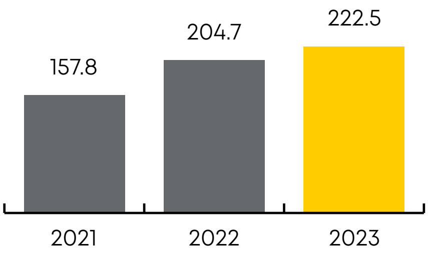
Net loans (£bn)



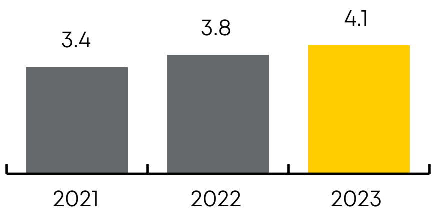
Customer deposits (£bn)



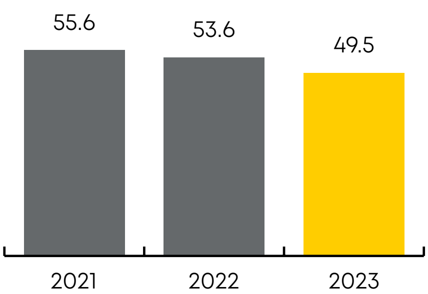
Profit before tax (£m)



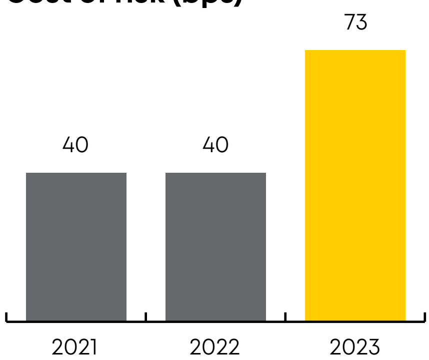
Net interest margins (%)



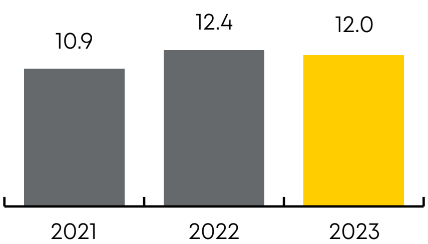
Cost/income ratio (%)



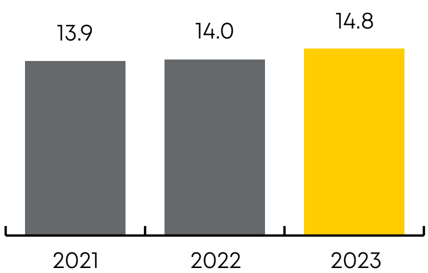
Cost of risk (bps)



Return on equity (RoE) (%)



CET1 ratio (%)



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5 Cost of Risk has previously been calculated based on net lending balances. This metric has been recalculated and restated based on gross lending balances this year in-order to align to industry practice and improve the relevance of the Group's KPI disclosure.

Business Overview

Summary balance sheet	30 June 2023 £m	30 June 2022 £m	Variance %
Net loans to customers	15 167	14 731	3
Cash and investments	4 291	3 404	26
Intangible assets	9	9	-
Fixed and other assets	452	205	120
Total assets	**19 919**	**18 349**	**9**
Customer deposits	15 033	14 105	7
Wholesale funding	2 515	2 391	5
Other liabilities	833	474	76
Total liabilities	**18 381**	**16 970**	**8**
Ordinary shareholders' equity	1 430	1 271	13
AT1	108	108	-
Equity	**1 538**	**1 379**	**12**
Total liabilities and equity	**19 919**	**18 349**	**9**

Net loans to customers of £15.2 billion

Aldermore Group continues to back more people and businesses, driving net lending growth this year of £0.4 billion (3%) despite a difficult period for the UK economy, and a conscious decision to ensure loan growth was achieved at the right returns across each of the Group's three lending divisions: Property Finance, Motor Finance ("Motor") and Structured and Specialist Finance ("SaS").

Analysis of Net Loans to Customers by Division[7]

	30 June 2023 £m	30 June 2022 £m	Change %
Property Finance	7 490	7 271	3
Motor	4 168	3 954	5
SaS	3 509	3 506	-
Total Net loans to Customers	**15 167**	**14 731**	**3**

7 Comparatives have been restated to reflect the transfer of £67m of net loans between the Group's SaS and Property Finance divisions in year.

Lending in the Group's Property Finance division increased £0.2 billion in the year to £7.5 billion, driven by growth in our Specialist Buy to Let portfolio. Owner Occupied net lending contracted modestly year on year, with strong end-of-term retention largely offsetting the impact a more muted purchase market.

Motor delivered net lending growth of £0.2 billion in the year to £4.2 billion, with originations exceeding £2.0 billion for a third consecutive year (as industry supply constraints continue to ease), more than offsetting increased redemptions from a maturing portfolio.

Net lending in SaS remained broadly flat year-on-year at £3.5 billion, with strong trading across asset financing and Commercial Real Estate largely offsetting the movement of the Group's Working Capital Finance business to assets held for sale.

Total assets grew 9% to £19.9 billion (2022: £18.3 billion), driven by loan book growth and increased cash and investments, as the Group maintained its prudent liquidity position.

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

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

Customer deposits grew 7% to £15.0 billion (2022: £14.1 billion), supported by growth from across all three core franchises: Personal Savings, Business Savings and Corporate Treasury. Customer deposits represent 82% of Group liabilities (2022: 83%), leading to a loan to deposit ratio[8] of 101% (2022: 104%).

Analysis of Customer Deposits by core franchise

	30 June 2023 £m	30 June 2022 £m	Change %
Personal Savings	10 169	9 662	5
Business Savings	2 780	2 499	11
Corporate Treasury	2 084	1 944	7
Total Customer Deposits	**15 033**	**14 105**	**7**

Personal savings remains the Group's largest portfolio, with balances increasing by £0.5 billion in the year to £10.2 billion. This growth was achieved despite increased market volatility and higher rates of switching, with the business remaining agile on price to maintain its competitive position.

Business Savings remains a strong channel for growth, with balances this year increasing to £2.8 billion (2022: £2.5 billion). The business has been able to maintain momentum despite the collapse of Silicon Valley Bank and Credit Suisse early in 2023 as SME customers have sought to diversity their liquidity holdings.

8 Loan to deposit ratio calculated based on net loans to customers as a percentage of customer deposits.

Balances held in Corporate Treasury grew by 7% in the year and continue to represent a key component of the Group's diverse, stable base of funding. Following a number of years of double-digit year on year growth, the business has focused this year on deepening engagement with existing clients as part of the broader optimisation of the Group's funding base.

Wholesale funding is 5% higher year on year at £2.5 billion (2022: £2.4 billion) as the Group continues to diversify its funding sources. Secured funding increased 10% in the year to £1.3 billion on the back of a new residential mortgages transaction ('Oak No.4'), which forms part of a broader portfolio of both residential mortgage and auto loan backed securitisations. The Group also holds £1.0 billion of Term Funding Scheme for SME funding ("TFSME"; 2022: £1.3 billion).

There has been no change to the Group's Additional Tier 1 ("AT1") notes or Tier 2 holdings in the year. Total liabilities and equity have increased by 9% to £19.9 billion.

Summary income statement	Year Ended 30 June 2023 £m	Year Ended 30 June 2022 £m	Change %
Interest income	1 076.8	688.7	56
Interest expense	(455.8)	(158.8)	187
Net interest income	**621.0**	**529.9**	**17**
Net fee and other operating income	15.3	25.3	(40)
Net derivatives gain	25.8	7.7	235
Gains on disposal of debt securities	2.1	0.2	950
Operating income	**664.2**	**563.1**	**18**
Expenses, depreciation and amortisation	(328.9)	(302.0)	9
Share of Profit of Associate	0.5	1.0	(50)
Impairment losses on loans and advances to customers	(113.3)	(57.4)	97
Profit before tax	**222.5**	**204.7**	**9**
Tax	(51.3)	(46.5)	10
Profit after tax	**171.2**	**158.2**	**8**

Key performance indicators	2023	2022	Change
Net interest margin %	4.07	3.79	0.28pp
Cost/income ratio %	49.5	53.6	(4.1) pp
Cost of risk (bps)	73	40	33 bps
Return on equity %	**12.0**	**12.4**	**(0.4) pp**

Higher Net Interest Income highlights a focus on margin optimisation

Net interest income increased by 17% to £621.0 million (2022: £529.9 million), driven by portfolio growth, price discipline and the optimisation of Group funding costs as interest rates continued to rise. As a result, NIM increased to 4.07% (2022: 3.79%). Margins on new lending contracted modestly as a result of competitive pressures, with the Group's lending divisions trading well to ensure portfolio growth was achieved at the right returns. These pressures were more than offset by interest earnings on the Group's deposit balances and equity holdings, which have increased significantly year-on-year as a result of the rapid rise in the Bank of England base rate.

Other operating income

Net fee and other operating income of £15.3 million (2022: £25.3 million) includes £8.9 million (2022: £16.1 million) of income received from FirstRand London Branch ('FRLB') in relation to costs incurred to support MotoNovo back book operations, plus an arm's length fee for these services. The net impact of the recharge (including the arm's length fee) was a £0.7 million increase (2022: £1.1 million) to Group profit. This recharge is expected to reduce significantly next year as the MotoNovo back book continues to run off. Excluding the recharge, net fee and other operating income reduced to £6.4 million (2022: £9.2 million), largely as a result of the decision to withdraw from the sale of insurance products through the Motor Finance business.

Net derivatives gains totaled £25.8m (2022: £7.7 million), largely as a result of fair value accounting gains on instruments used to hedge interest rate risk. This was driven by the magnitude and velocity of interest rate increases in the year and will unwind across subsequent accounting periods. They do not reflect the underlying performance of the business.

Operating Expenses demonstrate ongoing cost discipline and investment in the franchise

Operating expenses increased 9%, largely as a result of significant investment in the Group's technology capability. This investment forms part of an ongoing programme of work which commenced in year and will support the Group's long term growth ambitions. The Group continues to invest in its people, providing cost-of-living support and offering new professional development pathways to ensure it has the right expertise in-place to drive its strategy forward. Group operating costs also include amounts relating to customer redress activity in the Motor portfolio. This redress activity relates to a sub-section of customers who were not issued documents required in accordance with the Consumer Credit Act ("CCA") and other operational issues identified as part of an associated thematic review. Further detail on this activity is provided on page 214.

Growth in income more than offset the in year increase in operating expenditure and as such, the Group's Cost/Income ratio improved to 49.5% (2022: 53.6%).

Cost of risk reflects a more challenging economic outlook

Impairment charges increased to £113.3 million (2022: £57.4 million). Whilst underlying credit performance remains resilient, a deteriorating macroeconomic outlook has increased the Group's cost of risk to 73bps (2022: 40bps).

Analysis of Cost of Risk by Division

	30 June 2023 bps	30 June 2022 bps	Change bps
Property Finance	39	18	21
Motor	144	151	(4)
SaS	60	(25)	85
Group Cost of Risk	**73**	**40**	**33**

The Group's Property Finance division recorded an increased impairment charge of £29.5 million (2022: £13.3 million), resulting in cost of risk increasing 21bps to 39bps. This is driven by the more challenging economic outlook and the implication of higher interest rates, the portfolio remains well collateralised (with just 2.9% of the portfolio at greater than 85% loan-to-value) and arrears performance has remained resilient, increasing only marginally from historically low levels.

Cost of Risk in the Group's Motor division remained broadly flat year on year, as an increased impairment charge of £61.9 million (2022: £52.3 million) was offset by portfolio growth. Impairment charged to the Group's Motor division also includes amounts relating to remediation activity (summarised above).

Cost of Risk in the Group's SaS division increased as a result of the deteriorating economic outlook, with the prior year reflecting the release of remaining provisions made during Covid-19.

The Group's Non Performing Loans ("NPL") ratio has increased modestly to 2.5% (2022: 2.4%) as a result of a small increase in arrears balances, broadly in-line with expectation amid persistent inflationary pressure. The NPL coverage ratio increased to 34.8% (2022: 28.3%) reflecting the Group's commitment to maintaining an appropriate level of coverage amid a more uncertain economic outlook.

Statutory profit before tax of £222.5 million

Statutory profit before tax increased by £17.8 million to £222.5 million. This increase reflects improved NIM and portfolio growth, partially offset by increased impairment charges and the net impact of a number of distorting items: strategic technology investment (positioning the Group to deliver on its future growth ambitions) and remediation activity in the Motor division (summarised above), partially offset by net derivatives gains (led by fair value movements on interest rate hedging instruments, which will unwind over the life of the hedged exposure).

Higher average equity holdings in the year, on the back of a number of years of strong profitability, have resulted in a modest reduction in the Group's return on equity to 12.0% (2022: 12.4%).

Environmental, Social and Governance

As a financial institution, Aldermore is well placed to make a positive difference to society, and we embrace our responsibility to do this for all stakeholders. Our purpose is 'back more people to go for it, in life and business' and our ongoing ESG ("Environmental, Social & Governance") and Sustainability ambitions underpin our corporate strategy by translating it into intentional action within our core business activities. These can range from supplying products and services for underserved communities or limiting our negative impacts on the environment.

The following provides a high-level overview of our ESG and Corporate Responsibility activities in 2023, however a complete view of our business impacts is available in our annual 'Report to Society 2022[1]'. The 2023 edition will be released in Winter 2023 and will provide detailed case studies of how we are delivering value to society.

Our approach to ESG and Sustainability

Over the past 12 months, Aldermore has accelerated its action in ESG and Sustainability and has made significant progress.

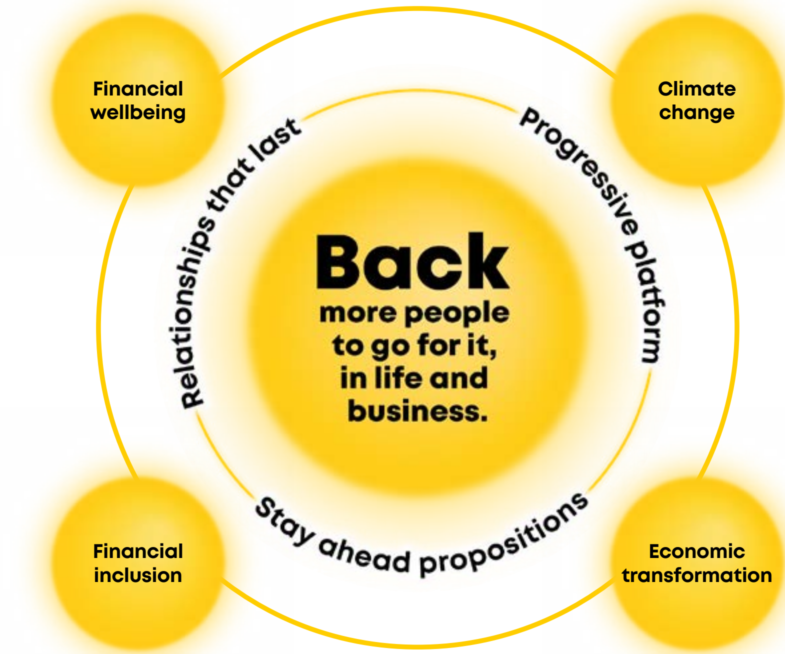
This has resulted in a strong foundational position which articulates the focus areas of society where we aim to make a positive impact along with how we will measure and report on these focus areas in order to keep us accountable. Highlights of this performance:

- Creation and publication of our inaugural annual 'Report to Society' which provides a deep dive into how ESG and Sustainability runs through the core business activities of the Group and includes a progress review on our commitment to support the UK Leveling Up Goals;
- Signing the United Nations Principles for Responsible Banking;
- Better establishing our Sustainability governance operating model to sufficiently track and escalate actions along with integrating Sustainability considerations in our Executive Committee;
- Working with external partners to build our pathway for net zero in both operational and financed emissions;
- Creating an enterprise-wide Sustainability learning plan, providing customised levels of training to four distinctive stakeholder groups: all colleagues, specialist colleagues, senior management and external markets; and
- Establishing a long-term strategic charity partnership with The Money Charity, who align with our purpose and support our chosen business impacts of improving financial inclusion and wellbeing.

1 www.investors.aldermore.co.uk/system/files/uploads/financialdocs/aldermore-report-to-society-2022.pdf

UN Sustainable Development Goals supported

UK Levelling Up Goals supported



Environmental

Climate Change

Aldermore recognises climate change as a defining issue, with potentially far-reaching impacts for our customers, colleagues and communities. We are targeting net zero for operational emissions (Scopes 1 and 2) by 2030, and by 2050 for our financed emissions. Through the financial year we have worked with specialist third parties to: (1) baseline our emissions profile; and (2) begin developing transition pathways. The Group anticipates agreeing zero net emissions transition pathways during the next financial year and will provide further details in the subsequent annual accounts.

More details can be found in our climate-related financial disclosure, which start on page 50. This provides information on the steps the Group is taking to build capabilities in managing climate-related risks and opportunities.

Operational environmental impact

As part of the Real Estate Strategy, we are in the process of completing a full review of the environmental impact generated from the multi-tenanted buildings we occupy, including how we use our office space. We have taken steps already to close areas of certain offices to encourage colleagues to work closer together in the buildings, therefore reducing our energy usage and encouraging collaboration.

While we complete this review, we have focused our attention on influencing areas we know and can control:

- Improving our waste management across office locations i.e. permanently removing deskside waste receptacles across all offices to encourage colleagues to use the split waste streams in our kitchens;
- Instructing a third party to complete energy audits for all sites and provide us with an action plan of improvements; and
- Designating a Sustainability champion on the Real Estate team to give more focus to this area and implement improvements more efficiently.

Company fleet and colleague vehicles

During this financial year, we have moved more colleagues out of petrol and diesel vehicles and now only allow colleagues to order hybrid or fully electric vehicles. By the end of 2024, we are aiming to report that we have no more internal combustion engine vehicles in the company fleet and are continuing efforts to encourage colleagues to move out of these vehicles sooner.

FY	Number of company cars	Number of electric vehicles	Number of plug-in hybrid electric vehicles	Number of internal combustion engine vehicles
2022-23	109	65	34	10
2021-22	120	47	40	33
2020-21	131	30	41	60

Social

The Aldermore People Strategy

In 2023 we have continued to evolve our People Strategy, further detailed below, which is known internally as 'The Deal' due to its two-way value exchange encouraging colleague ownership and accountability. This progressive approach saw an increase in our colleague value proposition package and the introduction of a clear performance process focused on each employee working towards 5 clear goals, reviewed in 4 core conversations across the financial year and resulting in being awarded one of 3 outcomes at year-end.

Creating a progressive culture with an engaged workforce

One measure we use to track colleague engagement is employee net promoter score (eNPS) which is measured through three Group colleague surveys (September, January and April). We scored – 5 in our September 2022 survey and set a target of +20 for our final survey in April 2023, where we scored +33. Additionally, our overall engagement score has also risen from 61% (September 2022) to 78% (April 2023).

The increase in engagement reflects our investment in people managers, leadership communication and responding to feedback through companywide action plans. Furthermore, we have delivered several initiatives in conjunction with our People Strategy:

- For the second year in a row, we provided around 70% of our colleagues with a payment of £1,000 to help with the cost-of-living crisis.
- Launched our new recognition programme with over 1,700 peer to peer recognitions made to date.
- Over 1,500 colleagues attended 'The Deal' on Tour Roadshows, bringing our colleague value proposition to life.
- Introduced a new internal framework to simplify performance management with a primary focus on enabling great career development conversations throughout the year.
- Held Colleague Relations surgeries to support managers build their understanding and confidence managing complex issues, from long term sickness to colleague mental health.
- Launched an electric vehicle benefit in partnership with Octopus Electric Vehicles giving all colleagues a tax efficient way to move into an electric vehicle for personal use, helping to reduce their carbon emissions even when not at work.

Our investment in learning and development

Aldermore is committed to providing our colleagues with a wide range of development opportunities. In addition to the typical induction and onboarding training, we have a wide variety of all colleague career development programmes:

- Learning Management System (LMS) and Mandatory Learning: In January 2023 we relaunched our LMS with new engaging and interactive regulatory and mandatory learning content;
- LinkedIn Learning: A high quality learning experience platform available to all colleagues offering over 21,000 high-quality, on demand courses. We curate learning playlists on a wide range of topics from management and leadership skills to IT and creative content;
- World Class Manager: Launched in January 2023, this is an online learning portal specifically targeted at managers to support their growth and capability, based on a programme of 12 foundational level training modules, followed by an assessment; and
- CoachHub: Aimed at our senior leader community, this programme is an online portal designed to match our leaders with one of over 3,500 professional, highly qualified coaches. Once the match is made, the portal is designed to enable online scheduling of coaching and video conferencing. An initial cohort of 40 leaders has already completed almost 250 coaching sessions. During the next year, we plan to expand the coaching options to more colleagues and establish a coaching culture to drive high performance.

Our approach to Talent Attraction and Development

Our Talent strategy strives to ensure that financial services is open and accessible to all, placing equality of opportunity at the heart of our purpose.

We firmly believe that there is significant value in working in a meritocratic environment, where our people progress based on their hard work, approach and the positive relationships they build.

- During the financial year, we promoted 367 colleagues, representing over 17% of the Group's employees.
- We've invested almost £270k (a 133% increase on the previous year) in apprenticeship development to attract, retain and develop a diverse demographic of talent. We also enrolled 86 colleagues onto levy or government funded programmes of learning, allowing them to build out their knowledge, skills, and behaviours towards more expansive careers.
- Our apprenticeship programme notes an achievement rate of 86%, a retention rate of 89.5% and a programme attrition figure of only 4%.
- The average salary figure for our new hire apprentices is almost £24,000, demonstrating our commitment to paying more than the apprenticeship wage and above The Real Living Wage (as set by The Living Wage Foundation).
- We've partnered with Leonard Cheshire to match the best diverse talent with opportunities in our business, kickstarting the careers of disabled graduates.
- We're proud sponsors of the 10,000 Black Interns initiative which looks to change the face of British business by creating opportunities for underrepresented talent with a target of 10,000 internships over the next 5 years. We've recruited interns in our CTIO, CISO, Product & Proposition, HR and Treasury teams.

Diversity, equity, inclusion and wellbeing

It is imperative to foster a diverse and inclusive workplace that enables colleagues to bring their whole selves to work and better understand the communities we serve.

We have launched a reinvigorated diversity and inclusion strategy after working closely with external experts and over 100 Aldermore colleagues. Through several focus groups, we have gained insight into the views of our colleagues to facilitate in the development of a comprehensive, inclusive workplace framework to move the dial in diversity and inclusion.

- **Start with why** through education and awareness.
- **Think next need** by developing data informed initiatives.
- Leverage the diversity of our people to **crack it together**.
- Being fearless to **try it out** in the quest to eliminate discrimination.

As part of our commitment to the Women in Finance Charter, we set a target of increasing the number of women represented in senior management roles at Aldermore to 30% by the end of June 2023 and 50% representation by 2025. As of 30 June 2023, women are represented in 38% of senior management roles and we are confident we will hit our 2025 target through a range of initiatives currently underway such as:

- In November 2022, we launched our positive action initiative 'The Women in Leadership Programme', providing 25 colleagues the opportunity to grow their leadership capability and drive greater female representation in our senior leadership through the creation of a gender focused talent pipeline.
- Committing to gender-balanced shortlists for senior executive roles within the organisation through a robust end to end recruitment process.
- Ensuring a balanced approach to the creation of succession maps for our Executive Committee and senior manager roles, which are reviewed every six months.
- Mentoring 35 women at all levels of the business through the 30% Club Moving Ahead Programme, a cross-company mentoring scheme focusing on racial and gender equality.
- Introducing the Women of the Year Awards to recognise the accomplishments of women within our business.

We place an important focus on wellbeing across the organisation with regular webinars and partnership events focusing on aspects such as personal financial health, physical and mental wellbeing, and menopause awareness. For example, our partnership with The Money Charity provided online educational sessions to help with the cost-of-living crisis, attended by almost 350 colleagues.

This year was another positive one for our colleague networks, who aid facilitation of the work needed to ensure our approach to diversity, equity, inclusion and wellbeing is developed, understood and impactful.

- **@OneFemale (female equality):** inspiring and empowering women by creating a community to promote gender equality, which further supports our efforts to increase female representation.
- **EmbRace (race equality network):** providing a voice for our ethnic minority colleagues, and to empower them to embrace their full talent potential across the Aldermore.
- **Rainbow (LGBTQ+):** raising awareness and the profile of LGBTQ+ issues across Aldermore and provide support for LGBTQ+ colleagues.
- **GreatMinds (mental health and wellbeing):** As signatories of the Mindful Business Charter, we believe passionately in supporting good mental health and wellbeing at work.

Looking ahead, we may look to create further networks to support disability, religion, and age. The networks will support our goals engaging senior leaders and the delivery of practical actions.

Real Estate and our ways of working

At Aldermore we believe blended working, where colleagues can split their time between an office and alternative sites such as working from home, is the most appropriate and sustainable approach. Modern ways of working require modern offices and our Real Estate strategy is looking to right size our footprint as well as invest in high quality offices for our colleagues so they can be as productive as possible. Our new London office in Broadgate Tower opened in May 2023 and sets a future blueprint for the rest of our estate with its captivating design, extensive collaboration spaces and the latest in technology.

Community Impact

We strive to play an important role within the communities we serve, especially the ones where we have a large operational footprint. The impact we provide in these activities outside of products and services falls within our ‘Community Impact programme’ which has two components: Community Engagement (corporate outreach) and Community Giving (philanthropic and charitable giving).

Community Engagement

- We play an active role in bridging the gap between education and employment delivering 39 early careers events (more than 1 per week over the course of the academic year) to Secondary, FE & HE institutions with over 60 separate colleagues involved.
- Our partnership with EVERFI provides us with an even broader reach, offering a digital financial literacy platform to over 300 schools in the Cardiff and Greater Manchester regions. To date this has seen almost 800 students complete the programme. The results of this initiative have shown a 26% increase in student knowledge and understanding on topics such as the economy, entrepreneurship and financial wellbeing. As a result of the programme 80% now plan to put money into a savings account in the next 12 months, initiating a positive start to their relationship with money.
- We have continued to be funding and founding partners of The EY Foundation’s CBI Smart Futures Programme. This is a 10 month mentoring programme including a paid work placement and is open to year 12 students who are in receipt of free school meals, have a household income of less than £24,421 and attend a state-run school. The initiative is recognised by the Institute of Leadership and Management (resulting in a level 2 qualification in sustainable banking), helping develop key skills essential to the workplace.

Community Giving

In 2023 we refreshed our approach to Community Giving, deciding to consolidate the Group's direction so that we can focus on meaningful, collective impacts that align with our purpose of 'backing more people to go for it in life and business'. We now provide giving in two ways: match funding (money) and volunteering (time).

- **Aligned approach:** For the first time, we have a ringfenced budget for all Giving activities, which has allowed us to harmonise processes such as colleague matched funding.
- **Community Giving Committee:** Established a new colleague led Committee which discussed and decided upon our charitable activities and donations.
- **Volunteering day:** Introduced a paid day's leave for all colleagues so that they can give their time to charitable causes and organisations they care about.
- **New strategic charity partnership:** The Money Charity was chosen as Aldermore's strategic charity partner in October 2022 due to their values and activities aligning with our chosen societal focus areas of financial inclusion and financial wellbeing. Members of the Community Giving Committee have been working closely with The Money Charity to raise awareness of their activities to all internal and external stakeholders. From November 2022 to June 2023, Aldermore's funding enabled delivery of nearly 120 hours of financial education and wellbeing training in 113 workshops to over 2,000 people, most of whom were young people in schools and colleges. Aldermore also provided an additional donation which helps the charity to cover its vital running costs, such as staff salaries, rent and its website.
- **Nominated causes:** In addition to supporting our colleagues giving to the causes that matter to them, we have also provided corporate charitable donations when the Executive Committee or Community Giving Committee identify a cause that aligns with our purpose. During the year, these have been:
    - » Donation to the Trussell Trust, to help those most in need with food supplies due to the cost-of-living crisis;
    - » A donation to Beyond Equality, a charity that provides young males with positive role models to reduce misogyny; and
    - » A donation to the Disasters Emergency Committee, to help with the aid effort following the Turkish and Syrian earthquake disaster.

Governance

Tax

The Aldermore Group's business model is focused on the UK where our customers and operations are largely established. We respect that as a corporate citizen we have a duty to act with honesty and integrity with our approach to taxation and recognise that through the payment of tax, we contribute towards our stakeholders and towards wider society.

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

Our annual tax strategy is reported on our corporate website[2]. This aligns with the principles set out in our tax risk management framework implemented through our tax risk management policy. The tax strategy and risk management objectives are approved by the Board and the Audit Committee is regularly updated on matters relating to tax. Our tax strategy and tax risk management framework are aligned with the FirstRand group. Regular meetings with HM Revenue and Customs provide a platform to discuss our business activities and enable open two-way communication.

The Group has a responsibility to the communities we serve and our tax contributions are used to support the societies in which we operate. The majority of the taxes contributed by the Group are to the UK tax authorities and used for public spending. We measure our Total Tax Contribution for a financial year by reference to the tax payments we have made in that year. The Group monitors and updates its Total Tax Contribution records annually for all new forms of taxation including any in scope environmental taxes.

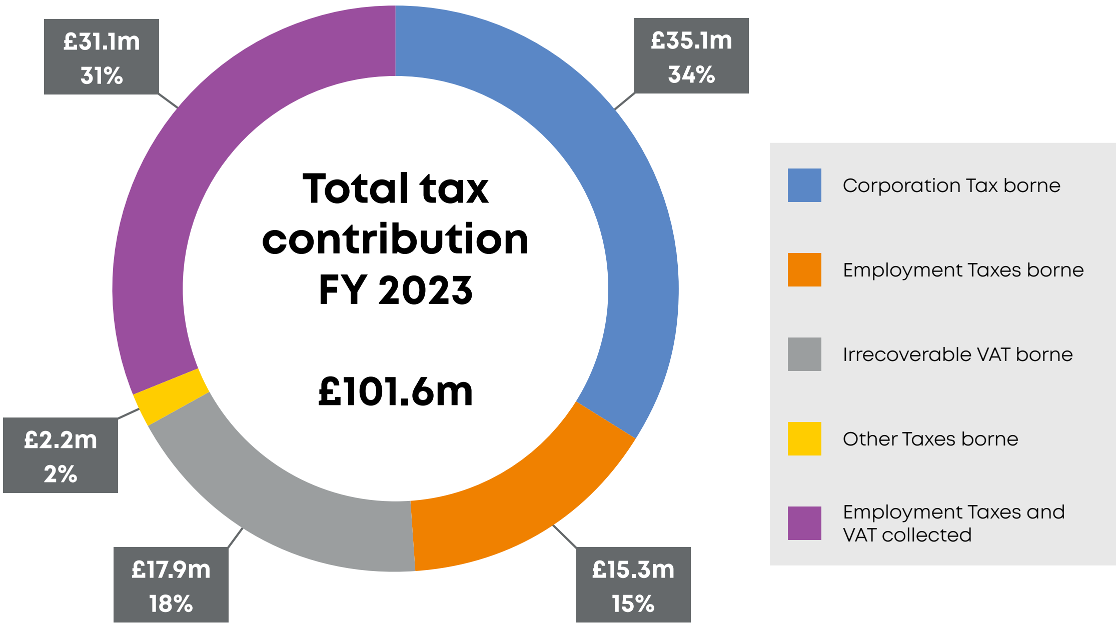
Our Total Tax Contribution comprises taxes borne and taxes collected, which for 2023 was £101.6m (2022: £131.5m) based on tax payments. Compared with 2022, the 2023 tax payments are lower primarily because of taxes borne which represent direct tax costs to the Group which impact its financial results. Under and overpayments of corporation tax caused by the pandemic were settled in 2022 and 2023 respectively, with the result that payments of taxes borne in 2022 are higher than 2023, purely due to timing of payments and recoveries.

In addition to taxes borne, we also collect and administer taxes on behalf of the UK tax authority. For 2023 the Group collected a further £31.1m of taxes (2022: £36.7m), the reduction again arising from volatility in tax payments and receipts caused by the pandemic.

The chart below shows the proportion of the Group's Total Tax Contribution in the financial year ended 30 June 2023, of which the most significant are corporation tax borne (34%) and employment taxes and VAT collected (31%).

2 https://www.investors.aldermore.co.uk/about-us/corporate-governance/introduction/tax-strategy

Total tax contribution - 30 June 2023



Industry Communities

We act as a responsible member of the UK financial community by joining and contributing to communities and partnerships that help multiple our impact and that supports our purpose:

- Actively involved with industry bodies including UK Finance, the FLA and IMLA.
- A member of the Banking Standards Board.
- A signatory of the Women in Finance Charter.
- A signatory of the Race to Work Charter.
- A signatory of the Mindful Business Charter.
- A signatory of the United Nation's Principles for Responsible Banking.
- A member of The Purpose Coalition and active supporter of the UK Leveling Up Goals.
- A member of Business In The Community.

Human Rights and Modern Slavery Act

Aldermore Group PLC, and its principal operating subsidiaries, Aldermore Bank PLC and MotoNovo Finance Limited, take a zero-tolerance approach to slavery and human trafficking. As a UK group with a growing number of international suppliers, the Aldermore Group recognises that there is a risk, however small, for slavery or human trafficking to occur in its supply chains.

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

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

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

Equal Opportunities and Respect at Work

We take equal opportunities and respect at work seriously. All staff are aware that if guilty of unlawful discrimination, harassment or victimisation they may also be personally legally liable for their actions. All managers must set an appropriate standard of behaviour, lead by example and ensure that those that they manage adhere to the Equal Opportunities and Respect at Work Policy and promote our aims and objectives with regard to equal opportunities.

We encourage colleagues to tell us about any conditions they have so that we can consider what reasonable adjustments or support may be appropriate. Job applicants should not be asked about health or disability before a job offer is made, except in the very limited circumstances allowed by law: for example, to check that the applicant could perform an intrinsic part of the job (taking account of any reasonable adjustments), or to see if any adjustments might be needed at interview because of a disability. Where necessary, job offers can be made conditional on a satisfactory medical check. Health or disability questions may be included in equal opportunities monitoring forms, which must not be used for selection or decision-making purposes.

Anti-Bribery

The Group has an Anti-Bribery and Corruption Policy which applies to all Directors, colleagues, 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.

Energy and Carbon Reporting

Climate change is having a profound effect globally and in the UK. Aldermore is committed to supporting the UK's transition to net zero, and during the financial year has begun developing a roadmap that will support its own transition to net zero for operational emissions (Scopes 1-2) by 2030, and by 2050 for its financed emissions. Further details on Aldermore's ESG and Sustainability activities is available on page 23.

Aldermore is in scope of the UK Government's mandatory climate-related financial disclosures ("CFD") requirements[3]. This report addresses those requirements beneath the headings of: Governance; Risk Management; Strategy; and Metrics & Targets. The introduction to each section outlines which CFD requirements (A-H) are being addressed.

Section 1: Governance

This section outlines: (1) the climate risk governance structure; (2) management responsibilities; and (3) board responsibilities. **It addresses CFD disclosure item A.**

a. Governance Structure overview

The Climate Risk Forum ("CRF") meets monthly, and climate risk items are tabled at various Committees / fora across the Group, as indicated in figure 1.

Board committees | Executive committees/ sub-committees | Other committees/ Forums

Aldermore Group PLC Board			
Risk Management	**Strategy**	**Audit**	**Remuneration**
Board Risk Committee	Executive Committee	Group Audit Committee	Remuneration Committee
Executive Risk Committee	Sustainability SteerCo		
Executive Credit Committee			
Business Line Risk Forums			
Climate Risk Forum			

b. Management Committees

Executive Risk Committee ("ERC") is the management Committee with primary climate risk responsibilities. During the financial year ERC received regular climate risk updates including:

- **July 2022:** an overview of: (1) progress against regulatory expectations; (2) FY23 climate risk priorities; and (3) climate risk dashboard.
- **November 2022 (meeting 1):** a summary of key messages from the October 2022 Bank of England Dear CEO letter on climate risk.
- **November 2022 (meeting 2):** a gap assessment against the October 2022 Bank of England Dear CEO letter on climate risk.
- **February 2023:** an updated climate risk dashboard and a summary of newly integrated shadow risk limits. Shadow risk limit breaches and their rationale are reviewed without necessarily requiring a remediation plan or temporary limit excess request. They will be codified into live risk limits during the next financial year.

3 The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (legislation.gov.uk).

Since February 2023 ERC has received a climate risk update at each meeting through the Monthly Risk Report. The Chair's report from each Climate Risk Forum is also noted at ERC. A summary of mechanisms and the frequency by which management Committees are updated on climate-related matters is summarised in figure 1 below:

Figure 1: Consideration of climate related items at management committees[4].

	Frequency	ERC	ExCo	ECC	Business Line Risk Forums	CRF	Sustainability SteerCo
Climate Risk Progress Report	Monthly						
Shadow Risk Limits report	Quarterly						
Climate Risk Dashboard	Quarterly						
CRF Chair's Report	Monthly						
Items across the climate risk programme	Monthly						
Sustainability updates	Ad hoc						

Individual responsibilities

The Group CRO holds the Senior Management Function ("SMF") responsibilities for the management of climate risk. Responsibilities across the 3 lines of defence in relation to climate risk are outlined in the Climate Change Framework.

Remuneration

From financial year 2023, climate risk considerations have been incorporated into the Executive Committee ("ExCo") and Material Risk Takers' ("MRT") remuneration via the Risk Culture assessment. For each individual there is an assessment of the effectiveness with which climate risk is incorporated into decision making.

4 ECC is Executive Credit Committee.

Embedding climate risk within Aldermore

Development of climate risk capabilities is coordinated by the Risk function and embedded in collaboration with colleagues from across the business. Progress is monitored by the Climate Risk Forum, and enabled through:

- **Frameworks / Policies:** Relevant risk frameworks and policies have been updated to reflect climate risk.
- **Risk appetite:** Aldermore has a qualitative climate risk appetite statement, supplemented by shadow risk limits. Draft risk appetite supporting statements were also agreed in June 2023.
- **Training:** Aldermore has delivered climate-related training for board members and certain staff.

FirstRand

Aldermore engages regularly with its parent company on climate change. FirstRand has made two anchor commitments: to be net zero by 2050 for financed emissions; and to be net zero by 2030 for own emissions in South Africa. Aldermore is in scope of the 2050 target and provides regular updates on development of its climate risk programme to FirstRand. The sharing of knowledge and perspectives has been beneficial and is supported through Aldermore representation at FirstRand's: Climate Risk Committee; and Technical Climate and Data Committee.

c. Board responsibilities

The Board is responsible for promoting the long-term success of the Group by directing and supervising its affairs to create sustainable shareholder value.

Board Committees

The Board delegates certain responsibilities to Board Committees, and the **Board Risk Committee** ("BRC") is responsible for monitoring and reviewing the approach by which risks arising from climate change are managed, mitigated and included in risk management frameworks. The **Audit Committee** monitors climate-related disclosures, which are made annually through the Group's annual reporting cycle, and the **Remuneration Committee** considers the Risk Culture assessment.

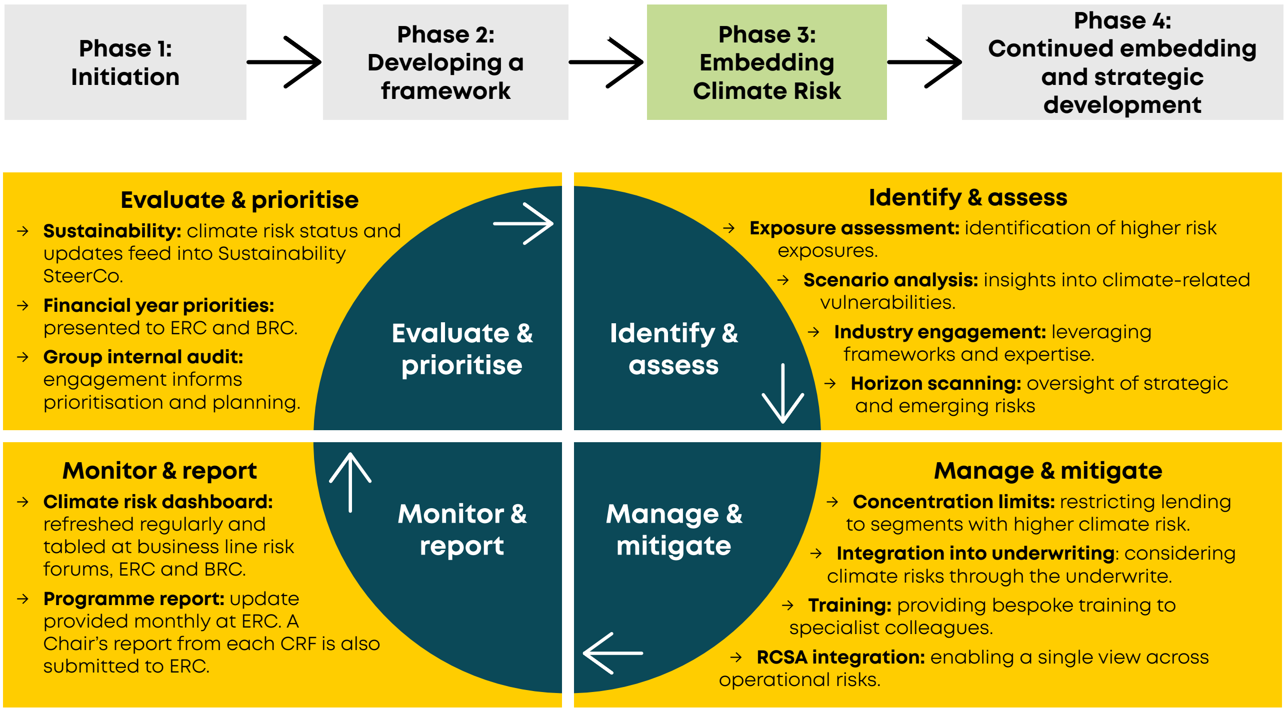
Board Committee updates in financial year 2023

BRC meets at least 4 times per financial year, and from April 2023 a climate risk update has been provided at each meeting. Previous updates had been tabled at BRC in the financial year covering climate risk priorities and progress against regulatory expectations.

Separately, a Board training session was held in May 2023 which focused on: disclosures; net zero target setting; and transition planning.

Section 2: Risk Management

This section addresses CFD disclosure items B and C and explains: (1) Aldermore's approach to climate risk management; and (2) how this approach is integrated into the overall risk management process. These activities are co-ordinated at Group level, with representation from Bank and MotoNovo Finance Limited ("MNFL") at Climate Risk Forum. Aldermore's Climate Change Framework outlines its approach to climate-related risks and opportunities. The below diagram demonstrates how climate-related risks are: identified and assessed; managed and mitigated; monitored and reported; and evaluated and prioritised.



a. Identifying and assessing climate risk

Climate risk is treated as an intersecting risk which impacts Aldermore's principal risks. A summary of techniques to identify and assess climate risk, and the frequency with which they are performed provided oveleaf.

Higher risk exposure (quarterly)	Scenario Analysis (annually)	Industry engagement (ongoing)	Strategic & emerging risk assessment (at least 3x a year)
• Analysis shows limited exposure to acutely impacted sectors. • Assessment of elevated risks has informed the setting of shadow risk limits.	• Scenario analysis supports understanding of vulnerabilities to climate-related impacts (see Section 3. • Climate-related scenario analysis is incorporated into the annual ICAAP.	• Financed emissions have been quantified leveraging Partnership for Carbon Accounting Financials ("PCAF") methodologies. • Ongoing participation in external programmes and forums.	• Assess climate risk through the Strategic and Emerging Risks Report, tabled at ERC and BRC. • The report includes an assessment of emerging regulatory / legislative changes.

b. Managing climate risks

The risk identification process has informed the management of climate risks. Climate risks are principally managed through: (1) setting risk limits; (2) employee training; (3) integration into underwriting processes; and (4) incorporation into Risk and Control self-assessments. This has been supported through the appointment of a Head of ESG & Sustainability and a Head of Climate Risk, both of which are specialist roles with high visibility across the organisation.

Setting risk limits	Employee training	Integration into underwriting criteria	Risk and Control self-assessment
• Shadow risk limits cover concentrations across physical and transition risk. • Net zero targets will further inform risk appetite and limits.	• Bespoke interactive gaming experience designed with third party. • Over 100 colleagues have undertaken the training, predominantly in senior leadership or frontline roles.	• Property Finance: agreed restriction of buy-to-let lending based on combinations of EPC, landlord experience and LTV. • SaS: credit applications for certain loans need to include details of climate risks and mitigants. These are then considered through the underwrite.	• Climate risks are being mapped to operational risks through an RCSA refresh process. • This will support our understanding of how climate risk manifests across operational risks.

c. Integrating processes for identifying, assessing, and managing climate-related risks into the overall risk management process

The integration of climate risk into the Risk Management Framework ("RMF") has been enabled through: (1) developing key frameworks that sit beneath the RMF; (2) integrating climate into risk appetite reporting; (3) embedding climate reporting into key risk Committees and fora; and (4) scenario analysis.

Frameworks / Policies	Risk Appetite	Reporting	Scenario Analysis
• Climate risk incorporated into Risk frameworks / policies, including the Credit Risk Management Framework and Operational Risk Management Framework. • Risk taxonomy assessment reviewed integration into principal risk types.	• Updates included in ERC / BRC risk reports on progression of climate risk programme and performance against shadow limits. • Draft risk appetite supporting statements agreed in June 2023.	• Full dashboard produced quarterly and integrated into Committees and fora. • The dashboard covers various metrics across transition and physical risk, as well as progress against audit findings and regulatory expectations.	• Climate-related scenario analysis embedded into the ICAAP.

Aldermore is developing its maturity and capabilities around climate risk and will consider its elevation to principal risk status in the next financial year. Ultimately though, climate risk is an intersecting risk that needs embedment within existing risk management processes. The ongoing development of the Group's capabilities will support this. Despite the progress made, further activity is required to fully embed climate risk within the RMF.

d. Aldermore's approach to portfolio climate risk quantification

Aldermore's long term quantitative climate risk scenario analysis has focused on Property Finance and Motor Finance as discussed in section 3. This has been supplemented through short-medium term analysis to better understand specific vulnerabilities. The outputs are informing approaches to the ICAAP and provisioning. See note 3 of the financial statements for further information.

Section 3: Strategy

This section explores the principal climate-related risks (actual and potential) and opportunities, and their impacts on Aldermore's business, strategy and financial planning. It also describes methods used to understand and measure these climate-related risks, and Aldermore's resilience under different climate-related scenarios. **The section addresses CFD disclosure items D, E and F.**

Understanding risks and opportunities is supported through:

- **Time horizons:** Climate-related risks and opportunities relevant to Aldermore are identified over short (0-1 year), medium (1-5 years) and long-term (period to 2050) time periods. These time periods have been selected with reference to: (1) Aldermore's planning / budgeting process; and (2) the average churn on Aldermore's book.
- **Understanding concentrations to carbon-intensive assets:** Although Aldermore has exposure to sectors with elevated climate risk (e.g. properties and vehicles), there is limited exposure to sectors acutely at risk from climate change (e.g. oil and gas).
- **Roadmap for embedding climate risk:** Aldermore has a multi-year roadmap to monitor progression of climate risk capabilities. This consists of: initiation (phase 1); developing a framework (phase 2); embedding climate risk management (phase 3); and continued embedding and strategic development (phase 4).

The below table outlines the principal climate-related risks and opportunities that arise in connection with Aldermore's operations, alongside: (1) affected business lines; (2) time horizons; and (3) current and future mitigating actions.

a. Climate-related risks

<table>
<tr><th>Ref</th><th>Physical Risk</th><th>Business lines</th><th>Time horizon</th><th>Mitigations</th></tr>
<tr><td>1.1</td><td>Acute physical risk: increased severity of extreme weather events such as floods could:
• Reduce property values and result in stranded assets.
• Cause operational issues, including supplier outages and buildings access issues.</td><td>Property Finance, SaS and Operations</td><td>L</td><td rowspan="2">Current:
• Quarterly monitoring of:
  • Flood risk for Property exposure in England.
  • Exposure to sectors with high and very high physical risk.
• Long-term flood risk for company buildings.
• Scenario analysis, including physical impacts of a 'hot house' type scenario on residential mortgages.
• New supplier due diligence includes questions on physical risk exposure and climate risk preparedness.
• Integration of climate risk into business resilience scenarios.
Future:
• Develop physical risk data available for properties.
• Mature the Group's understanding of supply chain vulnerabilities to climate risk, developing mitigation plans as appropriate.</td></tr>
<tr><td>1.2</td><td>Chronic physical risk: changes in precipitation patterns and temperatures could:
• Impact asset values, e.g. through subsidence on properties.</td><td>Property Finance and SaS</td><td>L</td></tr>
</table>

<table>
<tr><th>Ref</th><th>Transition Risk</th><th>Business line</th><th>Time horizon</th><th>Mitigations</th></tr>
<tr><td rowspan="2">2.1</td><td rowspan="2">Policy: changing regulations can result in asset impairments and increased compliance costs:
• Property: regulations could require new private rentals to reach a revised EPC rating.[5] This could impact: (1) landlords’ affordability; and (2) the values of properties below the EPC floor.
• Vehicles: impending regulations will ban the future sale of new internal combustion engine (“ICE”) vehicles. This could impact vehicles’ residual values.</td><td>Property Finance</td><td>S-M-L</td><td rowspan="2">Current:
• A financial impact assessment has been conducted on the impacts of future Property-related regulatory changes, with provisions held.
• Agreed restriction of buy-to-let lending based on combinations of EPC, landlord experience and LTV.
• Quarterly monitoring of:
  • EPC distributions with related shadow risk limits including stock v flow analysis for Property.
  • Fuel type distributions including competitor benchmarking.
• Education of brokers to promote awareness of climate-relevant risks and opportunities.
• Scenario analysis (see section 3) which analyses the impacts of different transitional pathways on the Property and Motor books.
• Interactive training experience undertaken by over 100 colleagues.
Future:
• An EPC working group will monitor the risks and opportunities regarding property efficiency, and report to Property Risk Forum.
• Continue working with industry to support landlords and the private rental sector.
• Develop net zero roadmap as part of the Group’s net zero journey.
• Rollout of all staff training on climate risk.</td></tr>
<tr><td>Motor Finance / SaS</td><td>M-L</td></tr>
</table>

5 Minimum Energy Performance of Buildings (No. 2) Bill.

Ref	Transition Risk	Business line	Time horizon	Mitigations
2.2	**Market:** changing consumer preferences could negatively impact: • Property: preferences towards more energy efficient properties could impact the value of lower energy efficient properties. • Vehicles: increased preferences towards cleaner vehicles could impact the residual values of non-electric vehicles. Funding electric vehicles could also have medium-long term risks within the consumer acceptance transition period.	Property Finance / Motor Finance / SaS	M-L	
2.3	**Technology:** as greener technologies become more affordable, there could be an acceleration towards lower emitting vehicles, thereby impacting the residual values of non-electric vehicles. Technology advancements could also negatively impact early electric vehicle entrants.	Motor Finance / S&S	M-L	

Ref	Transition Risk	Business line	Time horizon	Mitigations
2.4	**Reputation:** increased scrutiny on firms' lending activities and sustainability claims could result in reputational damage. For example, if Aldermore were to market a product based on its sustainable characteristics and this was later found to be misleading.	All	M-L	**Current:** • Investment in Aldermore's net zero strategy, leveraging third party support. • Quarterly monitoring of lending to high and very high transition risk sectors. • Consideration of climate-related features during product reviews. • Introduction of climate considerations at Reputational Risk Forum. **Future:** • Development of reputational risk key risk indicators.

b. Climate-related opportunities

Ref	Opportunity	Description	Time horizon	Action taken
3.1	Financing the transition	The transition to a low carbon future presents opportunities across all business lines.	S-M-L	**Current:** Actions have been taken across business lines to develop the Group's offering including: • Providing a 10bps discount for A-C EPC Residential Buy-to-Let mortgages. • Funding a variety of solutions for SMEs to support their transition including: alternative fueled vehicles; solar panels; and ground source heat pumps. • Having a full suite of products to underwrite Electric Vehicles ("EV"). **Future** • Opportunities are currently being explored, including in the Energy and Infrastructure space. Further details on this will be provided in subsequent disclosures, along with any relevant targets.

3.2	Data	Data availability presents a challenge across the industry. Improvements in data quality will support effective climate risk management and the realisation of climate-related opportunities.	S-M	**Current** • 1st generation financed emission calculations have been conducted across lending portfolios. • Engagement with market leaders in vehicle data to seek additional climate-related portfolio information. Understanding the portfolio in greater detail will enable future strategy to incorporate a more profound climate lens. **Future** • Identify opportunities to develop data capabilities and improve data quality within financed emissions calculations.
3.3	Partnerships	Collaboration is important to improve understanding and identify opportunities.	S-M	**Current:** • The Group has participated in industry forums and used PCAF methodologies to calculate its financed emissions. It has also onboarded specialist third parties to support its emissions reduction activities. **Future:** • Continue to collaborate across industry, and further develop emissions targets.

c. Resilience of business model and strategy, considering different climate-related scenarios

Scenario analysis is a useful tool to understand climate-related risks and opportunities. Aldermore's approach has covered: (1) long-term qualitative & quantitative analysis; and (2) short-medium term quantitative analysis. This has focused on Aldermore's Property Finance and Motor Finance portfolios, which reflect their relative materiality and exposure to climate risk.

Long-term qualitative and quantitative scenario analysis

Aldermore's long-term analysis has leveraged the Bank of England's Climate Biennial Exploratory Scenarios ("CBES")[6]. These were considered appropriate due to: (1) comparability with other UK firms; and (2) the range of pathways explored. The high-level narrative for these scenarios is summarised below. The qualitative scenario used the Late Action scenario, whereas the quantitative scenario used all three:

Early Action ("EA")	Late Action ("LA")	No Additional Action ("NAA")
• The transition to a low carbon economy begins in the early 2020s. • There is an orderly transition which manifests through temporarily lower growth. • Global warming is limited to 1.8°C by 2050.	• The transition to a low carbon economy begins in the early 2030s. • The transition is disorderly and there is a sudden contraction in output. • Global warming is limited to 1.8°C by 2050.	• Only existing policies are applied, which ultimately leads to permanently lower growth. • The physical risk impacts are significant with global warming reaching 3.3°C above pre-industrial levels by 2050.

The exercises provided interesting insights and were socialised across relevant risk forums. Limitations included: (1) the use of a static balance sheet (consistent with CBES) for the quantitative exercise, thereby not recognising management actions; (2) uncertainty resulting from the length of the time horizon, which extends far beyond standard scenario analysis and the churn of Aldermore's book; and (3) data limitations meaning that only a portion of the Motor Finance portfolio was analysed. Key outcomes from the quantitative exercise are summarised below.

- **Property Finance:** the transition scenario showed impacts driven by a carbon tax on fossil fuels and retrofitting in the EA and LA scenarios. It provided insights around vulnerabilities for properties within different transition scenarios. The physical scenario showed relatively low impacts, even under a no additional action 'hot house' type scenario. The Group has reviewed the geographical impacts across the UK which showed higher exposure to physical risk in certain areas of the country.
- **Motor Finance:** the analysis concentrated on the transition scenario which showed trends for residual value on a vehicle by vehicle basis, based on: (1) whether it was ICE or EV; (2) its brand and (3) its segment. In an EA scenario, Aldermore's portfolio sees Electric Vehicle (EV) residual values (RVs) gradually increase until 2035 and then plateau. In a Late Action scenario, the RV for EVs remain relatively flat with a slightly steeper increase post the 2030 ban on new ICE vehicles. In EA and LA scenarios the RV for ICE vehicles fall more sharply than in the No Additional Action scenario.

Short to medium-term quantitative scenario analysis

Shorter term analysis has subsequently been conducted into more specific vulnerabilities. This initially focused on transition risk in the Property Finance book, examining the potential financial impacts of policy changes. The assumptions and analysis will be refreshed as

6 Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change | Bank of England.

required with management actions developed to respond. A limitation of this analysis is its reliance upon expert judgement, and the Group expects to continually refresh the assumptions as greater understanding of the potential impacts are established.

Climate considerations have also been integrated into business resilience exercise plans, with an initial scenario based on an extreme weather event impacting a key building undertaken in the financial year.

Evaluation: impacts on business model and strategy, and next steps

Aldermore has a UK focused business model, with a concentration on properties and vehicles. Quantitative scenario analysis has supported an understanding of the impacts of different climate-related pathways. The outcomes have been shared with appropriate forums from which mitigating actions have been agreed, e.g., to develop concentration risk measures where elevated climate risk has been identified. Climate risk considerations are being embedded into ICAAP stress testing, enabling a clearer link between scenario analysis, impacts on the business and mitigating actions.

Section 4: Metrics and Targets

Aldermore maintains a climate risk dashboard with various metrics across transition risk, physical risk and other climate-relevant concerns. The Group has divided targets and related KPIs between: (1) environmental impacts; and (2) risk management. Details of new or amended KPIs will be included in future disclosures. This section addresses CFD disclosure requirements G and H.

a. Metrics

Aldermore's climate risk dashboard is tabled at ERC and BRC, with relevant sections included at business line risk forums. The dashboard contains sections covering:

- **Climate Risk Management:** measures that relate to balance sheet impacts. This covers transitional risks (e.g. Property EPC ratings); and physical risk (e.g. exposure to flood risk).
- **Portfolio alignment:** The impact that Aldermore has on the climate. This monitors financed emissions across Property Finance and Motor Finance.
- **Regulatory:** Progress against meeting regulatory expectations on climate risk.
- **Disclosures:** Maturity of Aldermore's climate-related financial disclosures.
- **Audit findings:** Group Internal Audit findings related to climate risk.
- **Operations:** Greenhouse Gas emissions of business operations, and operational resilience.

b. Targets & KPIs

i. Environmental impacts

Workstreams have been initiated to develop net zero roadmaps across operational and financed emissions:

Operational emissions

Aldermore is developing a net zero strategy. In the financial year, it worked with a specialist third party to undertake a full review of its operational emissions and make recommendations for emissions reductions.

- **Performance against targets:** these targets were agreed in June 2023. Performance against them will be reported in future disclosures.
- **Key performance indicators ("KPIs"):** the Group is monitoring the proportion of company vehicles that are electric, hybrid or ICE, with a view to having no ICE vehicles within the fleet by end 2024. Other KPIs relating to energy efficiency are being worked through. As at June 2023 the Group has 65 electric vehicles, 34 hybrid vehicles and 10 internal combustion engine vehicles in its fleet.

Financed emissions

Aldermore is in scope of a FirstRand Group wide financed emissions net zero target of 2050.

- **Performance against targets:** the Group is working through the details of a roadmap across all business lines to achieve this target.
- **KPIs:** the Group has developed approaches to calculate financed emissions which will be used to track performance. Emissions for Property Finance and Motor Finance are included in these accounts (see page 53).

ii. Risk Management

Aldermore is targeting to remain within concentration thresholds where elevated climate risk has been identified. Related shadow risk limits cover a range of measures for the Property Finance and Motor Finance portfolios.

Performance against targets: As of June 2023 none of the shadow risk limits were in breach.

- **KPIs:** the related KPIs include:
  - **Property Finance (transition):** various related to energy efficiency of mortgages,
  - **Property Finance (physical):** flood risk (England only).
  - **Motor Finance:** fuel type (stock); new EVs / Hybrid versus market benchmarking (flow).

In addition, the Group is aiming to deliver climate risk training to all colleagues in the next financial year.

Aldermore recognises the importance of high quality and communicable targets and KPIs. Future activity will include developing shorter term targets and additional KPIs. Each target noted in figure 2 is linked to a risk or opportunity identified in Section 3.

Figure 2: Summary of targets and KPIs

Category	Risk/ opp ref	Target	Target date	Performance against target	KPI calculations
Emissions reduction	2.1, 2.4, 3.3	Achieve net zero for Scopes 1 – 2 emissions.	2030	Target agreed in June 2023. Performance will be assessed in subsequent disclosures.	Company vehicles: % of company vehicles that are electric. KPIs related to other energy efficiency drivers are under development.
	2.1, 2.2, 2.3, 2.4, 3.1, 3.2, 3.3	Achieve net zero for financed emissions.	2050	Pathways for financed emissions are under development.	KPIs related to emissions intensities across asset lines are under development.
Risk Management	1.1, 2.1, 2.2, 2.3, 2.4	Limit concentrations where climate risk is elevated.	Ongoing	No concentration breach as at June 2023[7].	Shadow risk limits covering various physical and transition risks, as specified in Section 4.
	1.1, 1.2, 2.1, 2.2, 2.3, 2.4, 3.1	Rollout climate risk training to all colleagues.	June 2024	Training undertaken by board and over 100 colleagues as at June 2023.	The % of staff that have undertaken climate risk training.

7 Most shadow risk limits have been assessed as at June 2023 month end. Due to data availability, two relating to new EVs/Hybrid versus market benchmarking (flow) were assessed as at April 2023 month end.

Energy consumption and Greenhouse Gases (“GHG”) emissions

UK energy use and associated greenhouse gas emissions

Current UK based annual energy usage and associated annual greenhouse gas (“GHG”) emissions are reported pursuant to the Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (“the 2018 Regulations”) that came into force 1 April 2019.

Briar Consulting Engineers were involved in data collection, analysis, and reporting for this report, on behalf of Aldermore Bank PLC and MotoNovo Finance Limited. The involvement of Briar has been a success, with requests by the third party being fulfilled, allowing for effective and credible analysis, and an applicable dataset being created.

Organisational boundary

In accordance with the 2018 Regulations, the energy use and associated GHG emissions are for those assets owned or controlled within the UK that only come under the operational control boundary. Therefore, energy use and emissions are aligned with financial reporting for the UK subsidiaries Aldermore Bank PLC and MotoNovo Finance Limited. There are no non-UK based subsidiaries that would not qualify under the 2018 Regulations in their own right.

Reporting period

The annual reporting period is 1 July to 30 June each year and the energy and carbon emissions are aligned to this period.

Quantification and reporting methodology

The 2023 UK Government GHG Conversion Factors for Company Reporting were used in emission calculations as these relate to the majority of the reporting period. The report has been reviewed independently by Briar (Briar Consulting Engineers Limited).

Electricity and gas consumption were based on invoice records and meter readings. Estimates of energy consumption have been made where data has not been made available from suppliers or landlords. In some cases, data has been pro-rated to match the reporting period. Where office space is within multi-tenanted buildings with central building services, a mixture of benchmark and prorating has been used to estimate the heating and cooling loads. Company-owned and employee-owned vehicle emissions are based on mileage records, with Aldermore Bank fleet usage estimated based on Motor Finance records. Gross calorific values were used except for mileage energy calculations as per Government GHG Conversion Factors.

The emissions are divided into mandatory and voluntary emissions according to the 2018 Regulations. Mandatory emissions include energy and emissions associated with use of purchased electricity, natural gas, company owned vehicles and employee-owned vehicles, with any other energy or emission sources considered voluntary to include. The emissions are further divided into the direct combustion of fuels and the operation of facilities (scope 1), indirect emissions from purchased electricity (scope 2) and further indirect emissions that occur as a consequence of company activities but occur from sources not owned or controlled by the organisation (scope 3) in accordance with the organisational boundary defined above.

Breakdown of energy consumption used to calculate emissions (kWh):

Energy type	2022/23	2021/22*
Mandatory requirements:		
Gas	1,501,516	1,502,564
Purchased electricity	1,363,911	968,323
Transport – Company-owned vehicles	524,165	162,763
Transport – Employee-owned vehicles	116,295	266,323
Total energy (mandatory)	**3,955,555**	**2,899,973**

* Data has been revised for 2021/22 following the availability of more accurate information.

Breakdown of emissions associated with the reported energy use (tCO2e)

Emission source	2022/23	2021/22*
Mandatory requirements:		
Scope 1		
Company owned vehicles	70.7	39.8
Scope 2		
Purchased electricity (location-based)	282.4	187.3
Purchased heat (natural gas)	274.7	274.3
Company owned vehicles	16.1	9.7
Scope 3		
Category 6: Business travel (grey fleet)	28.2	65.7
Total gross emissions (mandatory)	**672.0**	**576.8**
Intensity ratios (mandatory emissions only)		
Tonnes of CO_2e per employee	0.30	0.26
Change from previous year	+15.9%	

* Data has been revised for 2021/22 following the availability of more accurate information.

Intensity Ratio

The intensity ratio is total gross emissions in metric tonnes CO2e per employee, using a total for 2022-23 of 2,221 employees. The employee figure relates only to operations in the UK to align with the energy and emission reporting boundary. This metric is considered the most relevant to the Group's energy consuming activities and provides a good comparison of performance over time.

An overall increase in Scope 1, 2, and 3 emissions is largely due to the ending of the COVID-19 pandemic, with people returning to work, including the re-opening of offices and the increase of in-person meetings and work-related travel. The 2023/2024 report will provide a more reputable comparison, as a whole financial year of operating in non-pandemic conditions would have been completed.

Energy efficiency action during current financial year

Overall scope 1 and 2 emissions have increased this year by 95.2 tCO2e (16.5%). This is predominantly across company owned vehicles and purchased electricity with a decrease observed for scope 3 employee-owned vehicles. The increase in company owned vehicle emissions is due to increased distance traveled by employees, whereas the increase for electricity is mostly explained by a large catch-up bill for the Reading office following an actual meter reading. This resulted in an increase in annual consumption at the Reading supply by 307,207 kWh (64.8 tCO2e). Other increases in electricity usage is anticipated with greater usage of offices following the pandemic.

Despite the increase in company owned vehicle emissions, in the period 1st July 2022 to 30th June 2023, the transition of company vehicles to electric vehicles has progressed significantly. Out of 109 company cars, 65 are now full electric vehicles and 34 are plug-in hybrid electric vehicles, leaving only 10 conventional internal combustion engine vehicles. This compares to 7 electric vehicles and 17 hybrid vehicles in the previous year. This transition will have partly buffered the increase in emissions from greater distance traveled, as emissions per mile are much lower for electric vehicles.

Further to the electrification of the company fleet, a scope 1, 2 and 3 net zero target and strategy has been developed, informed by opportunities identified from site audits at all locations and an analysis of scope 3 emission hotspots. The site audits conducted as part of the net zero strategy development identified a total of 240,941 kWh of electrical and 463,712 kWh of natural gas energy savings, equivalent to 88.0 and 84.6 tCO2e in emission savings respectively.

The energy saving opportunities identified were predominantly at the Cardiff, Manchester and Reading offices. Most of the energy savings relate to potential improvements in behaviour changes and building management systems. Implementation of the net zero strategy is being overseen by a new Working Group that has been set up and is due to meet regularly going forwards.

Financial Emissions

Alongside the net zero plan development, Aldermore has begun measuring the climate impact of its financing activities. By understanding these emissions, Aldermore is able to: (1) set a baseline for target setting; (2) identify potential carbon-intensive hotspots; and (3) enrich its understanding of climate-related risks and opportunities.

The total annual emissions[8] associated with the Group's Property Finance[9] and Motor Finance[10] portfolios are displayed in the table below. Both approaches rely on proxies where data is unavailable. These have been calculated on £7.5bn of Property Finance balances and £4.1bn of Motor Finance balances and do not include Dealer Funding.

The Group is committed to maturing its understanding of its emissions profile and has engaged a third party to support target setting and development of a net zero strategy. Future disclosures will provide further details on both these points.

Portfolio	Total annual emissions
Property Finance	209,617 tCO2e
Motor Finance	1,145,369 tCO2e

8 Total annual emissions are displayed without an LTV ratio applied.

9 Property emissions have been calculated by examining EPC data, which includes details on fuel type, floor area and energy consumption. Where EPC data has not been available, approximate or averages data has been used. 2021 UK Government Greenhouse Gas conversion factors are used to determine the emissions associated with different fuel types.

10 Motor emissions have been calculated by multiplying the estimated annual distance traveled by the vehicle's gCO2e per km. Averages by vehicle types are used where emissions and mileage are unavailable. Where gCO2e per km are derived from the New European Driving Cycle (NEDC) test, an uplift has been applied to more closely reflect estimates in the Worldwide Harmonised Light Vehicle Test Procedure (WLTP).

Section 172 Statement

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

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

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

The Directors recognise that effective stakeholder engagement is crucial to deliver long-term sustainable success. The Board balances competing stakeholder priorities by considering the long-term implications of its decisions, including considering the policies and decisions by the Shareholder. The Board engages with stakeholders directly and indirectly through management reporting. Where matters are of group-wide significance, decisions are made by the Board on behalf of the Company and its subsidiaries. Below sets out how the Board and senior management take the above factors into account when engaging with the Group's key stakeholders, how this is aligned to the Group's strategic priorities and culture and why the stakeholders listed are significant for the Group.

Customers

The Group serves UK-based retail customers and SMEs, who are seeking specialist products in savings accounts, Motor Finance, Property Finance and Specialist and Structured finance. Customers are at the heart of the Group's strategy and hence the business model puts the customer at the centre of product design and delivery. Under the Group's strategy numerous workstreams have been created, many of which have been delivered, to improve the Group's capabilities and efficiencies and to improve the customer experience. Execution of the Group's strategy is under the guidance of the Board, with engagement at very early stages of initiative inception followed by regular progress and results reporting to the Board to demonstrate how the initiative is delivering value and outcomes for the Group and for customers.

The Board works very closely with the Executive to monitor the impact of the Group's products and services on customers. The Board conducted a Customer Experience Deep Dive in February 2023 to explore the impacts of the Group's strategy on customers. A new Customer Experience structure has been implemented with the purpose of delivering best in class service and improving the customer journey to ensure that Group has a customer focused operation that is fit for the future. A new Customer Outcome Testing process has been implemented to report on key metrics that determine and assess the outcome of the customer experience. The Board also oversees the Group's Technology strategy which includes the development and transformation of customer delivery platforms and has conducted numerous Deep Dives in relation to this.

The FCA's Consumer Duty rules came into effect on 31 July 2023. In preparation for this date, the Board reviewed and approved the Group's implementation plans, receiving regular updates on progress. The Board also conducted a Deep Dive on Consumer Duty readiness in April 2023. The Board continues to monitor remediation activities and lessons that can be learned from previous issues, with focus on outcomes and results from new strategies that have been implemented.

People

The wellbeing of colleagues is of paramount importance to the Group, and this is one of the Board's key priorities. The rising cost of living has continued to impact the UK economy and further support has been provided to our colleagues in the form of an additional payment of £1,000 made to over 1,350 colleagues during the year. The Group has also established a hardship fund for those most in need.

A key focus for the Board is to get to know the people within the business better. During the year, three Colleague Engagement Sessions have been hosted by Board members with colleagues, followed by smaller, more personal break-out groups where all participants had an opportunity to speak and to get to know one another. This initiative will continue throughout 2023 and beyond. The Board also held Board meetings at different Group locations across the UK, enabling Board members to meet as many colleagues as possible. This has in large part been made possible by a growing demand post Covid for face-to-face meetings and office-based working. The Group continues to support colleagues who require flexible working arrangements whilst encouraging a return to office-based working as much as possible. The Group believes this has a positive impact on team working and morale.

Culture is an important area of focus for the Board. Following the Colleague Engagement Survey, where the Group achieved a response rate of 88%, well in excess of the 80% target management set at the start of the financial year, the Group achieved a significant increase in its employee NPS from – 12 in December 2021 to +33 in April 2023. The Executive has established working groups to respond to feedback, which varies from site to site and is intended to drive positive cultural change. A number of town halls have been held across the UK, as well as HR Roadshows where leaders met colleagues at the different UK locations, to introduce the Group's new people strategy and culture framework. One example of responding to feedback is introducing new ways of working such as removing layers of bureaucracy and enabling colleagues to "get things done quicker". The Board is monitoring the progress being made in these areas and has provided appropriate challenge.

The Board understands and positively embraces the role it has in promoting and encouraging diversity, equity and inclusion in all parts of the business. As a Board, there is collective recognition that success of the Board is, amongst other things, dependent upon embracing the benefits of diversity in the Boardroom. The Group is committed to equal opportunities for all and has established colleague networks to lead engagement with and amongst colleagues. The Group is a signatory to the HM Treasury Women in Finance Charter, with gender representation being an integral part of its Diversity and Inclusion agenda. The Group remains committed through its governance processes and priorities to removing barriers to diversity, inclusivity and fairness where they might exist. The Board has reviewed the Group's Gender Pay Gap and Women in Finance data, noting that the gender diversity in Senior Management is 38% as of 30 June 2023, which is significantly above the set target of 30% female representation. The Board supports management's initiatives to improve the career progression of women in Financial Services, including initiatives to identify and nurture female talent through the Inspiring Future Female Leaders programme, internal and external mentoring programmes and an internal female network group. The Group is on track to reach its stated target of achieving 50% female representation in senior management by 2025. Further information on Board diversity is set out in the Wates Corporate Governance Principles report on page 62.

The Board supports and endorses the initiatives and workstreams led by management in response to feedback from colleagues, customers and intermediaries as referenced above and set out in the ESG section on page 23.

Suppliers and Distribution Partners

Our business model offers diversified distribution, with intermediaries remaining a vital element to our lending business. Our ongoing aim is to work closely with our distribution partners and suppliers, to ensure we continue to meet their needs as we modernise our business.

Since the launch of our refreshed Group Strategy in 2022, we have progressed a range of initiatives to enhance the experience our distribution partners receive across our Property Finance, Motor Finance and Structured and Specialist Finance business lines. We are also placing increasing focus on supplier management and ensuring we foster relationships that enable a collaborative approach to developing stay ahead propositions and further developing our progressive platform.

During the year, the Board received management updates on key suppliers performance. The Group's operating subsidiaries (MotoNovo Finance and Aldermore Bank) twice a year report their payment metrics, including the average time taken to pay supplier invoices. The Board received a detailed briefing on the Group's key IT suppliers, highlighting risks and opportunities during the year.

During the six months ending June 2023, the average time taken to pay suppliers was 20 days (34 days in the six months ending December 2022). This figure is now below the Group's normal maximum payment terms of 30 days following the implementation of the new General Ledger in 2022.

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

Communities and Environment

At the heart of the Group's business model is equality of opportunity, to back people who have been underserved by the bigger banks. The Group desires to help break the cycle of poor social mobility in the UK and give back to the communities it is a part of. The Group has a central role in the Purpose Coalition, a cross-party initiative that is supported by a mix of private and public sector organisations committed to "leveling up" on the ground in the UK.

The Group has published its first ever Report to Society which provides details on the work undertaken to support the Purpose Coalition and this can be found on the Group's website: Results, Reports & Presentations | Aldermore.

The Board conducted a Deep Dive on Sustainability during the year. Further information on the Group's approach to ESG & Sustainability can be found on page 23. Climate change is a key focus for the Board. Work is supported by the Board Risk Committee, Audit Committee and Remuneration Committee; the Board Risk Committee has overseen the introduction of the new climate change framework for the Group. Aldermore's inaugural disclosures, aligning to, Climate-related Financial Disclosure ("CFD") requirements are included within this report (see section on Energy and Carbon Reporting). These reflect: (1) progress made in the developing the Group's climate risk capabilities; and (2) future areas of focus.

Investors

The interests of the Group's Shareholder is represented on the Board by two Shareholder Directors, Alan Pullinger and Harry Kellan. Shareholder representatives are also invited to attend Risk Committee and Audit Committee meetings, and the Chair meets quarterly with the Chair of the shareholder.

The Group is represented on the FirstRand Board and Board Committees by Executive Committee members. The CRO represents the Group at the FirstRand Risk, Capital Management and Compliance Committee. The CEO represents the Group at the FirstRand Board, the FirstRand Remuneration Committee, the FirstRand Social, Ethics and Transformation Committee and the FirstRand Strategic Executive Committee. Additionally, a number of Committees and fora are attended by both FirstRand and Group Executive Committee members on a reciprocal basis, for example the Asset, Liability and Capital Committee, Credit Committee and the Sustainability and Governance Executive Committee.

The Senior Management team maintain regular dialogue with debt investors.

Regulators

It is highly important to the Board that the Group has regular, open, and transparent dialogue with its regulators, ensuring alignment on evolving regulatory priorities and compliance with new regulations, for example Consumer Duty. Throughout the year, the Chair and Executive Directors have met with the PRA whilst Executive Directors, including the Chief Executive Officer, have met with the FCA. Additionally, the PRA held routine meetings with the Chair of the Board Risk Committee and the CRO, and other Non-Executive Directors. Executive Directors also met with the South African Reserve Bank, the Shareholder's regulator.

The regulatory engagement has focused on risk management, capital and funding planning, implementation of the Group's new strategy, Consumer Duty implementation, the Bank of England's Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") and BCBS 239 (the Basel Committee on Banking Supervision's principles for risk data aggregations and reporting). Additionally, focus has been on addressing the Group's response to the outcome of the PRA's 2022 Periodic Summary Meeting ("PSM") with the Board. The Group provided the PRA with a comprehensive response to demonstrate that all the matters raised in the review have been addressed and as such have been closed, although it is noted that some actions such as new, regular meetings are ongoing.

The Board regularly discusses regulatory developments and receives briefings and progress updates from management on implementation, this includes key updates on the execution of the Group's new strategy. Consumer Duty is a key area of focus and having approved the implementation plan, the Board conducted a comprehensive review to ensure the Group's readiness for this. During the year, the Board received a briefing session on the PRA's priorities for the year.

This Strategic Report on page 6 to 58 and the principal risks and uncertainties on page 95 to 102 were approved by the Board and signed on its behalf by:

Ralph Coates
Director
7 September 2023

3. Corporate Governance

Corporate Governance Structure

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

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

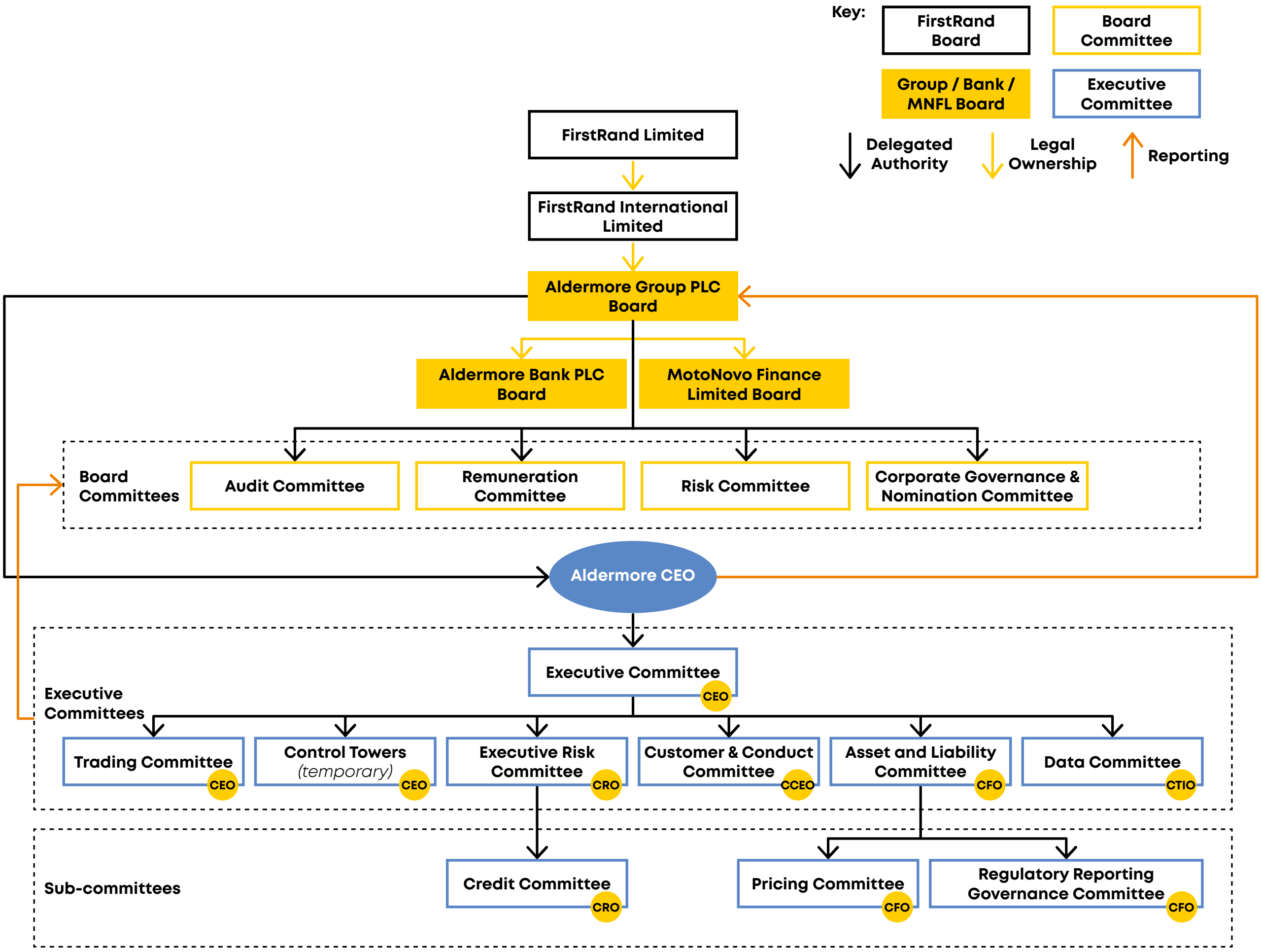
Aldermore Bank and MotoNovo Finance are wholly owned operating subsidiaries of the Aldermore Group. The Boards of the Group, the Bank and MotoNovo Finance generally meet concurrently. The Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority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

The Board is committed to the highest standards of corporate governance and best practice. The Board recognises that effective governance is key to the implementation of our strategy for our shareholder and wider stakeholders. Aldermore Group has applied the Wates Corporate Governance Principles for Large Private Companies for its financial year ended 30 June 2023.

In late 2021, the Group commenced a refresh of its strategy and blueprint, as well as a reshape of its business model in order to build its capabilities and achieve its growth targets. To support this, structural changes were made to both customer-facing divisions and Group support functions, alongside a number of changes to the Executive Committee. As a result, the executive governance framework was updated in September 2022 to ensure effective corporate governance across both strategic and BAU activity; executive Committees now consist of the Executive Committee, Executive Risk Committee, Asset & Liability Committee, Customer & Conduct Committee, Executive Trading Committee, Executive Credit Committee, Executive Data Committee and Executive Pricing Committee. There is appropriate upwards alignment with Board Committees and regular updates are provided to the Board through these channels[1].

1 Control Towers: Executive committee meetings focused on delivery of the strategy, structured in alignment with strategic workstreams (missions). Temporary as once delivery of the strategy is "complete", or we no longer have any missions, the control towers will cease to exist.

Governance Structure Diagram



The Wates Corporate Governance Principles

The Group is committed to delivering high standards of corporate governance which is enabled through an effective corporate governance framework and given oversight by the Board and Committees, as well as having in place robust policies and practices, such as the risk management framework. As in the previous year ended 30 June 2022, the Group has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles" or the "Principles"), published by the Financial Reporting Council ("FRC") in December 2018.

The Wates Principles provide a framework for the Group's Board to monitor corporate governance standards across the Group, ensuring that the business remains aligned to its purpose, whilst identifying opportunities to continuously improve and enhance the Group's corporate governance framework. The Group believes that the application of these Principles results in better engagement with stakeholders, including customers, distribution partners, employees and suppliers. This in turn, enables the Group to create better outcomes for those groups and for our wider stakeholders, which includes the communities in which it operates. The Group is also mindful of the impact that its operations have on the environment.

The table below summarises the six Wates Principles and explains how each one has been applied by Board and indicates where, by cross referencing, more information can be found in the strategic and governance reports. Throughout 2023/24, the Board will continue to review opportunities to strengthen corporate governance.

Principle	Summary	Page
Purpose and leadership	The Group's Board is responsible for the overall leadership of the Group, and for promoting its culture and values. The Board must also give consideration as to how to implement policies and decisions made by the Group's Parent and ultimate shareholder, FirstRand Group. The Board is responsible for approval of the Group's strategic plans, and for overseeing the delivery and execution of these which aim to generate long-term sustainable value. As a Group, Aldermore's enduring purpose supports FirstRand's commitment to enrich lives, by backing more people to go for it, in life and business. Our purpose guides everything we do and extends beyond just the products and services we offer. Our aim is to seek out more undervalued and underserved people and do good by helping them take the action needed to move forward in life, ensuring we meet the needs other institutions do not. We ensure our purpose remains central to our activity, by placing it at the heart of our blueprint; bringing our purpose together with our three strategic drivers, our chosen areas of society to impact and the behaviours necessary to deliver against it. Our blueprint serves as a daily reminder of why we are here, what we must do to back more people, and how we will collectively make it happen.	Page 6 Page 25

Board composition	The Board comprises ten directors – the Chair, two executive directors, five independent non-executive directors, and two shareholder non-executive directors. The non-executive directors bring outside experience across a range of areas, including finance, banking, strategy, risk, communications, brand and technology, and provide constructive challenge and influence. The composition of the Board is partly determined by the agreement with the shareholder. The Board believes that diversity is an important ingredient of board effectiveness, and that a diverse board will bring richer and more broad-based perspectives to governance and decision-making. The Board adopted the targets of the Hampton-Alexander Review (33% female representation on the Board) and the Parker Review (one director of colour on the Board) in February 2021, as part of a longer-term aspiration for the composition of the Board to broadly match the gender mix of the UK population. As at the date of this report, the representation of women on the Board stands at 20%. It is recognised that this is a reduction, of one person, as during the year Cathy Turner, Non-Executive Director, stood down to take a position at another UK bank. The Board's membership includes one director who identifies as being a person of colour. The Board also acknowledges its leadership role, beyond Board composition, to promote the Group's broader societal responsibility to embrace and encourage diversity and inclusiveness. The Board has committed to encouraging people to uphold values and behaviours that promote diversity and inclusiveness, that ensure fairness of opportunities, and that remove any barriers to diversity, inclusivity, and fairness where they might exist, through its governance processes and priorities. Although there have been no new Board appointments during this period, there is a robust process in place to deal with such matters. All Board appointments are subject to a formal, rigorous and transparent procedure and are made on individual merit against a defined job specification and criteria. The Company seeks to ensure that at least half the Board, excluding the Chair, is made up of independent non-executive directors. The Company aims to have a Board that brings perspectives, skills and experiences from a wide range of backgrounds and disciplines. The Board appointment process is overseen by the Board Corporate Governance and Nomination Committee, which ensures candidates from a diverse range of backgrounds are considered on merit and against objective criteria. The process includes consideration of the impact individual candidates will have on overall Board diversity. The effectiveness of the Board and its committees has been formally evaluated on an annual basis by means of completion of a self-assessment questionnaire by each Board member, followed by review meetings between the Chair and individual directors. The 2022 review was delayed in order to give time for new directors to settle into their roles. Subsequently, the review that was performed in January 2023 took a slightly different approach with the process being led by the Chair together with the Senior Independent Director. The questionnaire was refreshed with the addition of new, challenging questions. Following completion of this, the Senior Independent Director held one-to-one meetings with directors, discussing their feedback on the questionnaire and receiving additional feedback including regarding to the effectiveness of the Chair. Additionally, members of the Group's Executive Committee were invited to complete the questionnaire for the first time. Findings from the review have been shared with the Board and progress against recommendations arising will be monitored by the Board.	Page 6 Page 31 Page 62

	The Corporate Governance and Nomination Committee did hold a discussion on the effectiveness and composition of the Board and its Committees during the year and was satisfied that they remain effective and that the directors continue to demonstrate commitment to their roles.	
Directors' Responsibilities	The Board has a non-executive Chair to ensure that the balance of responsibilities, accountabilities and decision making is effectively maintained. The non-executive directors provide constructive challenge in the Board's decision-making processes. The Board receives regular reports on business, financial performance, colleague matters and engagement, stakeholders and key business risks. The Board has established an Audit Committee, a Risk Committee, a Remuneration Committee and a Corporate Governance and Nomination Committee. Each of these Committees has clearly defined Terms of Reference, which are reviewed at least annually, and the Board receives regular updates on the activities and decisions of each Committee. The Audit Committee is comprised entirely of independent non-executive directors and the Risk, Remuneration and Corporate Governance and Nomination Committees are comprised entirely of non-executive directors, the majority of whom are independent. The Board regularly reviews governance processes, the quality and integrity of management information and the effectiveness of internal processes and controls.	Page 83
Opportunity and Risk	Long-term strategic opportunities are evaluated by the Board. The Risk Committee plays a key role in providing oversight and advice to the Board on the current risk exposures and future risk strategy of the Group, including the transformation of the Group's Risk Management Framework. It also oversees performance against the Group's approved risk appetite. The Executive Risk Committee assists the Chief Risk Officer in designing and embedding the Group's Risk Management Framework, monitoring adherence to risk appetite statements, and identifying, assessing and controlling the principal risks within the Group.	Page 78
Remuneration	The Remuneration Committee has clearly defined terms of reference, which are reviewed at least annually, and is responsible for setting the Group's remuneration policy and recommending and monitoring the level and structure of remuneration for the Chair of the Board, all executive directors, members of the senior leadership team and any identified staff, including pension rights and any compensation payments. Pay is aligned with performance, considering fair pay and conditions across the Group's workforce. Details of remuneration structures are set out in the Remuneration Committee Report on page 78. The Committee takes advice from independent external consultants who provide updates on legislative requirements, market best practice and remuneration benchmarking.	Page 78
Stakeholder relationships and engagement	At the heart of the business and the strategy is the Group's Purpose – "Back more people to go for it, in life and business". It is a statement fundamentally aimed at the Group's customers (including intermediary partners) because they are the reason the Group exists, and it signifies the role Aldermore plays in building loyalty with customers colleagues and partners by anticipating and responding to their changing needs and circumstances. The Section 172(1) Statement on page 54 sets out the details of some of the engagement that takes place at an operational or Group-level with key stakeholders. Additionally, the Strategic Review starting on page 6 sets out how the business continues to deliver for its customers, communities and stakeholders.	Page 6 Page 25

Audit Committee Report

I am pleased to present the Audit Committee's report for the year ended 30 June 2023. It has been another challenging year and, as noted in the report below, the Committee has spent much time considering the economic impacts of high inflation and other macro-economic impacts including the UK cost of living crisis on our loan loss provisions and effective interest rate assumptions, where the level of uncertainty as to the future outlook has remained high.

The Committee is comprised of Independent Non-Executive Directors. I was appointed Chair of the Committee in May 2014 and therefore reached 9 years of tenure in May 2023. In line with UK best practice (UK Corporate Governance Code (the "Code")), tenure of longer than nine years is considered to inhibit a director's independence. Although the Group is not required to comply with the Code, it does strive to be in line with best practice as a dual regulated financial services firm. At a meeting of the Corporate Governance and Nomination Committee ("CGNC") held in February 2023, the Committee noted my tenure and it was agreed that it was desirable to retain my skills and experience on the Board beyond nine years, and particularly in my role as Audit Committee Chair given the recent appointment of a new Chief Financial Officer ("CFO"), Group Internal Audit Director, a largely new Executive team, the forthcoming change in external auditor and to allow for an orderly handover of my responsibilities. It has been agreed that I will remain on the Board until 2025, when the year end process is finalised, subject to an assessment of my independence on an annual basis. This was reviewed by CGNC and approved by the Board in July 2023.

As a qualified Chartered Accountant, I act as the Committee member required to have recent and relevant financial experience. The Board has confirmed that it remains satisfied with my experience and that I continue to be independent. The other members of the Committee are Richard Banks (appointed 1 September 2020), Desmond Crowley (appointed 1 May 2020) and Romy Murray (appointed 1 August 2021).

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 2022/23, the Committee:

Approved the Pillar 3 disclosures as at 30 June 2022 and the associated Pillar 3 Reporting Policy.

- Reviewed a summary of Deloitte's findings of the calculation of the Group's expected credit losses ("ECL") estimate from the prior year audit, which, highlighted a number of areas that required attention. It reviewed management's action plan for addressing these areas and received frequent updates on progress made. Overall, the Committee satisfied itself that management's response plan and the controls put in place to improve the overall accuracy and completeness of the Group's ECL were robust.
- Recommended the Annual Report and Accounts of the Company, the Bank and MotoNovo Finance, for the year-ended 30 June 2023, to the respective Boards for approval.

→ Significant matters and key areas of judgement reviewed by the Committee in respect of the Annual Report and Accounts for the year to 30 June 2023 were:

- Loan impairment provisions – Reviewing the Group's approach to applying the IFRS 9 accounting standard taking account of the improvements to the Group's models implemented during the year. The key assumptions and judgements underlying the provisions, including management overlays and post model adjustments for identified issues not fully covered by the provisioning models were challenged and reviewed, notably the impact of affordability on the Group's portfolios following the mini-budget in September 2022, the ongoing UK cost of living crisis which, as inflation reached its highest level in 40 years and interest rates increased rapidly, had evolved into a cost-of-borrowing crisis. The Committee considered the accuracy and validity of forward-looking indicators ("FLI"), adopted across all portfolios and used to incorporate forward looking macro-economic forecasts within the ECL calculation.
- Monitored the sensitivity of the Group's new forecasted macroeconomic scenarios and weightings used for the June 2023 financial year end calculation of impairments. The Committee noted that, since June 2022, the weightings had slightly moved to the upside, however this was reflective of the worsening underlying scenarios rather than an improvement in expectations.
- Monitored the expected impacts to the ECL engine for the financial year end arising from the implementation of new models and customer remediation activity across the Group. The Committee concluded that management's approach and assumptions around IFRS 9 impairments were appropriate and reflected fairly in the associated disclosures contained in the financial statements.
- Monitored the effectiveness of the Effective Interest Rate ("EIR") accounting models which were rebuilt during the previous financial year. The new models record EIR on each individual loan (previously at a portfolio level) and record against actual observed results. The impact from the current higher rate environment compared to previous experience across each of the business lines was also assessed. Management reviewed and updated the mortgage prepayment curves during the year. Overall, the revisions proposed resulted in the prepayment curves being shortened as it was assessed that customers would refinance their mortgages more quickly than previously given the rate environment being likely to be higher for longer. The Committee endorsed the judgements made by management.
- Impacts of ongoing customer remediation activity across the Group and that the associated costs of remediation were appropriately recorded in the financial statements. The Committee were content that the items had been fairly disclosed.

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

Monitoring the effectiveness of the Group's internal control systems

During 2022/23, the Committee:

- Reviewed the final observations from the external auditor, Deloitte LLP ("Deloitte") arising from the testing of the Group's internal controls relevant to the audit of the financial statements for the year ended 30 June 2022 and the interim observations arising from the audit for the year ended 30 June 2023;
- Considered the findings of the Group Internal Audit function's programme of audit reviews throughout the year;
- Approved the annual Money Laundering Officer's report;
- Reviewed and approved the Group Whistleblowing Policy;
- Assessed the Group's systems of risk management and internal controls, including a specific assessment that the financial statements were free from material error due to fraud;
- Ratified the findings of an assessment of the Group's internal financials controls at year end 2023 to fulfill listing requirements for FirstRand Limited; and
- Assessed the Group's systems of risk management and internal controls and concluded that, overall, the internal control environment was satisfactory and that the controls and procedures in place remained fit for purpose.

Reviewing the effectiveness of the Group Internal Audit ("GIA") function and reviewing GIA reports and monitoring management's responsiveness to findings and recommendations

The internal GIA effectiveness review was undertaken in the second quarter of 2022/23 and, overall, the Committee concluded that the GIA effectiveness review responses had been positive from both Committee members and Management and that GIA was sufficiently resourced, independent and effective.

Specifically, during 2022/23, the Committee:

- Approved audit plans for GIA reviews across both Aldermore and the MotoNovo Finance business covering the period from July 2023 to June 2024;
- Reviewed the findings and proposed management actions of the IT Change and Outsourcing audit. The report confirmed the issues already known to the Committee and it provided further precision to the identified issues;
- Approved an updated GIA Charter, which sets out the mandate and remit of the function;
- Approved the GIA 2023/24 Skills and Capability Self-Assessment;
- Reviewed quarterly reports from GIA on the output of the function's work, progress against the plans for 2022 to 2023 and management's progress on remediation of issues. Where appropriate, the Committee approved amendments to the plans;
- Considered the outcomes and trends from the thematic review of the 2021/22 audit findings which had concluded that no systematic weaknesses had been identified; and
- I met regularly with the interim Director of GIA and also met with the members of his team. The Committee also held a private session with the Director of GIA and a number of the senior members of the team made presentations to the Committee.

Following an extensive search for a permanent replacement, the new Director of GIA joined the Bank on 1 March 2023.

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

Specifically, during 2022/2023, the Committee:

- Reviewed the external audit plan for 2022/2023, as well as Deloitte's terms of engagement and approved their 2022/23 fee proposal for the audit of the Group accounts for the year ended 30 June 2023. This review included consideration of the experience of the audit team assigned;
- Considered the external auditor's assessment of their own independence, including the provision of any non-audit services provided by the audit firm, or firms in their network;
- Noted that the Group's Senior Statutory Auditor, Cliff Rana, stood down at the conclusion of his five-year term of office. He was succeeded by Giles Lang. The Committee were satisfied that an effective handover took place;
- Reviewed the Group's Combined Policy on Non-Audit Services, Auditor Independence and employment of former employees of the Auditor and approved non-audit services provided by the external auditor. The Committee monitored adherence to additional governance requirements in relation to the engagement for non-audit services of PricewaterhouseCoopers LLP, joint auditor with Deloitte for the FirstRand Group;
- Reviewed control observations made by the external auditor, including management's responses;
- Reviewed representation letters to the external auditor and recommended these for Board approval;
- Met privately with the senior members of the Deloitte audit team. In addition, I met regularly with Deloitte during the period to facilitate effective and timely communication;
- Assessed the effectiveness of the external auditor and recommended the re-appointment of the external auditor. In addition to the matters above, this assessment considered the Deloitte audit team's contribution to the Audit Committee's discussions; and
- The Committee also noted the results of the FRC's review of Deloitte for the 2022/23 inspection cycle and were pleased to note the FRC's conclusion that the firm had maintained its focus on audit quality on individual audits with consistent FRC Inspection results.

Other activities

- Following the FirstRand group's decision to rotate their current dual auditors (PwC and Deloitte) and to appoint EY and KPMG starting from the end of the current financial year, the Aldermore Group has run a tender process to assess who should become its new auditor from 1 July 2024. Following the conclusion of the audit tender process in June 2023, KPMG will be appointed as the external auditor of the Group with effect from 1 July 2024. Deloitte have confirmed they will continue to be the Group's auditor for FY 2023/24 but will roll-off at this point.
- The Committee received regular briefings on the Group's reporting to its regulators in both the UK and South Africa and the progress made in the ongoing automation of reporting in this area. Given the significant change in the assumptions underpinning the Group's Liquidity Coverage Ratio during the year, the Committee along with the Board, reviewed and had oversight of the revised procedures for the regular review of assumptions introduced by management.

- Reviewed the Group's reporting under the new UK Climate-Related Disclosures regulations. The Committee paid particular attention to the completeness of the reporting and where the relevant data had been sourced from.
- The Committee also carried out a review of its own Terms of Reference during 2022/23. A number of minor updates were recommended to and approved by the Board.

John Hitchins
Audit Committee Chair

Risk Committee Report

As Chair of the Committee, my report provides an overview of the work undertaken by the Committee during the year. In last year's report I spoke about the challenges of managing risk through Covid-19 whilst facing into global economic uncertainty and the rising cost of living in the UK. These challenges have continued in the last twelve months with the global impacts war in the Ukraine. The UK has seen rising energy, power and food prices, rising interest rates and inflation putting pressure on lending and housing costs. The rising cost of living is leaving many, including our own employees, with difficult decisions on how to allocate their resources. We have also witnessed the collapse of several banks in the USA, including Silvergate Bank and Silicon Valley Bank ("SVB"), Whilst in Europe, Credit Suisse was acquired by rival UBS in a government-brokered deal to halt a potential banking crisis.

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

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

The Group's Risk and Compliance functions are led by Andrew Lewis, the Group's Chief Risk Officer ("CRO"). Andrew joined the Group in November 2020 and under his leadership the team have made great progress in developing the maturity of the function to match the growth and complexity of the business. Unfortunately, Andrew has resigned with effect from 28 August 2023. A search is underway, led by Russell Reynolds And until we secure a permanent replacement, Fiona Haywood, Group Internal Audit Director, will provide leadership coverage. However, we anticipate this being for only a brief time and a further announcement is likely in September. In addition to its standing members, meetings of the Committee are attended by the CRO, the Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and other senior managers, as required. The Group's Internal Audit Director, and the Group's external auditor also attend meetings. This ensures that the Committee has a collegiate and open relationship with the business.

The Committee places great importance on the relationships we have with our regulators, maintaining openness and transparency in all aspects of engaging with them. During the year, the Committee has received and considered feedback provided by our regulators, whether as part of ongoing regulatory reviews, activities that are specific to the Aldermore Group or industry-wide matters. It is our belief that an important aspect of maintaining good relationships is healthy dialogue. We openly discuss matters with our regulators across a number of topics, including customer outcomes, the risk management framework, credit quality, liquidity and capital adequacy, business planning, thematic reviews and implementing new regulations such as Consumer Duty. There have been regular meetings with our regulators involving both myself, as Chair of the Committee, and Andrew Lewis as CRO.

Areas of focus

The last couple of years focused on the impacts of and recovery from Covid-19. The UK continues to recover economically from the impacts of Covid-19 whilst learning to live with this as part of our everyday lives. Other key areas of focus have been:

- our response to economic conditions, in particular, the rise in the cost of living and the impact on vulnerable customers and the management of borrowers in financial difficulty;
- the Financial Conduct Authority ("FCA") has also introduced new Consumer Duty regulations which came into force on 31 July 2023;
- the Prudential Regulatory Authority ("PRA") has conducted its two-yearly Supervisory Review and Evaluation Process ("SREP") into Liquidity ("L-SREP") on Aldermore;
- capital and liquidity stress testing; and
- the UK Government's mandatory climate-related financial disclosures requirements.

At each meeting of the Committee detailed briefings are provided by the CRO, supported by the CEO, CFO and others. Updates are provided on standing items as well as ensuring that emerging or horizon risks are discussed. Where appropriate, briefings are supported by senior managers or subject matter experts. The Committee uses a forward planning tool to ensure that all key areas of focus are discussed throughout the year.

Key recurring themes for discussion include the macro environment which, for example, considers the economic outlook and market conditions and updates from all principal risks, including legal risks. In addition to these, periodic reviews and topical discussions are scheduled which include updates on the current market volatility as we see trading pressures impacting business risk – pricing challenges on both sides of the balance sheet with an uncertain outlook on interest rates given the slow progress in getting inflation under control.

The Committee also receive updates on the Group's customers where the work of the Customer and Conduct Committee is reviewed including customer outcome testing, customer vulnerability and supporting customers in financial difficulty.

The Committee regularly receives deep dives including cyber security, operational resilience, consumer credit and Consumer Duty; the latter focused on implementation by the 31 July. In particular, the Group's capital management including stress testing have been areas of ongoing inquiry and challenge by the Committee.

The Risk Management Framework ("RMF") is reviewed annually by the Committee and this year has seen further developments and enhancements to the Risk Appetite Framework, Stress Testing Framework, Treasury Risk Management Framework and Group Framework Policy to further support the RMF. The Group continues to develop its Climate Risk Framework overseen by the Committee.

Some of the key matters discussed by the Committee are explored further below. Additionally, set out from page 95 is a summary of the Group's principal risks and key mitigants, together with an overview of emerging risks and recent and anticipated future developments. More information on the Group's approach to risk management, the governance framework for managing risks and stress testing, together with a full analysis of the Group's principal risks, can be found in the risk management section starting from page 90.

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

The materials, and analytics provided to the Committee have been of high quality, presented by knowledgeable, skilled professionals in their fields, which has created the right environment for value-added discussions. These, together with the focused reports from the senior executives, support the Committee in its assessment of the Group's principal risks. As part of the Board Evaluation Review, the work of the Committee was assessed as being effective.

Credit risk

The credit risk profile of the Group is closely monitored by the Committee, with regular reporting to demonstrate the Group performance against risk appetite statements and risk metrics. The continued unusual economic conditions have ensured that credit risk remains in the spotlight. Our discussions on the UK economy have naturally steered away from Covid-19 to the impact of the cost-of-living crisis. Whilst a combination of lender and Government support generally reduced consumer indebtedness during Covid-19, the impact of the war in Ukraine, increased energy and food costs and rising interest rates are now increasing consumer indebtedness. The Committee receives analysis and reports on the impact on our customers, tracking performance of the Group's credit risk profile and monitoring customer outcomes, ensuring that we are able to support our most vulnerable customers.

Specifically, the Committee held a deep dive on the impact that the cost-of-living crisis is having on the Group's Credit Portfolio. The credit risk profile remains resilient and through the Credit Risk Appetite Framework, there are numerous controls and triggers, including a Recession readiness dashboard, to give the Group early warning of evolving issues.

Capital and liquidity risk

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

The PRA conducted a L-SREP visit towards the end of the financial year, which was part of their planned regulatory oversight programme. In addition, in light of the SVB collapse, UK banks have had more frequent dialogue with the PRA to provide solvency and liquidity assurance.

Market risk

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

Operational Risk

The Group's operational risk profile and operational resilience has been another key area of focus for the Committee. There remain some operational risks associated with Covid-19 and the Committee continues to oversee these matters including governance and performance of the Government-backed loan schemes that were put in place to support businesses. These continue to perform well within the Group's risk appetite. Additional areas of focus and discussion have centred around key operational risk themes e.g. technology, cyber security, operational resilience, data and outsourcing risks.

The constant technology, data and cyber threat continues to move at pace and the Committee has maintained a focus on these areas. Regular dashboards are presented to the Committee which demonstrate how the business is performing and highlights any areas of concern.

The committee monitors the performance of key systems and the Group's material outsourced arrangements and various external cyber security events have reinforced the importance of security assessments of our key third party suppliers which are discussed by the Committee. This work also highlights disaster recovery and resilience to ensure the Group's capability to recover its business-critical services and sustain services to customers. Our change portfolio and transformation projects have also been kept under close review, with presentations to the Committee.

Throughout the year the Committee also received updates on key controls and self-assessment testing across Aldermore and MotoNovo Finance. The Committee received and approved changes to the Operational Resilience Framework as part of its annual review process. As mentioned earlier, a review of the Group's Operational Risk Framework saw the introduction of new controls and policies, along with recommendations for improvements. In conclusion, the Committee was satisfied that the Group's approach is fit for purpose and proportionate.

Compliance, conduct and financial crime risk

Conduct risk management is a key area of focus and following the annual review of its effectiveness, the Committee approved updates to the Conduct Risk Management Framework. As part of the regular updates provided by the CRO, the Committee received reports on performance against conduct risk metrics.

In response to an internal audit recommendation, a Financial Crime Risk Committee has been established to assist with oversight and management of delivery of our obligations.

The new FCA regulations on Consumer Duty became effective on 31 July 2023. Setting a higher bar on how UK banks, insurers and wealth and asset managers treat their customers, the Consumer Duty demands that firms must deliver good outcomes for retail customers. This is a top regulatory priority for the Group with the implementation plan approved by the Board in November 2022. The Committee's role is to support the Board in providing oversight and challenge to the management team on executing its strategy to implement and embed the Duty in the business. This includes the development of end-to-end customer outcomes testing and operational processes to ensure the Group reaches a deeper understanding of its customers and their aims. Consumer Duty implementation has been discussed at meetings of the Committee and at deep dive meetings for the Board members with risk and programme update reports provide by the CRO and the Group's Chief Customer Experience Officer respectively. As the Consumer Duty champion, I also have monthly programme updates focused on ensuring that the Board is receiving timely information and ensuring the Board is asking the right questions of management.

The Committee has overseen the business and risk functions adapting to change, implementing new processes in preparation for regulatory change such as Consumer Duty, and collaborating on thematic areas, such as development of Customer Outcome Testing.

The business has continued to see an escalation in activity from claims management companies and Financial Ombudsman Service ("FOS"), in relation to the disclosure of commission during the car finance sales process. There are Legal cases pending that will help determine any potential impact of these claims. The Committee is kept informed of progress noting that a Steering Committee has been established to manage this from both an operation and legal challenge perspective.

Remediation work is being performed in a small number of areas with full and transparent disclosure to the FCA, including lessons learned. In circumstances where the Group may have determined that a process has not, or may not have, resulted in the best outcome for that customer the business undertakes to support those impacted customers. The Committee has worked closely with the business to understand the scope and to provide challenge on the execution of remediation work.

In addition, the Committee continues to support and challenge the business on identifying and supporting its vulnerable customers; the Group has a control framework in place to manage the associated risks with a Group Vulnerable Customer Policy supported by colleague training. This continues to be a top priority for the business and for the regulator.

The Committee has provided oversight and challenge to the business as it undertakes reviews of the Group's policies and frameworks in order to align these, where possible, with the policies and frameworks in place at FirstRand. To support this a Compliance Enablement Programme has been established with regular updates provided to the Committee.

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

Model Risk

Model Risk was formally recognised as a principal risk during the year, with a model risk management framework, risk appetite and model governance forum established. A Head of Models has been appointed and an independent model validation ("IMV") team stood up that is now reviewing all Tier 1 models. As an example, the segregation of duties around ECL production has provided greater clarity around roles and responsibilities and work is ongoing to work with the financial risk team to improve the 'explain' element of the outputs, and to enhance the control environment.

Reputational Risk

The reputation of the Group is a top priority. The Board is supported by the Risk Committee which is responsible for monitoring reputational risks, providing oversight and assurance of management and their actions to mitigate risk. The Committee receives regular updates from the CRO on behalf of the Reputation Forum which meets weekly and is attended by senior leaders across the Group. The frequency of meetings ensures that content is current and enables the business to quickly get in front of any challenges, assessing the associated risks and impacts. Reputational risk does not have metrics but is reported on a qualitative assessment as such risks are difficult to quantify and often arise as a result of activities under other principal risks. Given the breadth and depth of discussion at the weekly Reputation Forum, the updates are provided to the Committee on an "exceptions" basis, as part of the monthly report provided by the CRO.

Climate Risk

Climate risk is an important area of risk for the Group. The Committee receives regular updates and dashboards on the Group's climate risk under the Climate Change Framework. Also, during the year, Group Internal Audit performed its first audit of climate risk (phase 1), the results of which concluded that, acknowledging that the Group's Supervisory Statement ("SS") 3/19[2] implementation is still work in progress, development was broadly in line with direct peers and that the firm's climate risk management is still maturing through building capability with a relatively high-level and ambitious plan. The Board has undertaken a training session on climate risk.

Overarching risk profile

The Committee carries out reviews across the Group's principal risks on a regular basis throughout the year. The Committee has performed an annual review of the risk management framework, overseeing development of the Group's Principal Risk Frameworks and development of the Group's Climate Risk framework. The quality of reporting has been high and there is a clearer understanding and alignment within the Group as to the identification and management of its risks. This enables the Group to have greater confidence in setting its risk appetite and tracking its risk profile.

Three Lines of Defence Model

The Group operates a recognised Three Lines of Defence approach to articulate the risk management roles and responsibilities of individuals. A review by the business of its approach was undertaken during the year which identified enhancements to the first line of defence systems and processes of control including skills and oversight capability in supporting the management of risk across the Group.

Risk Frameworks and Policies

The Committee has reviewed and approved a comprehensive annual review of the Group's policy framework which in turn was approved by the Board in June 2023 and continues to oversee the effectiveness of the risk management framework and the development of all material (tier 1) frameworks. The Committee also carried out a review of its own Terms of Reference during the year with updates being recommended to and approved by the Board.

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2 PRA: Supervisory Statement 3/19: Enhancing banks and insurers' approaches to managing the financial risks from climate change.

Risk culture

Risk performance is a key enabler to delivering a sustainable and profitable business strategy, driven by a strong risk culture. The Committee supports the Remuneration Committee by assessing risk performance and is required to review the Group's risk culture and the effectiveness of its embedding across the Group. During the year the Committee received management's qualitative and quantitative assessment of risk culture. A part of this work the Committee approved a framework to help assess risk performance, which includes links to remuneration. The standards within this framework are incremental according to levels of responsibility, reaching all colleagues up to and including the Group's Executive and material risk takers. Under this framework all colleagues have a mandatory risk objective to understand how risks operate in the environment relative to their role and how risk management is embedded in the day-to-day work.

Remuneration matters

The Committee has a duty to advise the Remuneration Committee regarding both the design of senior executive annual and long-term incentive plans, to ensure that management are not being incentivised to take undue risks. It also considers any risk management and control issues that have arisen that it believes should be taken into account when determining executive remuneration payments under the aforementioned plans. During 2022/23 the Committee reviewed regular reports from the CRO in relation to such matters.

Stress testing

The Committee has reviewed and approved the Group's regulatory stress testing. Additionally, the Committee has reviewed and approved the Group's capital and liquidity plans, as previously mentioned.

Risk management function

The Committee reviewed the remit and performance of Aldermore's risk management functions. This confirmed that these functions have the requisite skills, experience and resources and with unrestricted access to information to discharge their responsibility effectively in accordance with the relevant professional standards ensuring also that the functions have adequate independence. In this context Andrew Lewis, the CRO, has led the delivery and execution of an effective Risk Operating Model to drive more effective management of risk. The business continues to improve its principal capabilities after Risk Framework 2.0.

Regulatory changes, economic environments and third-party behaviours mean that there is always much to be done and the Committee commends the work delivered by the CRO. The way the Group, and specifically its people, manage risk in a highly skilled, knowledgeable manner, gives the Committee confidence that the Group is well placed to face into future challenges.

Horizon Risks

The continued war in Ukraine creates economic uncertainties and market volatility and the rising cost-of-living raises the risk of stresses on customers finances. We continue to focus our efforts on supporting our customers, in particular our vulnerable customers.

Due to growth of the Group's balance sheet we have seen an expected increase in the level of regulatory supervision and oversight and we are now considering the implications of being required to report under the Bank of England's MREL standards (Minimum Requirement for own funds and Eligible Liabilities). Management has also prepared for the implementation of the FCA's new Consumer Duty regulations which became effective from 31 July 2023. A focus for the next twelve months will be the embedding of the processes and culture to support the Group's obligations under the Duty. The PRA continues to indicate that it may utilise regulatory intervention across the industry for process and control failures.

The recent collapse of SVB has caused concern across both the UK and USA markets with heightened media speculation as to market conditions, heightened concerns amongst consumers and increased oversight by UK regulators and both the FCA and PRA continue to recognise the regulatory risks posed by firms and individuals. Along with the Bank of England, the PRA and FCA have set robust operational resilience standards for firms under their supervision. There are more prescriptive approaches for preparing for cyber-attacks, failed IT upgrades and other forms of disruption to a firm's systems. Firms are required to complete annual self-assessments to demonstrate resilience, vulnerabilities and proposed remedial actions. The PRA continues to focus on regulatory reporting, with emphasis on the timely and accurate provision of regulatory returns. Additionally, in relation to regulatory reporting and the FirstRand Group's obligations under the Basel Committee on Banking Supervision ("BCBS") 239 Principles, the Group has implemented new reporting requirements with FirstRand under the Risk Data Aggregation and Risk Reporting ("RDARR") framework.

There is also ongoing work to review our scenario planning tools in order to enable us to test the resilience of the business, which will position the Group as a forward-looking organisation in respect of understanding and preparing for horizon threats. The business has made good progress over the last 12 months in developing the maturity of its approach to risk management but there will always be more to do. The management team, supported by the risk function, have the skills, tools and professionalism to successfully face these challenges in 2023/24 and beyond.

Richard Banks
Risk Committee Chair

Remuneration Committee Report

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

In setting the Directors' Remuneration Policy and individuals' remuneration, the Committee is mindful of pay and benefits for the wider employee population. The Remuneration Committee and the Board as a whole, takes a keen interest in our approach to equality and diversity more generally, including Aldermore's Gender Pay Gap reporting and our progress against the HM Treasury Women in Finance Charter. As a retail bank, Aldermore is subject to CRD V regulations, which came into force from 1 July 2021.

The aggregate emoluments (i.e. salary/fees, market adjusted allowances, Annual Incentive Plan (AIP) and benefits) received by ten Directors in the year ended 30 June 2023 was £4.6 million (2022: £3.5 million). The emoluments received by the highest paid Director, Steven Cooper, were £2.2 million (2022: £1.9 million).

Aldermore currently operates a defined contribution scheme for all employees including Executive Directors. Company contributions are set as a percentage of salary and an individual may elect to receive some or all of their pension allowance as cash in lieu of pension contribution. The maximum allowance for all employees is set at 10 per cent of base salary. No company contributions were paid into the pension scheme in respect of directors' qualifying services during the year ended 30 June 2023. An aggregate amount of £0.1 million (2022: £0.1 million) was paid as cash in lieu of pension contribution.

To motivate senior management and incentivise delivery of high performance over the long term, directors were granted long term incentive awards. One director was granted a long term incentive award in 2019 that vested in September 2022. £37,333 was paid to one former director in respect of the vested awards, (2022: £49,403). The highest paid director, Steven Cooper, had not joined the Group when the awards were granted, and the vested amount relates to the former CFO.

Two additional non-executive directors, Alan Pullinger and Harry Kellan, are appointed by the FirstRand Group and receive no remuneration personally although an equivalent sum is paid to the FirstRand Group in respect of their services. In addition, an apprentice non-executive director, Nicolina Andall, was in place for part of the year and remunerated appropriately for her time. Nicolina left the Group in October 2022 and is excluded from the above figures as she did not hold director status.

Remuneration for other members of the senior management team

The senior management team consisted of 12 employees in the year. The aggregate total remuneration for the senior management team (including the Chief Executive Officer) was £9.6 million (2022: £6.9 million). Of this, £4.8 million was fixed pay (salary, market adjusted allowance, benefits and pension) and £4.8 million was variable pay (2022: £3.8 million and £3.1 million respectively).

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

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

Remuneration for wider employees

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

We have reported our gender pay gap annually since 2017, and since 2021 the report has been expanded to also include data for MotoNovo Finance Limited. We are committed to continuing the progress we have made to reduce the gender pay gap, which is primarily driven by an under-representation of females in our most senior roles.

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

Please see our Women in Finance and Gender Pay Gap disclosure on our website for more information.

Directors' Remuneration Policy

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

- Attract and retain high calibre individuals;
- Remuneration will not be excessive;
- Remuneration is aligned to the long-term success of the Group;
- Proportion of variable pay is appropriate and balanced and has due regard to any impact of risk;
- Remuneration is fair and supports equality; and
- Independence and strong governance in decision making processes..

The structure of remuneration for our Executive Directors and Senior Managers (including Material Risk Takers) is summarised in the table overleaf.

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

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

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

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

Romy Murray
Remuneration Committee Chair

Directors' Report

The Directors present their report and the financial statements of the Group for the twelve months ended 30 June 2023. As permitted by legislation, some of the matters normally included in the Directors' Report are included by reference as detailed below.

Requirement	Detail	Where to find further information:	
		Section	Location
Business Review	Information regarding the key performance indicators, business review and future developments, and principal risks are contained within the Strategic Report.	Strategic Report	Page 49 (Key performance indicators) Page 18 to 58 Page 95 to 101 (Principal risks)
Strategic Report	The contents of the Strategic Report fulfill Section 414C of the Companies Act 2006.	Strategic Report	Page 6 to 58
Results	The results for the year are set out in the income statement. The profit before taxation for the year ended 30 June 2023 was £222.5 million (year ended 30 June 2022: £204.7 million). A review of the financial performance of the Group is included within the Strategic Report.	Income statement Strategic Report	Page 147 Page 6 to 58
Dividend	The Directors do not propose to recommend a final dividend in respect of the year ended 30 June 2023 (2022: £nil).	–	–
Financial instruments	The Group uses financial instruments to manage certain types of risk, including liquidity and interest rate risk. Details of the objectives and risk management of these instruments are contained in the risk management section.	Risk Management	Page 90
Post balance sheet events	The Directors are aware of one material event that has occurred between the date of the statement of financial position and the date of this report.	Note 35 to the consolidated financial statements.	Page 240

Requirement	Detail	Where to find further information:	
		Section	Location
Share capital	At 30 June 2023, the Company's share capital comprised 2,439,016,380 ordinary shares of £0.10 each. The Company did not issue or repurchase any of the issued ordinary shares during the twelve months ended 30 June 2023 or up to the date of this report. Details of the Company's share capital are provided in note 25 to the consolidated financial statements.	Note 25 to the consolidated financial statements.	Page 218
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 26 to the consolidated financial statements.	Note 26 to the consolidated financial statements	Page 218

Requirement	Detail	Where to find further information:	
		Section	Location
Employees	The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status. The Group is committed to ensuring that disabled people are afforded equality of opportunity with respect to entering into and continuing employment with the Group. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development. Information on employee involvement and engagement can be found in the Strategic Report.	Strategic Report S172(1) Statement ESG	Page 6 to 58 Page 54 Page 23
Suppliers	Information on supplier engagement can be found in the Strategic Report.	Strategic Report S172(1) Statement ESG	Page 6 to 58 Page 54 Page 23
Corporate Governance Arrangements	For the year ended 30 June 2023, under the Companies (Miscellaneous Reporting) Regulations 2018, the Aldermore Group PLC applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ("FRC") in December 2018. Further information can be found in the Corporate Governance report.	Corporate Governance	Page 60 to 89
Directors	The names of the current Directors who served on the Board and changes to the composition of the Board that have occurred during the financial period are provided and are incorporated into the Directors' Report by reference.	Company Information	Page 4

Requirement	Detail	Where to find further information:	
		Section	Location
Appointment and retirement of Directors	The appointment and retirement of the Directors is governed by the Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may only be amended by a special resolution passed by shareholders at a general meeting. According to the Company's Articles of Association, each Director shall retire at the Annual General Meeting held in the third calendar year following the year in which the Director was elected or last re-elected by the Company, or at such earlier Annual General Meeting as the Directors may resolve.	Corporate governance – Election and re – election	–
Directors' indemnities	The Directors who served on the Board up to the date of this report have benefited from qualifying third-party indemnity provisions by virtue of deeds of indemnity entered into by the Directors and the Company. The deeds indemnify the Directors to the maximum extent permitted by law and by the Articles of Association of the Company, in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a Director of the Company and any associated company, as defined by section 256 of the Companies Act 2006. The Group also maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its Directors.	–	–
Significant agreements	None for 2023 (2022: None)	–	–
Political donations	£Nil for 2023 (2022: £Nil)	–	–
Research and development activities	The Group does not undertake formal research and development activities. However, new products and services are developed in each of the business lines in the ordinary course of business in accordance with the Group's product and pricing governance framework. Under this framework, all new products are reviewed and approved by the Group's Customer and Conduct Committee.	Note 17 to the consolidated financial statements	Page 210

Requirement	Detail	Where to find further information:	
		Section	Location
Going concern	The financial statements are prepared on a going concern basis. The Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements) and that there are no material uncertainties to disclose. In making this assessment, the Directors have considered a wide range of information including the impact of the current cost of living economic conditions, future projections of profitability, cash flows and capital resources, operational resilience and the longer-term strategy of the business. In particular, the Directors have considered the following: • The impact on the Group's profitability from future increases in expected credit losses. As part of this, the Directors considered revised macroeconomic scenarios which were received from the Group's in-house experts. These are discussed and sensitivities are disclosed in note 3; • Sufficiency of headroom over minimum regulatory requirements for liquidity and capital, including the ability of the Group to access sources of additional liquidity and / or capital if required; • Sufficiency of the Group's liquid assets and contingent funding to withstand a combined market-wide and idiosyncratic liquidity stress under a range of stress horizons, as defined by the ILAAP approved by the Board in February 2023; • Current and forecasted conditions are significantly less severe than the reverse stress scenario considered in the latest ICAAP presented to the Prudential Regulation Authority; • The plans for further improving the operational resilience of the Group including cyber and information security, information technology, supplier management, people and property. These improvements are planned as part of ongoing investment activity in the Aldermore Group; • Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position; • The validity of the Group's current strategy and its achievement of its longer-term strategic ambitions.	–	–

Requirement	Detail	Where to find further information:	
		Section	Location
	The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors as noted above. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including under a range of stressed scenarios. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.		
Disclosure of information to auditors	Each person who is a Director at the date of this Directors' Report confirms that: • so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and • he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.	–	–
Auditor	Deloitte LLP was reappointed as the Company's auditor with effect from the 2022 AGM, at which a resolution authorising the Board to set Deloitte's remuneration was passed.	-	Page 132

This report was approved by the Board on 7 September 2023 and signed on its behalf:

Ralph Coates
Director

4. Risk Management

Risk Management

All areas of the following report are covered by the external auditor's opinion on page 132, except for those areas highlighted in grey which are the yield curve on page 125 to 127, the leverage ratio and the risk weighted assets and associated capital ratios on page 128 to 130.

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 critical 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. They highlight the governance structure, approach to risk appetite, key risk management processes and the principal and emerging risks the Group faces and the mitigating actions taken to address these.

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. Further details of the processes and procedures for managing and mitigating these risks are provided in the risk management section from page 90.

The effectiveness of the risk management processes and internal controls were regularly reviewed by the Board, Audit Committee and Risk Committee during the year. This involved receiving reports from management including reports from Finance, Risk, Compliance, Internal Audit and the business lines. The Audit Committee also received reports on internal controls from the Group's external auditor. Where recommendations are identified for improvements to controls, these were monitored by Internal Audit who reported 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 ("RMF")

The RMF defines Aldermore Group's overall approach to risk management across all roles and material risk types; it is the Group's foremost risk document, to which all subsidiary risk policies and frameworks must align. The RMF is subject to approval at least annually and is a framework reserved for Board approval. It describes risk management roles and responsibilities and outlines the Group's approach to each material risk to which it is exposed. The RMF also articulates the Group's principal risks, i.e., the risks that are most significant given the Group's business model and operating environment.

Risk governance and oversight

The Group's risk management approach is underpinned by a formal risk governance structure. It ensures the Board and senior management are accountable for overall risk management. The structure facilitates an effective flow of key risk information, providing escalation channels for any risks or concerns from business areas, as well as for strategic direction and guidance to be cascaded down from the Board.

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 help articulate the risk management roles and responsibilities of individuals between: (1) risk management as part of business activities; (2) risk oversight; and (3) independent assurance. All three lines of defence are responsible for supporting and developing a culture of risk awareness and supporting each other in creating the best outcomes for Aldermore and its customers.

First line of defence – Business lines and central functions

The first line of defence consists of all employees except those in the second and third line of defence (see below) with a number of named Risk and Control owners and Risk and Control managers who:

- Are accountable for managing their risks (Risk owners);
- Are accountable for managing their controls (Control owners); and
- Are responsible for discharging risk and control management accountabilities via the appropriate Risk Management Frameworks.

Included within the first line is a '1.5 Line' which provides advice and guidance to the pure 1st Line Risk and Control Owners and Managers to:

- Manage regulatory change and prioritise managing top risks;
- Facilitate periodic Risk and Control Assessments with the relevant Risk and Control Owners / delegated managers;
- Support control design, operation, optimisation and monitoring and testing; and
- Perform outcome testing and quality assurance.

Second line of defence – Risk functions

The second line of defence consists of the Risk and Compliance team (and selected Risk Experts) who provide:

- Independent oversight and challenge of the 1st line of defence;
- Development, management, embedding and oversight of the Group's risk culture;
- Ownership, development, embedding and management of the RMF and associated frameworks, policies and processes;
- Management of regulatory and internal reporting, maintaining an aggregate view of risk exposure and monitoring performance relation to the Group's risk appetite;
- Monitoring of changes and compliance to external regulation (and key relationships with regulators); and
- Assistance in ensure sound management of risk is embedded throughout the Group, supported by appropriate communications and training.

Third line of defence – Internal Audit

The third line of defence consists of the Internal Audit Team who:

- Independently assure the adequacy and effectiveness of Risk Management Framework(s), their policies and processes and the activities and outputs of the 1st and 2nd lines; and
- Provision of independent assurance to the Board, via the Audit Committee, that the risk is being managed and that the controls are operating effectively.

Risk Appetite Framework ("RAF")

Risk Appetite ("RA") is defined as the level of risk which the Group is prepared to accept in the conduct of its activities and sits alongside and reinforces the Senior Managers Regime ("SMCR") / Three Lines of Defence as part of our enterprise risk approach. This is expressed, quantitatively, as the acceptable level of deterioration in a set of key financial parameters under a severe but plausible stress scenario. Risk Appetite is further supported with a qualitative statement by each Principal Risk. The quantitative and qualitative elements are together referred to as Aldermore Group's Risk Appetite Statement.

The RAF supports the overarching risk appetite statement by providing an appropriate monitoring and control environment to enable the Group to achieve its objectives.

The RAF is subject to approval at least annually and is reserved for Board approval. It was updated during the year, consolidating the approach to risk appetite setting into an enterprise-wide process, and formalising the governance and timing.

The Board's responsibilities in relation to the RAF include:

- Ensuring it remains consistent with the Group's short and long term strategy, business and capital plans, risk capacity and compensation programmes;
- Ensuring that annual business plans are in line with the approved risk appetite and incentives / disincentives are included in the compensation programmes to facilitate adherence to risk appetite;

- Including an assessment of risk appetite in strategic discussions including decisions regarding mergers, acquisitions, and growth in business lines or products;
- Discussing and monitoring to ensure appropriate action is taken regarding 'breaches' in risk limits; and
- Questioning senior management regarding activities outside the Board-approved risk appetite statements, if any.

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:

- Group Risk frameworks for setting and managing risk all support to build 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 Internal Capital Adequacy Assessment Process ("ICAAP"), Individual Liquidity Adequacy Assessment Process ("ILAAP") and the Recovery and Resolution Plans ("RRP"), and Reverse Stress Testing ("RST").

The Group maintains 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 the financial or operational position. The STF is a framework reserved for Board approval. The Board Risk Committee reviews the ICAAP, ILAAP and the RRP ensuring the processes are in accordance with regulatory rules and makes recommendation to the Board for approval.

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

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

Scope of the stress testing framework

Purpose of Stress Tests	Type of Stress Tests	Result of Stress Tests
ICAAP Annual process that determines capital requirements	**Top Down / Bottom Up** Tests overall financial resilience to adverse events	**Capital** Estimates the impact of balance sheet movement 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 efficiency	**Reverse Stress Test** Identifies the severity of stress that would cause the Bank to fail	
Other Internal stress tests that support strategic decision making e.g. Risk Appetite, Climate Risk	**Account Level*** Tests the resilience of a loan applicant to adverse events such as interest rate rises	

*Out of scope of this Framework

Principal risks

Effective risk management is a core component of the Group, which is embedded throughout the organisation. The Board and senior management ensure that a strong risk culture is at the heart of everything the Group does, 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 the Group's business model and operating environment, along with the 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 72.
	• Aldermore aims to operate in markets and segments where lending is sustainable and profitable at the margin of credit appetite over a severe downturn and recovery cycle, whilst managing its credit portfolio and outcomes:
	  • Within a long run through the cycle target impairment loss range reflecting portfolio credit quality;
	  • Whilst ensuring that variability around the impairment loss target range resulting from economic cycles is kept to acceptable levels; and
	  • Managing its credit concentrations and portfolio structure such that the Group does not become an outlier relative to its peer group due to outsized downside volatility arising from event risks or amplification of macro-economic downturns through high volatility portfolio over-concentration.
	• Where appropriate, obtain physical or financial collateral;
	• Origination is supported by robust post-completion credit stewardship and in-life management of the credit portfolio;
	• Perform disciplined ongoing management of customer credit risk, including adherence to explicit concentration and credit risk limits; and
	• Credit risk profile is monitored and reported systematically against appetite through a set of credit risk metrics with associated triggers and limits, driving management actions where appropriate.
		The Credit portfolio continues to perform in line with risk appetite against a deteriorating macro-economic environment and uncertain outlook. Provisions for expected credit losses have risen accordingly, and the Group is satisfied that it remains adequately provided. Lending criteria, affordability assessments and collections processes remain under regular check and challenge as the situation unfolds.

Principal risk	Mitigation	Commentary
Capital risk The risk that the Group has insufficient capital resources to cover regulatory requirements, internal targets and/or to support the Group's strategic plans. Refer to page 72.	• Robust controls for Pillar 1 reporting; • A comprehensive annual ICAAP assessment of all material capital risks; • A forward-looking capital plan, formally assessing confirmed and potential changes in regulatory rules; • Regular sensitivity analysis; and • An appropriately sized internal capital buffer over and above regulatory requirements applied both at a point in time and on a forward looking basis to protect against unexpected losses or risk-weighted asset growth.	The Group has maintained a strong capital position over the period, with capital ratios remaining well above regulatory minimums and internal targets.
Liquidity risk The risk that the Group is unable to meet its financial obligations as they fall due or can only do so at excessive cost. Refer to page 72.	• Maintain a sufficient portfolio of cash and high quality liquid assets ("HQLA") to absorb liquidity shocks; • Maintain further overall contingent liquidity resources to absorb longer term liquidity stresses; • 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 strong, despite the uncertain external environment, and has been managed well within liquidity buffers.
Market risk Risk arising from adverse movements in market prices, Profit and Loss or interest rates, given long or short positions in impacted assets and/or liabilities, assets that are subjected to mark to market valuation treatment, unmatched foreign exchange ("FX") or interest rate risk in the banking book ("IRRBB").	• Seek to match the interest rate structure of assets and liabilities, creating a natural hedge; • Where a natural hedge is not possible or desirable, hedge any material market risk exposure by using financial instruments as outlined in the Treasury Risk Limits and Standards; • Perform a comprehensive assessment of market risk drivers as part of the ICAAP and assess new/emerging risks on an ongoing basis; • Maintain a strong control framework to ensure exposures are managed in line with risk appetite; and • Daily monitoring of the Group's Market Risk exposure, with intra-month escalations as appropriate.	The Group's approach remains prudent in response to any external economic uncertainty and underlying risks remain unchanged.

Principal risk	Mitigation	Commentary
Operational risk The risk of loss resulting from inadequate, ineffective or failed internal processes, people and systems or from external events.	The Group operates an Operational Risk Management Framework ("ORMF"), within which important Business Services are identified, assessed, and managed. The Operational Risk Management Framework applies to all entities in the Aldermore Group and aims to: • Ensure the Group's ORMF is proportionate, and in line with industry and regulatory expectations; • Ensure a sound control environment and risk-aware culture; • Proactively manage operational risk within the business units with effective independent oversight; • Ensure that the risk appetite and business plans are supported by effective risk controls, technology and people capabilities; • Support prioritisation of risk management efforts on key areas to support achievement of the business strategy; • Embed simple, efficient and effective operational risk management tools; • Provide forward looking dynamic risk management information that is used in business decision-making; and • Calculate and allocate accurate and appropriate operational risk capital.	The Operational Risk profile remains heightened as the organisation executes a significant change agenda. Whilst the Group does not consider itself to have a higher likelihood of being targeted by cyber criminals the overall threat environment has increased for this risk, given external factors and increasing supply chain risk. In turn, the Group has a continuous programme to monitor these threats and ensure resilience, with a programme of cyber improvements in flight targeting risk reduction and cyber capability uplift. Please refer to the Emerging Risk section for further details. The Group has completed a review of the Group's Three Lines of Defence ("3LOD") model and work is underway to embed the enhancements across the following themes: 3LOD Policy, Risk Ownership alignment, Risk Culture and 1.5LOD roles and responsibilities.

Principal risk	Mitigation	Commentary
Compliance, conduct and financial crime risk The risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of a failure to comply with applicable laws and regulations, codes of conduct and standards of good practice or as a result of the Group's activities being used by criminals for the purposes of money laundering, terrorist financing, bribery and corruption and fraud.	• Maintain a well-defined and embedded process for regulatory and legislative horizon scanning, and preparation for confirmed and potential changes; • Maintain processes that focus on fair customer outcomes and the delivery of Consumer Duty requirements, including oversight of a range of metrics including staff performance, training, customer feedback, complaints and outcome testing; • Ensure that recruitment and training processes have a clear conduct risk focus, including the use of mandatory training modules; • Ensure the approach to remuneration helps to drive fair customer outcomes and prudent decision-making within risk appetite; • Perform the requisite checks on customers, including money laundering, sanctions and fraud at origination, and where appropriate, on an ongoing basis. Tightly monitor remedial actions relating to financial crime breaches; and • Produce an annual Money Laundering Reporting Officer ("MLRO") Report, which is approved at the Audit Committee, and which includes an opinion from the MLRO relating to the adequacy of the Group's existing systems and controls for the prevention of money laundering and terrorist financing risk. • Where any instance of non-Compliance is identified the immediate focus is to remediate where appropriate whilst making sure that lessons are learnt and where appropriate fixes are implemented.	The Compliance Conduct and Financial Crime key risks remain constant, notwithstanding the influence of a number of external factors. These include enhanced Regulatory scrutiny via the implementation of Consumer Duty regulations, the economic environment and potential impact on customer vulnerability, and the conflict in Ukraine with associated sanctions. Significant focus remains on these to ensure compliance with applicable regulations and to ensure the Group's products and processes support the delivery of good customer outcomes.

Principal risk	Mitigation	Commentary
Reputational risk The risk of negative consequences arising from a failure to meet the expectations and standards of our customers, investors, regulators or other stakeholders during the conduct of any business activities.	• Assess the impact of reputational risk at the Reputation Forum chaired by the Chief Risk Officer and initiate mitigating actions as appropriate; • Maintain a clear and explicit set of reputational risk policy requirements to which all colleagues must confirm their understanding and adherence; and • Ensure that the reputational impact of changes to products, pricing, systems and processes is formally considered at the relevant Committees and fora.	The Group's risk profile remains within appetite. The Reputation Forum has been embedded as an effective part of the organisation's governance ensuring reputational impacts are considered across principal risks, processes, and individual transactions.
Model Risk The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Consequences can include poor business decisions, financial loss or the misstatement of financial and/or regulatory reports.	The Model Risk Management ("MRM") function is responsible for the independent oversight of model development and the second line control environment for managing model risk throughout the model lifecycle. Model Risk is managed through a robust Model Risk framework, that includes: • A central model inventory and documentation repository; • A central repository for all independent validation findings to facilitate reporting and tracking; • Assigning a model risk rating based on materiality to the Group. The rating drives level of validation, approval and performance monitoring; • Ensuring models are well-documented, with a clear understanding of strengths, limitations and assumptions; • Regular tracking of model outputs, including a robust process to remediate identified issues; and • A systematic approach in applying model risk mitigants, by means of Post Model Adjustments ("PMAs") and/or Overlays, where model limitations have been identified.	As the Group's use of models continues to evolve in sophistication, the control environment around models continues to be a priority area of focus and investment. As the Model Risk framework is now fully embedded within the organisation, regular reporting is provided on progress and performance against Risk Appetite metrics.

Aldermore is developing its maturity and capabilities around climate risk and will consider its classification as a principal risk in the next financial year. Information on the Group's approach to climate risk management is included from page 37. Climate risk is not deemed to have a material impact on the Group's financial statements.

Emerging risks

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

Themes	Risk	What we are currently doing
Political and Economic Environment		
Geopolitical Risk	**International:** the Ukraine conflict and geopolitical situations remain sensitive, and second and third order effects have materialised across the globe, including through impacts to the UK's cost of living. **Domestic:** Some stability has returned to the market after an exceptionally volatile period. Inflation expected to drop but still unpredictable, exacerbated by industrial action, tensions remain in Ireland due to border issues.	The impact from continued geopolitical uncertainty has been assessed across the principal risks and is managed through the RMF. Where second and third order effects have resulted in an elevated risk profile, these have been factored into the impacted Principal Risk(s) and monitored through the regular business as usual Risk Management process.
Inflation led recession	Macro economy remains challenging for consumers and businesses. The UK has narrowly avoided a recession so far, however, the Group retains its expectation of a recession and below consensus bias in H2 2023 and 2024 given a longer real incomes squeeze, tightening financial conditions and the impact of higher interest rates both immediately and still to be felt in the refinancing pipeline.	Focus remains on recession readiness – Proactive portfolio risk management, selective interventions around underwriting criteria, improved credit fundamentals (enhanced monitoring, integrated frameworks and strengthened practice), ensuring impairment adequacy, and proactively scanning the book for signs of distress at a sub-segment level to support customers.

Themes	Risk	What we are currently doing
Market Volatility	Markets remain volatile and in a 'risk off' mood with a flight to quality in the aftermath of the rapid collapse of Silicon Valley Bank and given the nature of UBS's takeover of Credit Suisse. There are several considerations for Aldermore to consider not least near-term impacts on the timing and pricing for the Group's RMBS and capital issuance, but the potential for the PRA to require earlier issuance of the Bank of England's minimum requirement for own funds and eligible liabilities ("MREL") than are contained in the current plan.	Limits have been reviewed, but no requirement to shift appetite, triggers, or limits; Reactive communications ready for customers; Heightened monitoring is currently in place; Interest rate risk in the banking book is being managed within a very tight corridor; and MREL will feature in the calibration for the next ILAAP and Resolution Plan given the speed and use by the Bank of England of its resolution powers in recent major bank failures.
Competitive Environment		
Strategy and Execution Risks	The competitive environment is increasingly demanding with more pressure to respond to the evolving needs of consumers and maintain relevance. Recent regulatory interactions with other Banks such as the recent fine levied against TSB for their failure of system migration highlighted the importance of successful delivery of Aldermore's Strategic plan.	An enhanced governance structure has been set up for the Group's most material strategic programmes, led by the CEO and attended by the senior management team. This facilitates regular tracking of progress and timely escalation of issues to ensure continued organisational focus and prioritisation on execution.

Themes	Risk	What we are currently doing
Operating Environment		
Compound Change Risk	The Group's Strategy is dependent on successful delivery of a significant change agenda, including a new approach to its technology infrastructure. .	The Group is comfortable at this time with the adequacy of the risk management design for delivery. The independent challenge and continuous monitoring regime are geared toward demonstrating effectiveness (and efficiency) of the technology transformation programme as it proceeds. This includes the development of a change delivery risk dashboard focused on early warning indicators ("EWIs") and key performance indicators ("KPIs") to highlight delivery under-performance, capacity / constraint issues or portfolio 'drift'.
Regulatory Environment	The regulatory operating environment remains under pressure. Through significant regulatory developments (e.g. Consumer Duty) and economic conditions the Group anticipates continued regulatory focus on good customer outcomes.	The Group maintains open and productive relationships with its primary UK regulators, the PRA and FCA, as well as with the South African regulatory bodies of its parent, FirstRand.
Cyber Attacks	Cyber threats continue to evolve, with increased monetisation of cyber to substitute more traditional crime. Strategically, as the Group progresses to more cloud-based solutions there is an increased risk across both 3rd & 4th party suppliers, which will require enhanced resilience and close monitoring, to ensure it continues to meet regulatory expectations, maintain its important business services and limit any harm to both customers and financial markets	As noted within the Operational Risk Profile commentary, whilst the Group does not consider itself to have a higher likelihood of being targeted by cyber criminals, the overall threat environment has increased for this risk. In turn, the Group is focused on ensuring enhanced resilience against this threat, through heightened defences and collaboration with external security experts. The Group will conduct appropriate due diligence and ongoing assurance over suppliers to ensure customer data is appropriately protected.

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 the Group's loan portfolio;
5. Details of provisioning coverage and the value of assets against which loans are secured; and
6. Information on credit risk within the Group's treasury operations.

Due to the more bespoke nature of the Property Development business, the portfolio is excluded from a number of the following tables, as indicated by the footnotes. Gross Property Development exposure at 30 June 2023 was £125.8 million (30 June 2022: £156.5 million), and net exposure was £120.9 million (30 June 2022: £154.3 million).

1. The Group's maximum exposure to credit risk

The following table presents the Group's 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.

The Group's net credit risk exposure as at 30 June 2023 was £20,607.9 million (30 June 2022: £19,095.3 million), an increase of 7.9%. The main factors contributing to the increase were:

i. the growth in gross loans and advances to customers (the Group's largest credit risk exposure), by £528.5 million;

ii. the growth in cash and balances at central banks by £1,085.1 million;

iii. an increase in derivatives held for risk management by £420.4 million;

iv. an increase in loans and advances to banks by £92.2 million; partly offset by

v. a reduction in irrevocable commitments to lend of £253.4 million.

Included in the statement of financial position:	**Note**	**30 June 2023 £m**	**30 June 2022 £m**
Cash and balances at central banks		1 923.4	838.3
Loans and advances to banks		318.8	226.6
Debt securities		2 048.9	2 339.2
Derivatives held for risk management		712.0	291.6
Loans and advances to customers	14	15 494.2	14 965.7
Other assets		54.9	32.3
		20 552.2	**18 693.7**

Irrevocable Commitments to lend	29	382.6	636.0
Gross credit risk exposure		**20 934.8**	**19 329.7**
Less: allowance for impairment losses	14	(326.9)	(234.4)
Net credit risk exposure		**20 607.9**	**19 095.3**

2. Credit quality and performance of loans

The credit quality of loans and advances to customers are analysed internally in the following tables, which also include the fair value of collateral held capped at the gross exposure amount. Model recalibrations undertaken in the last 12 months and the deterioration in the macroeconomic outlook have increased the Group's customers' expected probability of default.

	Structured and Specialist Finance £m	**Property Finance £m**	**Motor Finance £m**	**Total £m**
30 June 2023 (Stage 1)				
Low risk	50.3	10.6	2 723.6	**2 784.5**
Medium risk	1 913.7	5 459.3	1 103.7	**8 476.7**
High risk	1 283.0	1 494.1	28.0	**2 805.1**
Total	**3 247.0**	**6 964.0**	**3 855.3**	**14 066.3**
Fair value of collateral held	**2 600.6**	**6 962.5**	**3 365.1**	**12 928.2**

30 June 2023 (Stage2)	Structured and Specialist Finance £m	Property Finance £m	Motor Finance £m	Total £m
Low risk	0.6	0.2	183.2	**184.0**
Medium risk	61.8	79.1	186.9	**327.8**
High risk	214.5	308.7	4.4	**527.6**
Total	**276.9**	**388.0**	**374.5**	**1,039.4**
Fair value of collateral held	**219.2**	**388.0**	**344.4**	**951.6**

30 June 2023 (Stage3)	Structured and Specialist Finance £m	Property Finance £m	Motor Finance £m	Total £m
High risk	59.2	228.2	101.0	**388.4**
Total	**59.2**	**228.2**	**101.0**	**388.4**
Fair value of collateral held	**47.6**	**227.9**	**94.2**	**369.7**

30 June 2022 (Stage 1)	Structured and Specialist Finance £m	Property Finance £m	Motor Finance £m	Total £m
Low risk	104.7	85.2	2 571.9	**2 761.8**
Medium risk	2 017.4	5 225.7	1 060.2	**8 303.3**
High risk	1 145.2	1 013.0	31.6	**2 189.8**
Total	**3 267.3**	**6 323.9**	**3 663.7**	**13 254.9**
Fair value of collateral held	**2 640.8**	**6 322.2**	**3 214.0**	**12 177.0**

30 June 2022 (Stage 2)	Structured and Specialist Finance £m	Property Finance £m	Motor Finance £m	Total £m
Low risk	27.5	0.5	94.8	**122.8**
Medium risk	79.2	17.5	220.0	**316.7**
High risk	207.3	694.2	11.1	**912.6**
Total	**314.0**	**712.2**	**325.9**	**1 352.1**
Fair value of collateral held	**264.5**	**712.0**	**283.1**	**1 259.6**

30 June 2022 (Stage 3)	Structured and Specialist Finance £m	Property Finance £m	Motor Finance £m	Total £m
High risk	48.3	228.7	81.9	**358.9**
Total	**48.3**	**228.7**	**81.9**	**358.9**
Fair value of collateral held	**41.3**	**228.5**	**71.6**	**341.4**

The credit quality in respect of irrevocable commitments to lend, which also includes the fair value of collateral to be provided capped at the gross exposure amount.

30 June 2023	Structured and Specialist Finance[1] £m[1]	Property Finance £m	Motor Finance £m	Total £m
Low risk	0.5	0.4	-	0.9
Medium risk	11.5	186.8	27.1	225.4
High risk	2.8	45.6	1.4	49.8
Total	**14.8**	**232.8**	**28.5**	**276.1**
Assessed fair value of collateral to be provided	**14.8**	**232.8**	**24.9**	**272.5**

[1] The above analysis excludes Property Development.

	Structured and Specialist Finance[1] £m[1]	Property Finance £m	Motor Finance £m	Total £m
30 June 2022				
Low risk	7.8	4.7	-	12.5
Medium risk	77.2	313.6	36.9	427.7
High risk	30.4	62.7	2.7	95.8
Total	**115.4**	**381**	**39.6**	**536.0**
Assessed fair value of collateral to be provided	**113.3**	**380.8**	**36.7**	**530.8**

[1] The above analysis excludes Property Development.

Not included in the above are £106.5 million (30 June 2022: £100.0 million) of irrevocable commitments to lend for Property Development. The Group uses "loan-to-gross-development-value" as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan-to-gross-development-value is a measure used to monitor the loan balance compared with the expected gross development value once the development is complete. The anticipated gross development value of the committed lending for Property Development is £347.2 million (30 June 2022: £433.8 million).

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

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

3. Forbearance granted through the flexing of contractual agreements

Forbearance is defined as any concessionary arrangement that is made for a period of three months or more where financial difficulty is present or imminent. It is inevitable that some borrowers experience financial difficulties which impact their ability to meet their obligations as per the contractual terms. The Group seeks 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, the Group may use forbearance measures to assist the borrower. These are considered on a case-by-case basis and must result in a fair outcome. The forbearance measures are undertaken in order to achieve the best outcome for both the customer and the Group by dealing with financial difficulties and arrears at an early stage.

The most widely used methods of forbearance are temporarily reduced monthly payments and deferral of payment to reduce the borrower's financial pressures. Where the arrangement is temporary, borrowers are expected to resume normal payments within six months. Forborne amounts disclosed as stage 1 in the below table relate to 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.

	Structured and Specialist Finance[1] £m	Property Finance £m	Motor Finance £m	Total £m
30 June 2023				
Stage 1	0.9	2.2	1.6	4.7
Stage 2	5.2	6.1	8.5	19.8
Stage 3	1.3	32.9	10.4	44.6
Total	**7.4**	**41.2**	**20.5**	**69.1**

[1]The above analysis includes Property Development.

	Structured and Specialist Finance[1] £m	Property Finance £m	Motor Finance £m	Total £m
30 June 2022				
Stage 1	0.6	5.0	0.4	6.0
Stage 2	3.0	9.1	5.1	17.2
Stage 3	4.3	33.9	13.3	51.5
Total	**7.9**	**48.0**	**18.8**	**74.7**

[1]The above analysis includes Property Development.

As at 30 June 2023, the Group had undertaken forbearance measures as follows in the following segments:

Specialist and Structured Finance[1]	30 June 2023 £m	30 June 2022 £m
Temporary or permanent switch to interest only	0.5	0.5
Reduced monthly payments	2.8	3.5
Deferred payment	4.1	3.7
Total Specialist and Structured Finance	**7.4**	**7.7**
Forborne as a percentage of the total divisional gross lending book (%)	0.21%	0.21%

[1]The above analysis includes Property Development.

Property Finance	**30 June 2023 £m**	**30 June 2022 £m**
Temporary or permanent switch to interest only	0.1	-
Reduced monthly payments	22.5	32.9
Payment, waiver or lower rate product switch	10.9	5.6
Deferred payment	6.3	9.4
Loan term extension	1.4	-
Total Property Finance	**41.2**	**47.9**
Forborne as a percentage of the total divisional gross lending book (%)	0.54%	0.66%

Motor Finance	**30 June 2023 £m**	**30 June 2022 £m**
Deferred payment	20.5	18.8
Total Motor Finance	**20.5**	**18.8**
Forborne as a percentage of the total divisional gross lending book (%)	0.47%	0.46%

Total forborne	**30 June 2023 £m**	**30 June 2022 £m**
Total temporary or permanent switch to interest only	0.6	3.5
Total reduced monthly payments	25.3	33.4
Total payment, waiver or lower rate product switch	10.9	5.6
Total deferred payment	30.9	32.0
Total loan term extension	1.4	-
Total forborne	**69.1**	**74.5**
Total forborne as a percentage of the total gross lending book (%)	0.45%	0.50%

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, the Group monitors concentration of credit risk by segment, geography, sector and size of loan:

Credit concentration by segment

Details of the Group's net lending by segment are as follows:

	30 June 2023		30 June 2022	
	£m	%	£m	%
Structured and Specialist Finance[1]	3 508.5	23	3 573.3	24
Property Finance	7 490.4	49	7 204.0	49
Motor Finance	4 168.4	28	3 954.0	27
	15 167.3	**100**	**14 731.3**	**100**

[1]The above analysis includes Property Development.

Credit concentration by geography[1]

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

	30 June 2023 %	30 June 2022 %
East Anglia	10.2	10.8
East Midlands	7.6	6.9
Greater London	16.1	16.6
North East	1.5	3.2
North West	13.0	10.8
Northern Ireland	1.3	1.4
Scotland	7.1	7.0
South East	17.2	17.2
South West	8.6	8.8
Wales	3.5	3.5
West Midlands	6.4	6.5
Yorkshire and Humberside	7.5	7.3
	100	**100**

[1]The above analysis includes Property Development.

Credit concentration by sector[1]

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

	30 June 2023 %	30 June 2022 %
Agriculture, hunting and forestry	0.1	0.2
Construction	5.1	4.5
Education	0.2	0.2
Electricity, gas and water supply	0.3	0.4
Financial intermediation	3.1	3.4
Health and social work	0.4	0.3
Hotels and restaurants	0.3	0.3
Manufacturing	2.0	2.2
Mining and quarrying	0.1	0.2
Private households with employed persons	2.2	2.1
Real estate, renting and business activities	29.0	24.9
Residential	53.0	56.3
Transport, storage and communication	2.6	2.8
Wholesale & retail trade repair of motor vehicles & household goods	1.6	2.2
[1]The above analysis includes Property Development.	**100**	**100**

Credit concentration by quantum of exposure

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

30 June 2023	Structured and Specialist Finance[1] £m	Property Finance £m	Motor Finance £m
£0 – £50k	645.4	119.8	4 044.1
£50 – £100k	346.1	931.9	36.3
£100 – £150k	203.9	1 099.2	5.3
£150 – £200k	135.0	975.8	7.7
£200 – £300k	184.5	1 653.8	9.7
£300 – £400k	145.7	1 036.1	7.9
£400 – £500k	112.4	493.7	10.9
£500k – £1m	337.6	751.2	26.1
£1m – £2m	313.9	289.8	14.5
£2m+	962.9	139.0	5.9
Total	**3 387.4**	**7 490.3**	**4 168.4**

[1]The above analysis excludes Property Development.

30 June 2022	Structured and Specialist Finance[1] £m	Property Finance £m	Motor Finance £m
£0 – £50k	609.9	113.4	3 831.6
£50 – £100k	356.7	961.2	35.8
£100 – £150k	222.0	1 115.2	5.7
£150 – £200k	143.7	991.2	6.5
£200 – £300k	183.3	1 660.2	11.4
£300 – £400k	133.7	998.8	9.3
£400 – £500k	121.5	469.6	9.3
£500k – £1m	360.2	614.0	22.3
£1m – £2m	322.4	190.1	13.9
£2m+	965.6	90.4	8.2
Total	3 419.0	7 204.1	3 954.0

[1]The above analysis excludes Property Development.

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

The principal indicators used to assess the credit security of performing loans are loan-to-value ("LTV") ratios for SME Commercial which falls within Structured and Specialist Lending.

Structured and Specialist Finance

SME Commercial Mortgages[1]

Loan-to-value on indexed origination information on our SME Commercial Mortgage portfolio is set out in the table below. The commercial property indices applied have resulted in a shift away from the lowest LTV bands, and new loan originations continue to be written at conservative LTVs.

	30 June 2023 %	30 June 2022 %
100%+	42.1	29.4
95-100%	9.5	9.3
90-95%	19.9	19.4
85-90%	35.1	15.7
80-85%	66.0	27.4
75-80%	93.4	41.6
70-75%	268.8	94.3
60-70%	296.4	410.6
50-60%	227.4	294.5
0-50%	175.4	268.0
	1 233.9	**1 210.2**
Capital repayment	674.3	644.8
Interest only	559.6	565.4
	1 233.9	**1 210.2**
Average loan-to-value percentage	65.69%	59.99%

[1]The above analysis excludes Property Development.

Invoice Finance

In respect of Invoice Finance, collateral is provided by the underlying receivables (e.g. trade invoices). As at 30 June 2023, the average advance rate against the fair value of sales ledger balances which have been assigned to the Group, net of amounts considered to be irrecoverable, is 61.1% (30 June 2022: 63.7%).

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

Asset Finance

In respect of Asset Finance, collateral is provided by our rights and/or title to the underlying assets, which the Group is able to repossess in the event of default. Where appropriate, the Group will also obtain additional security, such as parent company or personal guarantees. Asset Finance also undertakes unsecured lending where The Group has obtained an understanding of the ability of the borrower's business to generate cash flows to service and repay the facilities provided. As at 30 June 2023, the total amount of such unsecured lending was £12.9 million (30 June 2022: £16.7 million).

Property Development

The Group uses "loan-to-gross-development-value" as an indicator of the quality of credit security of performing loans for the Property Development portfolio. Loan-to-gross-development-value is a measure used to monitor the loan balance compared with the expected gross development value once the development is complete. Average loan-to-gross-development-value at origination for Property Development loans at 30 June 2023 was 61.4% (30 June 2022: 63.1%).

Property Finance

Buy to Let

Loan-to-value on indexed origination information on the Group's Buy to Let Mortgage portfolio is set out in the table below. The property indices applied have resulted in a shift out of the lowest LTV bands, and new loan originations continue to be written at conservative LTVs.

	30 June 2023 £m	30 June 2022 £m
100%+	9.3	9.8
95-100%	9.2	6.0
90-95%	11.7	9.5
85-90%	34.1	25.1
80-85%	213.1	83.7
75-80%	824.4	307.9
70-75%	711.9	565.8
60-70%	1 612.1	1 817.8
50-60%	1 062.9	1 258.2
0-50%	772.7	834.4
	5 261.4	**4 918.2**
Capital repayment	285.6	270.7
Interest only	4 975.8	4 647.5
	5 261.4	**4 918.2**
Average loan-to-value percentage	63.50%	60.69%

Residential Mortgages

Loan-to-value on indexed origination information on the Group's Residential Mortgage portfolio is set out in the table:

	30 June 2023 £m	30 June 2022 £m
100%+	5.4	6.0
95-100%	10.8	8.2
90-95%	52.7	32.9
85-90%	97.2	84.6
80-85%	155.1	158.8
75-80%	227.1	223.1
70-75%	246.2	288.8
60-70%	488.2	544.7
50-60%	391.6	392.2
0-50%	554.7	546.5
	2 229.0	**2 285.8**
Capital repayment	2 065.5	2 114.6
Interest only	163.5	171.2
	2 229.0	**2 285.8**
Average loan-to-value percentage	61.55%	61.44%

Motor Finance

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

	30 June 2023 £m	30 June 2022 £m
100%+	1 079.5	1 107.7
95-100%	543.0	511.0
90-95%	546.7	509.7
85-90%	489.7	445.6
80-85%	396.1	354.1
75-80%	303.5	271.3
70-75%	221.8	200.9
60-70%	289.9	264.3
50-60%	166.4	157.9
0-50%	131.8	131.5
	4 168.4	**3 954.0**

Group impairment coverage ratio

Impairment coverage is analysed as follows:

30 June 2023	Gross carrying amount £m	Provisions £m	Coverage Ratio %
Stage 1	14 071.4	136.9	0.97%
Stage 2	1 037.8	52.7	5.08%
Stage 3	385.0	135.2	35.11%
Undrawn loan facilities	382.6	2.1	0.56%
Total	15 876.8	326.9	2.06%

30 June 2022	Gross carrying amount £m	Provisions £m	Coverage Ratio %
Stage 1	13 254.9	86.8	0.66%
Stage 2	1 352.0	44.5	3.29%
Stage 3	358.8	101.2	28.21%
Undrawn loan facilities	636.0	1.9	0.30%
Total	15 601.7	234.4	1.50%

The increase in stage 2 coverage is predominantly driven by the deterioration in the macro-economic outlook and a marginal increase in arrears. Similarly, the non-performing loans ("NPL") coverage ratio increased to 35.1% (2022: 28.2%) reflecting the Group's commitment to maintaining a prudent level of coverage amid a more uncertain economic outlook.

Treasury Risk

Offsetting financial assets and liabilities

It is the Group's 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 the Group has 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 the Group in order to cover the position. Similarly, the Group will place collateral, usually cash, with the counterparty where it has a net liability position.

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

The following tables detail amounts of financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements including the Term Funding Scheme for SMEs ("TFSME") as detailed in note 14.

			Related amounts not offset in the statement of financial position		
30 June 2023 **Type of financial instrument**	**Gross amount of recognised financial instruments £m**	**Net amount of financial instruments presented in the statement of financial position £m**	**Financial instruments £m**	**Cash collateral paid/ (received) £m**	**Net amount £m**
Assets					
Loans and advances to customers (amounts pre-positioned as collateral under the Sterling Monetary Framework ("SMF") and Term Funding Schemes (TFSME)	2 507.1	2 507.1	(1 077.1)	-	1 430.0
Derivatives held for risk management	712.0	712.0	-	(604.8)	107.2
	3 219.1	**3 219.1**	**(1 077.1)**	**(604.8)**	**1 537.2**
Liabilities					
Amounts due to banks (central bank under the SMF and TFSME)	(1 077.1)	(1 077.1)	1 077.1	-	-
Derivatives held for risk management	(62.5)	(62.5)	-	34.3	(28.2)
	(1 139.6)	**(1 139.6)**	**1 077.1**	**34.3**	**(28.2)**

30 June 2022 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 SMF, TFS & TFSME)	2 908.0	2 908.0	(1 067.8)	-	1 840.2
Derivatives held for risk management	291.6	291.6	-	(274.0)	17.6
	3 199.6	**3 119.6**	**(1 067.8)**	**(274.0)**	**1 857.8**
Liabilities					
Amounts due to banks (central bank under the SMF, TFS's)	(1 067.8)	(1 067.8)	1 067.8	-	-
Derivatives held for risk management	(24.5)	(24.5)	-	8.1	(16.4)
	(1 092.3)	**(1 092.3)**	**1 067.8**	**8.1**	**(16.4)**

6. Information on credit risk within the Group's treasury operations

Credit risk exists where the Group has acquired securities or placed cash deposits with other financial institutions as part of its treasury portfolio of assets. The Group considers the credit risk of treasury assets to be low. No assets are held for speculative purposes or actively traded. Certain high-quality liquid assets are held as part of the Group's 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 2023 and at 30 June 2022, all treasury assets were classified as stage 1 assets per IFRS 9 and no treasury assets were past due or impaired. The Group deems the likelihood of default across the respective asset counterparties as immaterial and hence does not recognise a provision against the carrying balances.

The analysis presented below is derived using ratings provided by Standard and Poor's 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.

Cash and balances at central banks and loans and advances to banks	**30 June 2023 £m**	**30 June 2022 £m**
– Rated AA – to A+	2 253.8	1 064.9
	2 253.8	**1 064.9**
High quality liquid assets		
– Rated AAA	1 347.1	1 794.7
– Rated AA+ to AA-	701.8	544.5
	2 048.9	**2 339.2**
Derivatives held for risk management purposes		
– Rated A+ to A-	712.0	291.6
	712.0	**291.6**
	5 014.7	**3 695.7**

Funding and liquidity risk

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

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

Analysis of the liquidity buffer

The components of the Group's liquidity buffer, in line with the Liquidity Coverage Ratio, are shown below:

Level 1	**30 June 2023 £m**	**30 June 2022 £m**
Bank of England reserve account	1 868.0	792.1
UK gilts and Treasury bills, other Sovereign, Supranational and Covered bonds	1 812.9	2 062.2
Level 2		
Covered bonds	94.3	132.7
Asset backed securities	113.5	145.8
Total liquidity buffer	3 888.7	3 132.8
As a % of funding liabilities	22.2%	19.0%

Balances are presented pre-haircut.

Liquidity Coverage Ratio

Over the year, the Group has maintained a simple and low risk business model with a strong liquidity and funding position. As at 30 June 2023, the Group's Liquidity Coverage Ratio ("LCR") has decreased to 264.5% (30 June 2022: 323.6%) primarily driven by an update to Aldermore's retail customer deposit stressed outflow assumptions. Specifically, for the purpose of completing regulatory returns, the treatment of retail customer deposits has been updated to be classified as internet access-only deposits. This change reflects the Group's ongoing digitisation strategy and subsequent migration away from telephone banking as a mass market customer contact channel, which has taken place in recent years. For comparative purposes, the LCR for June 2022 calculated on the same basis is c. 225%, which means the current position represents a year on year increase on a like-for-like basis.

The Group has also maintained a material surplus above the binding constraint internal view of liquidity requirements, reflective of the Group's strong liquidity and funding position.

	30 June 2023 £m	**30 June 2022 £m**
Eligible liquidity pool (post-haircut)	3 813.9	3 038.0
Net stress outflows	1 441.8	938.8
Liquidity surplus	2 372.1	2 099.3
LCR (%)	264.5%	323.6%

Recognising the importance of complete, timely and accurate regulatory reporting, Aldermore continues to deliver a programme of work focused on automation and regulatory interpretation, designed to reduce risks associated with manual steps, enhance governance and controls and improve overall efficiency in this area.

Customer deposits and wholesale funding

As at 30 June 2023, customer deposits have grown by 6.6% to £15.0 billion (30 June 2022: £14.1 billion) and the Group continues to maintain a diversified source of funding and contingent facilities, including utilising cost effective sources offered by the Bank of England.

Between August 2020 and October 2021, the Group borrowed £1,065.0 million under the Bank of England's TFSME (Term Funding Scheme with additional incentives for SMEs), with repayments scheduled from August 2024. As at 30 June 2023 the balance including accrued interest is £1,077.1 million (30 June 2022: £1,067.8 million).

The Group's residential mortgage backed securitisations:

- In September 2019, the Group issued a residential mortgage backed securitisation (Oak No.3) providing £343.5 million of funding with £102.7 million in issue as at 30 June 2023 (30 June 2022: £144.5 million). The underlying mortgages within the outstanding Oak No.3 securitisation will continue to be repaid with a call option in July 2024.
- In February 2023, the notes from Oak No.2 were redeemed in full (30 June 2022: £65.5 million).
- In May 2023, the Group issued a new securitisation (Oak No.4) providing £402.6 million of funding, with £404.4 million in issue as at 30 June 2023 (including accrued interest). The underlying mortgages within the outstanding Oak No.4 securitisation will continue to be repaid with a call option in February 2028.

In September 2019, the Group issued an auto loan backed warehouse facility (MotoMore) providing £250.2 million of funding, which was expanded during 2022. MotoMore had £683.4 million in issue as at 30 June 2023 (30 June 2022: £682.4 million). The revolving period end date is anticipated to occur in September 2023 and the final maturity date in October 2029.

In October 2020, the Group issued a new autoloan backed securitisation (Turbo 9) providing £583.8 million of funding with £94.7 million in issue as at 30 June 2023 (30 June 2022: £277.8 million). The Turbo 9 securitisation will continue to be repaid with a call option which will become applicable once the notes outstanding reach 10% of the original principal balance of the notes.

The Group issued two tranches of Tier 2 subordinated debt to FirstRand Bank Limited during the 2019 financial year, the first tranche of £100.5 million was issued in November 2018 and the second tranche of £52.3 million in May 2019. The outstanding balance was £152.8 million at 30 June 2023 (30 June 2022: £152.8 million).

In June 2022, the Group (as borrower) entered into a committed liquidity facility with FirstRand Bank Limited (as lender) for £100 million with no drawn balance as at 30 June 2023. The facility has a final repayment date in August 2023.

In October 2022, the Group also entered into an uncommitted liquidity facility with FirstRand Bank Limited (as lender) for £400 million with no drawn balance as at 30 June 2023. The facility has a final repayment date in October 2023.

	30 June 2023 £m	30 June 2022 £m
Retail deposits	10 169.0	9 662.0
SME deposits	2 780.4	2 499.1
Corporate deposits	2 083.9	1 944.3
Customer deposits	**15 033.3**	**14 105.4**

Term Funding Scheme for SMEs (“TFSME”)	1 077.1	1 067.8
Residential Mortgages Backed Securities (“RMBS”)*	507.1	210.0
Warehouse backed by auto loans	683.4	682.4
Auto loan backed securitisations*	94.7	277.8
Subordinated liabilities	152.8	152.8
Intercompany Funding	0.1	-
Wholesale funding	**2 515.2**	**2 390.8**
Total funding	17 548.5	16 496.2

*2022 amounts shown for Other eligible schemes, Residential Mortgages Backed Securities (“RMBS”) and Auto loan backed securitisations have been restated to correctly classify balances.

Asset-liability gap risk

Asset-liability gap risk is the risk that market movements in interest rates may impact the value or income arising from mismatched asset and liability positions which are sensitive to changes in interest rates. The Group is not exposed to significant foreign exchange or equity price risk.

Where possible, the Group seeks to match the interest rate structure of assets with liabilities, creating a natural hedge. Where this is not possible, the Group may 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 rate SONIA assets and liabilities.

Given timing differences, operational costs, and the price of hedging small asset-liability gaps, it is not always efficient to eliminate all mismatches. This residual interest rate risk exposure of the overall asset-liability gap is monitored against approved limits using changes in the economic value of the residual exposure as a result of a modelled 2 percentage point shift in the yield curve.

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

	30 June 2023 £m	30 June 2022 £m
2% shift up of the yield curve:		
As at year end	10.8	(5.6)
Average of month end positions	1.9	(4.6)
2% shift down of the yield curve:		
As at year end	(11.8)	6.3
Average of month end positions	(1.9)	5.8

Gross undiscounted contractual cash flows

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

30 June 2023	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Non-derivative liabilities						
Amounts due to banks	-	6.0	17.7	1 077.5	604.8	1 706.0
Customers' accounts	4 662.1	4 340.7	4 619.5	1 584.8	-	15 207.1
Other liabilities	19.0	21.6	3.6	12.9	11.9	69.0
Debt securities in issue	1.5	111.8	351.6	1 054.0	-	1 518.9
Subordinated notes	-	1.8	154.7	0.4	-	156.9
Unrecognised loan commitments	382.6	-	-	-	-	382.6
	5 065.2	**4 481.9**	**5 147.1**	**3 729.6**	**616.7**	**19 040.5**
Derivative liabilities						
Derivatives held for risk management settled net	-	11.0	58.3	(8.8)	2.0	62.5
	-	**11.0**	**58.3**	**(8.8)**	**2.0**	**62.5**

30 June 2022	Payable on demand £m	Up to 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Non-derivative liabilities						
Amounts due to banks	-	2.8	8.3	1 081.9	274.0	1 367.0
Customers' accounts	4 248.0	4 977.4	3 553.5	1 405.0	-	14 183.9
Other liabilities	20.2	39.7	3.5	15.1	14.0	92.5
Debt securities in issue	-	87.2	265.2	820.2	-	1 172.6
Subordinated notes	-	2.5	5.6	4.6	152.0	164.7
Unrecognised loan commitments	636.0	-	-	-	-	636.0
	4 904.2	**5 109.6**	**3 836.1**	**3 326.8**	**440.0**	**17 616.7**
Derivative liabilities						
Derivatives held for risk management settled net	-	4.8	11.7	7.4	0.6	24.5
	-	**4.8**	**11.7**	**7.4**	**0.6**	**24.5**

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 years ended 30 June 2023 and 30 June 2022.

The Group's capital resources as at the year end were as follows:

	30 June 2023 £m	30 June 2022 £m
Common Equity Tier 1		
Share capital	243.9	243.9
Share premium account	74.4	74.4
Capital redemption reserve	0.2	0.2
FVOCI reserve	3.3	6.9
Retained earnings	1 108.6	946.0
IFRS 9 Transitional adjustment[1]	86.7	79.5
Less: intangible assets and prudential valuation adjustments	(10.5)	(8.9)
Total Common Equity Tier 1 capital ("CET1")	**1 506.6**	**1 342.0**
Additional Tier 1	108.0	108.0
Total Tier 1 capital	**1 614.6**	**1 450.0**
Tier 2 capital		
Subordinated notes	152.0	152.0
Total Tier 2 capital	**152.0**	**152.0**
Total capital resources	**1 766.6**	**1 602.0**
Risk weighted assets – Pillar 1[1]	**10 167.0**	**9 580.8**
Capital ratios – regulatory basis[2]		
Common Equity Tier 1 ratio	14.8%	14.0%
Tier 1 capital ratio	15.9%	15.1%
Total capital ratio	17.4%	16.7%
Leverage ratio (%)	**8.9**	**8.0**

[1] The Group has adopted the regulatory transitional arrangements for IFRS 9 as set out in Article 473a of the UK CRR. These arrangements allow certain impacts of IFRS 9 to be phased in over a 5-year period, including revisions made in June 2020 under the CRR 'Quick Fix' relief package. The Group's capital and ratios presented above are under these arrangements.

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

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

	30 June 2023 £m	30 June 2022 £m
Capital ratios– fully loaded basis[3]		
Common Equity Tier 1 ratio	14.2%	13.2%
Tier 1 capital ratio	15.3%	14.3%
Total capital ratio	16.8%	15.9%

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

Reconciliation of equity per statement of financial position to capital resources

	30 June 2023 £m	30 June 2022 £m
Equity per statement of financial position	**1 538.4**	**1 379.3**
Add: subordinated notes	152.0	152.0
Add: IFRS 9 transitional adjustment	86.7	79.5
Less: intangible assets and prudential valuation adjustments	(10.5)	(8.7)
Total capital resources	**1 766.6**	**1 602.1**

5. Financial statements

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

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

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

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 page 6 to 58 includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Ralph Coates
Chief Financial Officer

7 September 2023

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 '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 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Company statement of financial position;
- the consolidated and Company statement of cash flows;
- the consolidated and Company statements of changes in equity; and
- the related notes 1 to 37.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and 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. The non-audit services provided to the Group and parent company for the year are disclosed in note 8 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: expected credit losses on loans and advances to customers; and effective interest rate income recognition. Within this report, key audit matters are identified as follows: Similar level of risk to prior year
Materiality	The materiality that we used for the Group financial statements was £11.1m which was determined on the basis of 5% of profit before tax.
Scoping	Our Group audit focused on Aldermore Group PLC and its significant subsidiaries, Aldermore Bank PLC and MotoNovo Finance Limited.
Significant changes in our approach	There has been no significant change in our audit approach in the current year.

Conclusions relating to going concern

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

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

- Obtaining management's going concern assessment, which included specific consideration of the impacts of the current macroeconomic environment and the Group's operational resilience, in order to understand and assess the key judgements made by management;

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

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

Expected credit losses on loans and advances to customers

Key audit matter description

As disclosed in note 2(d) the Group recognises expected credit losses ("ECL") on loans and advances to customers in line with the requirements of IFRS 9.

ECL provision as at 30 June 2023 was £326.9m (2022: £234.4m), which represented 2.1% (2022: 1.6%) of loans and advances to customers. The Income Statement charge for the year was £113.3m (2022: £57.4m).

As detailed in note 3 on 'Use of estimates and judgements' (page 169) determining the ECL provision involves a number of models and is inherently uncertain, requiring significant judgements and estimates. The current cost of living crisis has continued to increase the complexity involved in estimating ECLs, in particular with respect to the incorporation of forward-looking information and identifying significant increases in credit risk as a result of the increased cost of borrowing. Due to the considerable judgement required to estimate the ECL, which by its nature, gives rise to a higher risk of material misstatement due to error or fraud, we have identified the determination of the ECL provision as a key audit matter.

We identified two specific areas in relation to the determination of ECL that require significant judgement or relate to assumptions to which the overall ECL is particularly sensitive:

- The selection of probability weighted macroeconomic scenarios. ECL provision is required to be calculated on a forward-look basis under IFRS 9. Due to the continuing uncertain economic environment, including uncertainty in relation to future increases in borrowers' and tenants' costs of living and rises in inflation, there have been changes to the economic assumptions in each of the scenarios. There is significant judgement in determining the characteristics of each scenario applied.
- The inclusion of management adjustments ("overlays"), with particular focus on the overlay to capture the uncertainty related to the cost of living crisis. The inherent limitations of credit risk models are that not all prevalent credit risks are appropriately captured given new and emerging risks. Overlays are based on judgement and quantified using a range of assumptions.

How the scope of our audit responded to the key audit matter	We obtained an understanding and tested the relevant controls over the ECL provision with particular focus on controls over significant assumptions and judgements used in the ECL determination. We involved our credit modelling specialists to perform a review of the ECL models to assess the methodology and performance of the ECL models. Additionally, we supported this work through substantive testing of key modelled inputs. To challenge the macroeconomic forecasts and scenarios we involved our economic advisory team and: • Assessed management's determination of the scenarios used; • Evaluated the economic outlook under each of the scenarios with reference to available macroeconomic data; and • Compared the forecasts implemented by management to consensus data and our own internal data. We also involved our credit modelling specialists and: • Assessed whether the appropriate scenarios were implemented in the model; • Assessed whether the macroeconomic scenarios translated into an appropriate ECL under each scenario; and • Reviewed the disclosures included within the financial statements to determine whether all required information has been included. To challenge the overlays implemented, we involved our credit modelling specialists and: • Performed an assessment of management's model methodology to identify where model limitations existed and whether these were appropriately addressed by an overlay; • Assessed the quantification and methodology for the determination of the PMAs and overlays; • Tested completeness and accuracy data inputs into the PMA and overlay calculation; Performed a stand-back assessment of the combined impact of models, PMAs and overlays at a portfolio level; and Reviewed the disclosures included within the financial statements to determine whether all required information has been included.

Key observations	Based on our audit procedures above, we concluded that the estimate of expected credit losses on loans and advances to customers is not materially misstated.

Effective interest rate income recognition

Key audit matter description	The Group's revenue recognition policy is detailed in note 2(a). The Group's net interest income was £621.0m (June 2022: £529.9m). As detailed in note 3, 'Use of estimates and judgements' on page 169, the determination of the expected life in the mortgage portfolio is a key judgement when estimating revenue recognition on an effective interest rate ("EIR") basis. 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. As detailed in note 3, management have recalibrated behavioural life assumptions to reflect the impact of the uncertain interest rate environment on customer behaviours.

How the scope of our audit responded to the key audit matter	We obtained an understanding and tested the relevant controls over the EIR calculation. For all portfolios we: • Assessed management's accounting policies and confirmed they are in accordance with accounting standards, with particular focus on whether fees are included or excluded from the EIR models; • Tested the relevant loan data inputs, to check they had been completely and accurately included in the EIR models; and • Tested the mathematical integrity of management's EIR models by building our own independent models and comparing the output from our models to the output from management's models. To challenge the behavioural life assumptions for the mortgage portfolio, we involved our data analytics specialists to: • Assess the methodology and technical source code applied in the EIR model in determining the expected life curves; • Assess the completeness and accuracy of the underlying inputs into the EIR model; • Assess the judgemental overlays applied which accelerate prepayment behaviour to reflect emerging borrower behaviours in an uncertain rate environment; and • Independently recreate the forecast expected life curves and apply them in our challenger models to assess against management's curves. We also reviewed the disclosures included within the financial statements to determine whether all required information has been included.
Key observations	Based on our audit procedures above, we concluded that the effective interest rate income recognition for the period is appropriate.

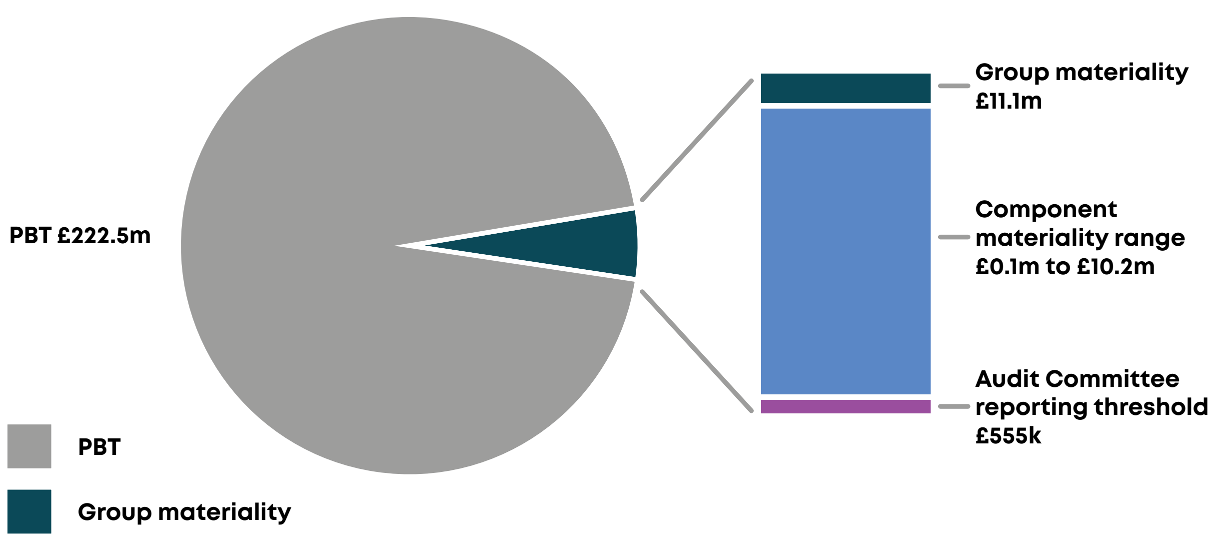
Our application of materiality

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	£11.1m (2022: £10.0m)	£5.7m (2022: £5.0m)
Basis for determining materiality	5% of profit before tax (2022: 5% profit before tax)	0.9% net assets (2022: 0.8% net assets)
Rationale for the benchmark applied	We believe profit before tax is the key metric used by members of the Parent Group and other relevant stakeholders in assessing financial performance.	For the parent company financial statements, as with the prior year our materiality has been capped at 50% of Group materiality which equates to 0.9% of net assets, in accordance with our methodology for determining materiality for components. In our professional judgement, we believe that the use of net assets is appropriate as the purpose of the parent company is that of a holding company.



Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 70%) of Group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year.	

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £555k (2022: £500k), 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

Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Our group audit focused on Aldermore Group PLC and its significant subsidiaries, Aldermore Bank PLC and MotoNovo Finance Limited which were subject to a full scope audit while the remaining subsidiaries were subject to analytical review procedures.

The full scope audit of the three entities named above provided us with 98% coverage of the Group's revenue, 91% of the group's profit before tax, and 98% of the group's net assets.

Our audits of each of the subsidiaries were performed using levels of materiality appropriate to each subsidiary and ranged from £0.1m to £10.2m. At the Group level, we also tested the consolidation process. All work was performed by the group engagement team.

Our consideration of the control environment

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

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

The Audit Committee has performed their own assessment of the internal control environment as set out on page 67.

Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's operations and potential impact on its financial statements. The Group has joined the 'Bankers for Net Zero' initiative and is committed to developing its net zero strategy. Further information is provided in the Group's Energy and Carbon Reporting on page 50. The Group sets out its assessment of the potential impact of climate change in the Emerging Risks section of the Annual Report.

We have held discussions with the Group to understand:

- The process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
- The long-term strategy to respond to climate change risks as they evolve.

Management have determined that the impact of climate related risks on the financial statements for the year is not material, as described in note 3 to the financial statements.

Our audit work has involved:

- Reviewed management's assessment of the physical and transition risks identified and considered the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting;
- Assessed management's approach to the incorporation and quantification of climate change risks within the ECL model; and
- Assessed disclosures in the Annual Report and challenging the consistency between the financial statements and the rest of the Annual Report.

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

Other information

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

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

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

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

We have nothing to report in this regard.

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.

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

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

Identifying and assessing potential risks related to irregularities

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

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

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

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

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

Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

In our opinion the information given in note 32 to the financial statements for the financial year ended 30 June 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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 which we are required to address

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders of the group on 30 June 2017 to audit the financial statements for the year ending 30 Jun 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 30 June 2018 to 30 June 2023.

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).

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.

Giles Lang, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
7 September 2023

The Consolidated and Company Financial Statements

Consolidated income statement

For the year ended 30 June 2023	Note	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Interest income		1 076.8	688.7
Interest expense		(455.8)	(158.8)
Net interest income	5	**621.0**	**529.9**
Fee and commission income		13.8	7.4
Fee and commission expense		(9.7)	(9.9)
Net fee and commission income/(expense)	6	**4.1**	**(2.5)**
Net gains from derivatives and other financial instruments at fair value through profit or loss	7	25.8	7.7
Net gains on disposal of financial assets at fair value through other comprehensive income		2.1	0.2
Other operating income		11.2	27.8
Total operating income		**664.2**	**563.1**
Provisions	21	(19.6)	(16.8)
Other expenses and staff costs	8	(309.3)	(285.2)
Administrative expenses		**(328.9)**	**(302.0)**
Operating profit before impairment losses		**335.3**	**261.1**
Share of profit of associate	15	0.5	1.0
Impairment losses on loans and advances to customers	14	(113.3)	(57.4)
Profit before taxation		**222.5**	**204.7**
Taxation	10	(51.3)	(46.5)
Profit after taxation – attributable to equity holders of the Group		**171.2**	**158.2**

The notes and information from page 157 onwards form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 June 2023	**Year ended 30 June 2023 £m**	**Year ended 30 June 2022 £m**
Profit after taxation	**171.2**	**158.2**
Other comprehensive (expense)/income:		
Items that may subsequently be transferred to the income statement:		
FVOCI debt securities:		
Fair value movements	(2.7)	(2.2)
Amounts transferred to the income statement	(2.1)	(0.2)
Taxation	1.3	1.0
Total other comprehensive (expense)/income	**(3.5)**	**(1.4)**
Total comprehensive income attributable to equity holders of the Group	**167.7**	**156.8**

The notes and information from page 157 onwards part of these financial statements.

Consolidated statement of financial position

As at 30 June 2023	Note	30 June 2023 £m	30 June 2022 £m
Assets			
Cash and balances at central banks	28	1 923.4	838.3
Loans and advances to banks	11	318.8	226.6
Debt securities	12	2 048.9	2 339.2
Derivatives held for risk management	13	712.0	291.6
Loans and advances to customers	14	15 167.3	14 731.3
Fair value adjustment for portfolio hedged risk	13	(417.8)	(199.7)
Other assets		54.9	32.3
Prepayments and accrued income		22.6	19.0
Taxation asset		2.3	8.5
Deferred taxation	10	6.1	7.6
Non-current assets held for sale	34	39.2	-
Investment in associates	15	-	6.2
Property, plant and equipment	16	33.0	39.3
Intangible assets	17	8.6	8.8
Total assets		**19 919.3**	**18 349.0**
Liabilities			
Amounts due to banks	18	1 681.9	1 341.8
Customers' accounts	19	15 033.3	14 105.4
Derivatives held for risk management	13	62.5	24.5
Fair value adjustment for portfolio hedged risk	13	(21.0)	(12.7)
Other liabilities, accruals and deferred income	20	150.8	167.6
Current taxation	10	7.1	-
Provisions	21	28.4	20.0
Debt securities in issue	22	1 285.1	1 170.2
Subordinated notes	23	152.8	152.8
Total liabilities		**18 380.9**	**16 969.6**

As at 30 June 2023	Note	30 June 2023 £m	30 June 2022 £m
Equity			
Share capital	25	243.9	243.9
Share premium account		74.4	74.4
Additional Tier 1 capital	27	108.0	108.0
Capital redemption reserve		0.2	0.2
Fair value through other comprehensive income		3.3	6.9
Retained earnings		1 108.6	946.0
Total equity		**1 538.4**	**1 379.4**
Total liabilities and equity		**19 919.3**	**18 349.0**

The notes and information from page 157 onwards form part of these financial statements.
These financial statements were approved by the Board and were signed on its behalf by:

Steven Cooper
Director
7 September 2023
Registered number: 06764335

Ralph Coates
Director
7 September 2023

Consolidated statement of cash flows

For the year ended 30 June 2023	Note	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Cash flows from operating activities			
Profit before taxation		222.5	204.7
Adjustments for non-cash items and other adjustments included within the income statement	28	145.3	84.5
Increase in operating assets	28	(886.0)	(1 461.0)
Increase in operating liabilities	28	1 294.8	1 704.9
Income tax paid		(37.5)	(64.3)
Net cash flows generated from operating activities		**739.1**	**468.8**
Cash flows from investing activities			
Purchase of debt securities	12	(358.2)	(723.4)
Proceeds from sale and maturity of debt securities	12	299.3	159.6
Capital repayments of debt securities	12	351.3	223.3
Interest received on debt securities	5	15.2	7.6
Purchase of property, plant and equipment and intangible assets		(3.6)	(2.8)
Net cash generated from investing activities		**304.0**	**(335.7)**
Cash flows from financing activities			
Repayment of subordinated debt	23	-	(60.0)
Proceeds from issue of debt securities	22	402.6	432.4
Capital repayments on debt securities issued	22	(291.3)	(349.1)
Coupons paid on Additional Tier 1 capital	27	(8.6)	(8.6)
Interest paid on debt securities issued	22	(31.0)	(10.2)
Interest paid on subordinated notes		(7.5)	(10.0)
Repayment of lease liabilities – principal		(5.5)	(5.0)
Interest paid on lease liabilities		(0.3)	(0.3)
Net cash generated from financing activities		**58.4**	**(10.9)**

Net increase in cash and cash equivalents		**1 101.5**	**122.2**
Cash and cash equivalents at start of the period	28	897.5	775.3
Movement during the period		1 101.5	122.2
Cash and cash equivalents at end of the period	28	**1 999.0**	**897.5**

Consolidated statement of changes in equity

For the year ended 30 June 2023	Share capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	FVOCI reserve £m	Retained earnings £m	Total £m
Year ended 30 June 2023							
As at 1 July 2022	**243.9**	**74.4**	**108.0**	**0.2**	**6.9**	**946.0**	**1 379.4**
Profit after taxation	-	-	-	-	-	171.2	171.2
Other comprehensive loss	-	-	-	-	(3.5)	-	(3.5)
Coupon paid on Additional Tier 1 capital securities	-	-	-	-	-	(8.6)	(8.6)
As at 30 June 2023	**243.9**	**74.4**	**108.0**	**0.2**	**3.3**	**1 108.6**	**1 538.4**
Year ended 30 June 2022							
As at 1 July 2021	**243.9**	**74.4**	**108.0**	**0.2**	**8.3**	**796.4**	**1 231.2**
Profit after taxation	-	-	-	-	-	158.2	158.2
Other comprehensive income	-	-	-	-	(1.4)	-	(1.4)
Coupon paid on Additional Tier 1 capital securities	-	-	-	-	-	(8.6)	(8.6)
As at 30 June 2022	**243.9**	**74.4**	**108.0**	**0.2**	**6.9**	**946.0**	**1 379.4**

The Company statement of financial position

As at 30 June 2023	**Note**	**30 June 2023 £m**	**30 June 2022 £m**
Assets			
Loans and advances to banks		4.2	0.1
Amounts receivable from Group undertaking	36	307.3	304.6
Non-current assets held for sale	34	4.8	-
Investment in subsidiaries	33	515.6	515.6
Investment in associate	15	-	4.8
Total assets		**831.9**	**825.1**
Liabilities			
Amounts payable to Group undertaking	37	22.7	21.9
Subordinated notes	23	152.8	152.8
Total liabilities		**175.5**	**174.7**
Equity			
Share capital	25	243.9	243.9
Share premium account		74.4	74.4
Additional Tier 1 capital	27	108.0	108.0
Capital redemption reserve		0.2	0.2
Retained earnings		229.9	223.9
Total equity		**656.4**	**650.4**
Total liabilities and equity		**831.9**	**825.1**

The notes and information from page 157 onwards form part of these financial statements.

Aldermore Group PLC profit for the year ended 30 June 2023 was £14.1 million (30 June 2022: profit of £14.1 million).

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

Steven Cooper
Director
7 September 2023
Registered number:
06764335

Ralph Coates
Director
7 September 2023

The Company statement of cash flows

For the year ended 30 June 2023	**Note**	**Year ended 30 June 2023 £m**	**Year ended 30 June 2022 £m**
Cash flows from operating activities			
Income from operating activities		4.1	1.8
Dividends Received		10.6	12.1
Adjustments for non-cash items within the income statement		0.6	(1.5)
Net cash flows generated from operating activities		**15.3**	**12.4**
Cash flows from financing activities			
Proceeds from deposit with Bank		(2.6)	57.1
Repayment of subordinated debt	23	-	(60.9)
Coupon paid on contingent convertible securities, net of tax		(8.6)	(8.6)
Net cash used in financing activities		**(11.2)**	**(12.4)**
Net increase in cash and cash equivalents		4.1	-
Cash and cash equivalents at start of the year		0.1	-
Movement during the year		4.1	0.1
Cash and cash equivalents at end of the year		**4.2**	0.1

The Company statement of changes in equity

For the year ended 30 June 2023	Share Capital £m	Share premium account £m	Additional Tier 1 Capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Year ended 30 June 2023						
As at 1 July 2022	243.9	74.4	108.0	0.2	224.0	650.5
Profit for the year	-	-	-	-	14.6	14.6
Transactions with equity holders:						
Coupon paid on contingent convertible securities	-	-	-	-	(8.6)	(8.6)
As at 30 June 2023	**243.9**	**74.4**	**108.0**	**0.2**	**230.0**	**656.4**
Year ended 30 June 2022						
As at 1 July 2021	243.9	74.4	108.0	0.2	218.5	645.0
Profit for the year	-	-	-	-	14.1	14.1
Transactions with equity holders:						
Coupon paid on contingent convertible securities	-	-	-	-	(8.6)	(8.6)
As at 30 June 2022	**243.9**	**74.4**	**108.0**	**0.2**	**224.0**	**650.5**

Notes to the consolidated financial statements

1. Basis of preparation

a. Accounting basis

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

By including the separate balance sheet of the Company, together with the consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements, see page 154 for the Company profit disclosure.

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

Both the consolidated and separate financial statements of the Company have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards.

The consolidated and separate financial statements of the Company, have also been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRS as issued by the IASB for the periods presented.

During the year ended 30 June 2023, there were no new IFRS standards which became effective that impacted the Group's reported earnings, financial position or reserves, or accounting policies. The Group has adopted the following new amendments to existing standards which were effective for accounting periods starting on or after 1 January 2022:

Amendments to existing standards adopted in the current year

Improvements to the Conceptual Framework, as well as amendments to IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRS 9 Financial Instruments become effective in the current year. None of these amendments to IFRS impacted the Company's reported earnings, financial position or reserves, or the accounting policies.

The improvements to the Conceptual Framework included an amendment to IFRS 3 Business Combinations which adds an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. The amendment is intended to update the reference to the Conceptual Framework without significantly changing requirements of IFRS 3, as well as promote consistency in financial reporting and avoid potential confusion from having more than one version of the Conceptual Framework in use. IAS 16 was amended to prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. IAS 37 was amended to apply a 'directly related cost approach' which requires costs that relate directly to a contract to provide goods or services to include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The annual improvements to IFRS clarifies fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability for derecognition of financial liabilities in terms of IFRS 9 Financial Instruments. These fees include only those paid or received between the borrower and the lender. For lease incentives, the annual improvement removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

b. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company, (jointly referred to as the Group), for the year ended 30 June 2023.
Control is achieved when the Group:

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

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

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

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

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

Securitisation vehicles

The Group has securitised certain loans and advances to customers by the transfer of the beneficial interest in such loans to securitisation vehicles (see note 22). 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 a derecognition event. The Group continues to recognise these assets within its own Statement of Financial Position after the transfer as it continues to retain substantially all the risks and rewards from the assets.

c. Going concern

The financial statements are prepared on a going concern basis. The Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements) and that there are no material uncertainties to disclose. Further details on the assessment undertaken by the Directors are set out in the Directors' Report on page 83.

d. Basis of measurement

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

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

e. 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. 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 132.

f. Standards and interpretation issued not yet effective

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

New Accounting Standards	Description of change	Impact on the Group
Amendments to classification of liabilities as current or non-current (IAS 1)	The IAS 1 amendments clarify the requirements for classifying liabilities as current or non-current. More specifically: The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments clarify the situations that are considered settlement of a liability.	Effective date: Annual periods commencing on or after 1 January 2024. The Group presents its assets and liabilities in order of liquidity in its statement of financial position. This impact of this amendment would impact the disclosure of current versus non-current liabilities in the notes to the financial statements. The Group does not expect this amendment to have a significant impact on the annual financial statements.
Disclosure of accounting policies – amendments to IAS 1 and IFRS Practice Statement 2 (IAS 1)	The key amendments to IAS 1 include: Requiring companies to disclose their material accounting policies rather than their significant accounting policies; Clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and Clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.	Effective date: Annual periods commencing on or after 1 January 2023. The amendments are not expected to have a significant impact on the annual financial statements.

New Accounting Standards	Description of change	Impact on the Group
Definition of accounting estimates (IAS 8)	The amendments to IAS 8 introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.	Effective date: Annual periods commencing on or after 1 January 2023. The amendments are not expected to have a significant impact on the annual financial statements.
Deferred tax related to assets and liabilities arising from a single transaction (IAS 12)	The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and lease back transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.	Effective date: Annual periods commencing on or after 1 January 2023. The amendments are not expected to have a significant impact on the annual financial statements.
Amendments to IFRS 16 – Lease liability in a sale and lease back	The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and lease back transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.	Effective date: Annual periods commencing on or after 1 January 2024. The amendments are not expected to have a significant impact on the annual financial statements.

2. Significant accounting policies

This section sets out the Group's accounting policies which relate to the consolidated and separate financial statements as a whole. Where an accounting policy relates specifically to a note then the accounting policy is set out within the respective note.

a. Financial instruments – recognition and derecognition

i. Recognition

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

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

ii. Derecognition

Financial assets are derecognised when and only when:

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

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

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

iii.Term Funding Scheme

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

d. Financial assets

i. Classification

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

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

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

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

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

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

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

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

In order for a debt security to be measured at amortised cost or FVOCI, the cash flows on the asset have to be solely payments of principal and interest ("SPPI"), i.e. consistent with those of a basic lending agreement. The SPPI test is applied to individual securities at initial recognition, based on the cash flow characteristics of the asset. All debt securities held as at 30 June 2023 passed the SPPI test. The Group held three portfolios of debt securities, the first as part of a mixed business model whose objectives include both the collection of contractual cash flows and the sale of financial assets, the second as part of a held to collect model whose objective is to collect contractual cash flows until maturity, and the third as part of the Aldermore Group Capital Investment Strategy which seeks to stabilise earnings volatility by extending the investment term of equity capital. Debt securities held in the mixed business model have been classified as measured at FVOCI, and those held in the held to collect model and Capital Investment Strategy have been classified as measured at amortised cost.

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

ii. Measurement

Financial assets measured at amortised cost

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

Financial assets measured at FVOCI

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

Financial assets at fair value through profit or loss

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

Modification of financial instruments

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

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

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

c. Financial liabilities

i. Overview

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

ii. Financial liabilities at amortised cost

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

iii.Subordinated notes

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

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

d. Impairment — financial assets

This policy applies to:

- Financial assets measured at amortised cost;
- Debt securities measured at FVOCI;
- Loan commitments; and
- Finance lease receivables where Group is the lessor.

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

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

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

Collective and individual assessment

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

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

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

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

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

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

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

- A presumption that an account which is more than 30 days past due has suffered a significant increase in credit risk. IFRS 9 allows this presumption to be rebutted, but the Group believes that more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted the presumption;

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

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

Definition of credit impaired (movement to stage 3)

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

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

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

Movements back to stages 1 and 2

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

Write-Off and Recoveries

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

Forward-looking macroeconomic scenarios

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

e. Financial instruments—fair value measurement

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

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

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

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

f. Assets leased to customers

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

g. Assets leased from third parties

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

h. 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.

i. Shareholders' funds

i. Capital instruments

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

ii. Share premium

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

j. 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.

k. Other operating income

Other operating income predominantly arises from the provision of Motor Finance dealer funding fees. This income is recognised within other operating income when the Group satisfies its performance obligations. Motor Finance recognises a reduction of certain income for policies expected to be cancelled against this based on the long run average cancellation rate over the life of the agreement.

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

3. Use of estimates and judgements

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

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

a. Loan impairment provisions

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

Definition of default

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

Significant increase in Credit Risk for classification in stage 2

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

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

As explained in note 2(d), loans are only considered for reclassification from stage 3 into stage 2 when they no longer meet the criteria for inclusion and have completed agreed probation periods. The probation periods are set according to the type of lending and are based upon professional judgement as to when the risk of a return to stage 3 is considered minimal. It should be noted that £8.1 million of the stage 3 ECL at 30 June 2023 no longer meet the criteria for inclusion but remain in stage 3 pending completion of the agreed probation periods (30 June 2022: £13.4 million). Reclassifications from stage 2 to stage 1 are only possible when the SICR criteria are no longer met.

The key estimates made in applying the accounting policies relate to statistical models (PD, LGD and Macroeconomic) with judgements applied where data and model limitations exist. The full model suite was re-developed and calibrated using latest data, improving the accuracy and stability of estimates used in year-end ECL calculations. While improvements were made, management recognise the limitations of available data, requiring adjustments to ensure the Group is adequately provided.

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

PD models

The Group has employed a number of PD models, tailored to different types of lending with shared characteristics, to assess the likelihood of default within the next 12 months and over the lifetime of each loan. The models calculate estimates of PDs based upon current characteristics of the borrower and observed historical default rates. A 10.0% relative deterioration in the modelled PDs, applied to each macroeconomic scenario, would result in an increase in impairment provisions by £8.1 million as at 30 June 2023 (30 June 2022: £8.1 million).

LGD models

- The Group has developed LGD models for the different types of lending. The models use a number of estimated inputs including Forced Sale Discounts ("FSD") and the valuation of collateral to be collected reflecting the impact of changes in House Price Indices ("HPI") other valuation measures and forced sale discounts ("FSD"). The models are most sensitive to changes in FSD rates and collateral valuations. These sensitivities were applied on all macroeconomic scenarios:
- A 10.0% relative reduction in the HPI would increase the total impairment provisions for mortgage lending by £16.0 million as at 30 June 2023 (30 June 2022: £11.3 million).
- A 5.0% absolute increase in the FSD would increase the total impairment provisions for mortgage lending by £7.8 million as at 30 June 2023 (30 June 2022: £8.5 million).

Forward looking macroeconomic scenarios

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

As the forecast moves further into the horizon, mean reversion is introduced to bring the index level toward the mean as the forecast date moves over the 5 year forecast period. The IFRS9 scenarios used at 30 June 2023 use forecast-error distributions as outlined below:

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

The Group incorporated an Alternative Upside scenario in December 2022 with two scenarios either side of the 'Base' scenario ensuring that forecasts are considering a range of downside and upside stress. In the prior year only four scenarios were used (Upside, Base, Downside and Severe Downside). The Group, by exception and with sufficient rationale, may reject scenarios or adjust scenario weightings. Scenarios and weightings are approved at the Credit Management Forum prior to deployment for use in the ECL.

As at 30 June 2023, 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:

5 Year Average

Scenario	Probability weighting	GDP Growth	Bank of England Base Rate	Unemployment rate	HPI	Consumer Price Index
Alternative Upside	5%	2.4%	3.5%	3.6%	3.4%	2.9%
Upside	10%	1.6%	2.2%	3.9%	2.4%	2.5%
Base	60%	0.9%	3.8%	4.1%	0.7%	3.0%
Downside	20%	0.2%	4.5%	5.6%	(0.7%)	3.2%
Severe Downside	5%	(0.7%)	5.5%	8.0%	(3.1%)	4.2%

As at 30 June 2023, applying a 100% weighting to the severe downside scenario would result in an incremental £57.6 million of provisions being required (30 June 2022 £39.8 million). Applying a 100% weighting to the upside scenario would result in a £20.1 million reduction of provisions being required (30 June 2022 £62.5 million).

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

5 Year Average

Scenario	Probability weighting	GDP Growth	Bank of England Base Rate	Unemployment rate	HPI	Consumer Price Index
Upside	5%	2.7%	2.0%	3.4%	3.3%	3.4%
Base	45%	1.5%	1.5%	3.8%	2.0%	3.6%
Downside	35%	0.4%	2.3%	6.8%	(0.2%)	4.2%
Severe Downside	15%	(0.1%)	(0.4%)	8.3%	(1.3%)	2.2%

Post Model Adjustments

The Group applies Post Model Adjustments ("PMA") and Management Adjustments ("Overlays") to the modelled IFRS 9 ECL provisions. PMAs and Overlays are reviewed and approved on a periodic basis at the Credit Impairment Committee. Following re-development of the suite of IFRS9 models, a bottoms-up assessment of the estimates and known limitations was performed. Key judgements were applied to address risks associated with data limitations related to the absence of downturn and current account transactional data. Operational challenges on the Motor Finance portfolio, impacting collections processes, raise requirements for further judgements.

The key judgemental overlays applied at 30 June 2023 are listed below:

- **Cost-of-Living Overlay**, to address the information gap on current account transactional data, impacting the ability of the models to capture the expected stress in the portfolio due to cost-of-living effects. The overlay focuses on stage 1 customers most at risk of falling into arrears due to tightening affordability. This comprises customers with the highest indebtedness or mortgage customers susceptible to refinance risk as they mature onto higher rates. The overlay is sized by applying the average uplift in coverage from stage 1 to stage 2, with the full amount assigned to stage 1. Increasing/ decreasing the population at risk included within this overlay by 10% would result in an incremental £4.3 million of provisions being required/released.
- **Data Limitations Overlay**, to address the risk of under-stated downside scenario losses due to the absence of downturn data available to the models. Appropriate downside LGDs have been obtained through peer benchmarking. The impact on impairment on uplifting the LGDs to the benchmark levels is applied to the downside scenarios with the appropriate weightings to size the overlay, assigned across all stages.
- **Overlays for Operational Challenges**, standard collections processes are impacted by customer remediation on the Motor Finance portfolio, requiring increases in coverage. Repossession activity is limited, resulting in an ageing stage 3 population with a depleting likelihood of recovery. This level of ageing has not been observed historically and so the increased risk of losses is not captured by the models, requiring judgement. As collections activity returns to business as usual, upon completion of remediation, this overlay will be reassessed.
- **Climate Risk Overlay**, covering physical and transitional climate risk in relation to Buy to Let EPC legislation. The current assumptions for this quantification focus on the expected upcoming regulatory changes to the required EPC ratings for the residential rental market.

The total value of Aldermore Group PMAs and Overlays in the ECL are £111.1 million as at 30 June 2023, this includes £64 million of known data and model limitation judgements to be incorporated into the models in future and £47.1 million of temporary judgements related to current macro-economic uncertainties and customer remediation. Temporary judgements are management's best estimates but are highly sensitive to the out-turn of the volatile macro-economic situation over the next financial year. The total value of ECL PMAs and overlays as at 30 June 2022 was £49.6 million.

b. Effective interest rate ("EIR")

IFRS requires interest earned from loans to be measured under the EIR method. Management must therefore use judgement to estimate the expected life of each type of instrument and hence the expected related cash flows.

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

As at 30 June 2023, included within the overall Residential Mortgages book, are a small number of portfolios which were acquired by the Group and represent approximately 0.5% and 0.6% of Buy to Let and Residential Mortgages net loans respectively (30 June 2022: 0.7% and 0.7% respectively). These portfolios were acquired at a discount which is being recognised under the EIR method. 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.

An ad hoc deep-dive review of the property prepayment curves has been performed following the market volatility in interest rates over the past year. The aim was to confirm whether recent customer behaviour was correctly accounted for in this year's recalibrations.

The review included updating the calibrations with data up to end June 2023 for insight into any possible changes. This provided little to no difference in the resulting prepayment model outputs. The expert judgement overlays were still relevant and reflected the recent observed behaviour of increased prepayment/loyalty very well.

A reassessment was made of the estimates used in respect of the expected lives of the Asset Finance, SME Commercial, Buy to Let and Residential Mortgage organic lending during the year. As a consequence, an overall adjustment of £2.9 million favourable (30 June 2022: £4.2 million adverse) was recorded to increase 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 within the year is analysed as follows:

	Year ended 30 June 2023 interest income £m	Year ended 30 June 2022 interest income £m
SaS – organic lending	(3.0)	0.5
Property Finance – organic lending	5.9	-
Property Finance – acquired portfolios	-	(4.7)
	2.9	**(4.2)**

EIR Sensitivities

The current mortgage prepayment curves assume that customers will stay on a variable reversion rate for an average of 6 months following the end of their fixed rate mortgage. A scenario has been modelled that shortens this to only 1 month on average; the analysis showed that this would lead to a reduction in income to this financial year (2023) of £1.6 million in the Property Finance division.

4. Segmental information

The Group has four reportable segments which consist of its three distinct customer facing businesses: Structured and Specialist Finance ("SaS") (made up of Asset Finance, Invoice Finance and SME Commercial Mortgages); Property Finance (made up of Residential Owner-Occupied Mortgages and Buy to Let Mortgages) and Motor Finance (made up of MotoNovo Finance Limited and the Motonovo Finance securitisations) plus Central Functions (which includes the Group's Saving division and Treasury function). Each of these reportable segments are made up of one or more operating segments which formed the basis of the Group's segmental reporting in prior years. Aldermore Bank PLC constitutes the SaS, Property Finance and Central Functions, and MotoNovo Finance Limited and the Motonovo securitisations represents Motor Finance.

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:

- Structured and Specialist Finance ("SaS") - offering distinctive, specialist lending across Asset Finance, Invoice Finance and Commercial Real Estate, working with intermediaries.
- Property Finance – offering mortgages to landlords and homebuyers, working with intermediaries.
- Motor Finance – providing user vehicle finance to customers, working with our dealer partners.

Central Functions include the Group's Treasury and Savings functions which are responsible for raising finance on behalf of the operating segments, as well as the reconciling items between two of the bank's reportable segments (Motor Finance is excluded as it has its own central function costs) and the consolidated income statement. 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 from derivatives held at fair value shown in note 9.

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

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

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

Segmental information for the year ended 30 June 2023

	Structured and Specialist Finance £m	Property Finance £m	Motor Finance £m	Central Functions £m	Total £m
Interest income – external customers	241.1	323.8	282.1	229.8	1 076.8
Interest expense – external customers	-	-	-	(455.8)	(455.8)
Interest (expense)/ income – internal	(95.6)	(179.5)	(109.6)	384.6	-
Net fees and other income – external customers	7.9	0.5	16.3	18.5	43.2
Total operating income	**153.4**	**144.8**	**188.8**	**177.2**	**664.2**
Administrative expenses including depreciation and amortisation	(22.2)	(17.6)	(84.7)	(204.4)	(328.9)
Impairment gains/ (losses)	(21.9)	(29.5)	(61.9)	-	(113.3)
Share of profit of associate	-	-	-	0.5	0.5
Segmental result	**109.2**	**97.8**	**42.2**	**(26.7)**	**222.5**
Tax	-	-	-	-	(51.3)
Profit after tax	**-**	**-**	**-**	**-**	**171.2**
Assets	3 508.5	7 490.4	4 516.9	4 403.4	19 919.3
Liabilities				(18 380.9)	(18 380.9)
Net assets/ (liabilities)	**3 508.5**	**7 490.4**	**4 516.9**	(13 977.5)	**1 538.4**

Segmental information for the year ended 30 June 2022

	Structured and Specialist Finance £m	Property Finance £m	Motor Finance £m	Central Functions £m	Total £m
Interest income – external customers	211.9	275.8	191.0	10.0	688.7
Interest expense – external customers	-	-	-	(158.8)	(158.8)
Interest (expense)/ income – internal	(40.8)	(109.5)	(43.9)	194.2	-
Net fees and other income – external customers	8.9	(0.3)	23.3	1.3	33.2
Total operating income	**180.0**	**166.0**	**170.4**	**46.7**	**563.1**
Administrative expenses including depreciation and amortisation	(29.3)	(22.4)	(82.9)	(167.4)	(302.0)
Impairment gains/ (losses)	8.1	(13.3)	(52.3)	-	(57.5)
Share of profit of associate	-	-	-	1.0	1.0
Segmental result	**158.9**	**130.3**	**35.2**	**(119.7)**	**204.6**
Tax	-	-	-	-	(46.5)
Profit after tax	-	-	-	-	158.2
Assets	3 573.3	7 204.2	3 954.0	3 617.5	18 349.0
Liabilities				(16 969.6)	(16 969.6)
Net assets/ (liabilities)	**3 573.3**	**7 204.2**	**3 954.0**	**(13 370.9)**	**1 379.4**

*Dedicated funding costs are allocated to the relevant segments, this allocation methodology was recalibrated in-year. This resulted in a year on year increase in amounts recharged to the Group's Lending Segments (SaS, Property Finance and Motor Finance).

5. Net interest income

Accounting policy

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

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

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

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

Interest income and expense presented in the income statement includes:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis;
- Interest on FVOCI debt securities calculated on an EIR basis;
- Interest income recognised on finance leases where the Group acts as the lessor (see note 14);
- Interest on capitalised leases where the Group is the lessee;
- Interest income is net of adjustments to contractual interest income to reflect remediation decisions following assessment of non-compliance; and
- Interest income charged to Invoice Finance clients each day on the balance of their outstanding loans on an EIR basis.

Interest income **Interest income calculated using effective interest rate**	**Year ended 30 June 2023 £m**	**Year ended 30 June 2022 £m**
On loans and advances to customers*	818.6	678.6
On loans and advances to banks	46.5	3.6
On debt securities – measured at FVOCI	19.8	9.2
	884.9	**691.4**
On financial assets at fair value through profit or loss:		
Net interest income on financial instruments hedging assets	192.0	(2.7)
	1 076.8	**688.7**

* Interest Income on loans and advances to customers includes a £9.8 million adjustment (June 2022: £7.3 million) to reflect the non-compliant nature of interest charged to customers during a specific period.

Interest expense **On financial liabilities at amortised cost:**	**Year ended 30 June 2023 £m**	**Year ended 30 June 2022 £m**
On customers' accounts	290.5	110.9
On amounts due to banks	50.7	5.6
On debt securities in issue	29.4	2.1
On subordinated notes	7.5	9.2
On lease liabilities	0.3	0.1
Other	0.2	0.5
	378.6	**128.4**
On financial liabilities at fair value through profit or loss:		
Net interest expense on financial instruments hedging liabilities	77.2	30.4
	455.8	**158.8**
Net interest income	**621.0**	**529.9**

6. Net fee and commission income / (expense)

Accounting policy

Fee and commission income

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

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

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

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

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

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

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

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.

Fee and commission income	**Year ended 30 June 2023 £m**	**Year ended 30 June 2022 £m**
Invoice Finance fees*	6.3	1.0
Valuation fees	0.5	0.5
HP income, option fees and secondary rental fees	4.3	3.3
Annual administration and arrears fees	0.2	0.7
Other fees	2.5	1.9
	13.8	**7.4**

Fee and commission expense	**Year ended 30 June 2023 £m**	**Year ended 30 June 2022 £m**
Introducer commissions	0.1	0.9
Legal and valuation fees	1.5	1.7
Company searches and other fees	6.1	5.1
Credit protection and insurance charges	2.0	2.2
	9.7	**9.9**
Net fee and commission income	**4.1**	**(2.5)**

*During 2023 an element of Invoice Finance fee income was identified to be shown as fee and commission income rather than other operating income to correctly classify balances. This has led to an increase from prior year of £5.5 million in fee and commission income and an equivalent decrease in other operating income.

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

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

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Net gains on derivatives	25.9	7.9
Net losses on available for sale assets held in fair value hedges	(0.1)	(0.2)
	25.8	**7.7**

Included within net gains on derivatives on financial instruments at fair value through profit or loss are gains of £246.5 million (2022: £219.9 million gain) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with loans and advances to customers, together with losses of £204.3 million (2022: £211.6 million loss) representing changes in the fair value of the hedged interest rate risk. Also included are losses of £10.0 million (2022: £12.7 million loss) on derivatives held in qualifying fair value hedging arrangements to hedge interest rate risk associated with customer deposits, together with losses of £9.1 million (2022: £8.5 million gain) representing changes in the fair value of the hedged interest rate risk.

8. Other expenses and staff costs

	Note	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Wages and salaries		133.6	134.2
Social security costs		15.0	15.2
Other pension costs		6.6	6.4
Share based payments		4.0	4.2
Staff costs		**159.2**	**160.0**
Legal and professional and other services		85.2	47.9
Information technology costs		46.0	45.5
Office costs		8.6	7.5
Depreciation and amortisation	16,17	9.7	11.3
Provisions	21	19.6	16.8
Other		0.5	13.0
		328.9	**302.0**

Included in wages and salaries are costs relating to temporary staff of £9.9 million (2022: £11.6 million).

Included in legal and professional and other services is remuneration to the Group's external auditors (Deloitte LLP) for the Company's annual audit of £0.1 million (2022: £0.1 million), and for the audit of the Group's subsidiaries of £1.8 million (2022: £1.8 million), and for assurance services of £30,000 (2022: £29,000), and £26.7 million related to the Group's strategic investment in its future technology capability (2022: £0.7 million). The year ended 30 June 2022 included a recovery of £7.3 million from FirstRand London Branch ("FRLB") relating to Motor Finance remediation. The equivalent recovery for 2023 is £20.5 million and is included within Other. Also included within Other is £21.0 million of expenditure including, but not limited to the Group's cost of recruitment, travel, staff training and colleague benefits.

Included in office costs are operating lease rentals (including service charges) of £1.5 million (2022: £1.6 million).

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

	Year ended 30 June 2023 £m	**Year ended 30 June 2022 £m**
Central Functions and Savings	772	780
Structured and Specialist Finance	273	301
Property Finance	302	304
Motor Finance	777	813
	2 124	**2 198**

Details of the remuneration of directors including the highest paid director are set out in the Remuneration Committee Report on page 78.

9. Pension and other post-retirement benefit commitments

Accounting policy

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.

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £6.6 million (2022: £6.4 million) were charged to the income statement during the year in respect of these schemes. The Group made payments amounting to £96,172 (2022: £75,046) in aggregate in respect of Directors' individual personal pension plans during the year. There were outstanding contributions of £0.8 million at the year end (2022: £0.6 million).

10. Taxation

Accounting policy

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

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

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

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

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

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

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

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

a. Tax charge

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Current tax on profits for the year	50.5	45.1
(Over)/under provision in previous periods	(1.3)	0.4
Total current tax charge	**49.2**	**45.5**
Deferred tax	0.4	0.9
Over provision in previous periods	1.8	0.1
Total deferred tax charge	**2.2**	**1.0**
Total tax charge	**51.3**	**46.5**

The UK mainstream corporation tax rate increased from 19% to 25% from 1 April 2023 as substantively enacted on 24 May 2021. The banking surcharge rate reduction from 8% to 3% and the banking surcharge allowance increase are effective from 1 April 2023 as substantively enacted on 24 February 2022.

Current tax on profits therefore reflects UK corporation tax levied at a blended rate of 20.50% for the 12 month period ending 30 June 2023 (30 June 2022: 19%) and the banking surcharge levied at a blended rate of 6.75% (30 June 2022: 8%) on the profits of banking companies chargeable to corporation tax after a blended surcharge allowance of £43.75 million (30 June 2022: £25.0 million) per annum.

The tax relief on the contingent convertible security coupon costs for the consolidated Group for the year is £2.0 million (30 June 2022: £1.8 million). This comprises £1.8 million at mainstream rate (30 June 2022: £1.6 million) and £0.2 million at surcharge rate (30 June 2022: £0.2 million).

b. Factors affecting tax charge for the year

The tax assessed for the year is different to that resulting from applying the mainstream rate of corporation tax in the UK of 20.5% (2022: 19%). The differences are explained below:

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Profit before tax	**222.5**	**204.7**
Tax at 20.5% (2022: 19%) thereon	45.6	38.9
Effects of:		
Expenses not deductible for tax purposes	0.2	0.2
Over provision in previous periods	0.5	0.5
Deferred tax rate adjustment	(0.3)	1.2
Effect of banking tax surcharge rate	8.5	10.0
Non Taxable Income	(3.0)	(2.7)

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Tax credit relief for contingent convertible securities coupon	(1.8)	(1.6)
Derecognition of deferred tax asset	1.4	-
Other differences	0.3	-
	51.3	**46.5**

The effective tax rate ("ETR") of 23.1% is higher than the blended UK corporation tax rate due to the impact of the bank surcharge. The ETR of 23.1% is above the prior period rate (22.7%) due to the effect of non-taxable adjustments.

c. 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 is as below:

Year ended 30 June 2023	Balance as at 30 June 2022 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Recognised in equity £m	Balance as at 30 June 2023 £m
Capital allowances less than depreciation	3.1	1.7	-	-	4.8
FVOCI debt securities transition adjustment	(0.5)	-	-	-	(0.5)
Gains/(Losses) on available for sale debt securities	(2.1)	-	1.0	(0.3)	(1.4)
IFRS 9 transition adjustment	1.5	(0.3)	-	-	1.2
Other temporary differences	5.6	(3.6)	-	-	2.0
	7.6	**(2.2)**	**1.0**	**(0.3)**	**6.1**

Year ended 30 June 2022	Balance as at 30 June 2021 £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Recognised in equity £m	Balance as at 30 June 2022 £m
Capital allowances less than depreciation	5.5	(2.4)	-	-	3.1
FVOCI debt securities transition adjustment	(0.5)	-	-	-	(0.5)
Gains/(Losses) on debt securities recognised through other comprehensive income	(3.1)	-	1.0	-	(2.1)
IFRS 9 transition adjustment	2.0	(0.5)	-	-	1.5
Other temporary differences	3.7	1.9	-	-	5.6
	7.6	**(1.0)**	**1.0**	**-**	**7.6**

The deferred tax asset at 30 June 2023 of £6.1 million (30 June 2022: £7.6 million) has been based on the substantively enacted tax rates at the balance sheet date. These rates should apply when the temporary differences giving rise to the deferred tax are expected to reverse. The deferred tax asset relates mainly to timing differences between capital allowances and depreciation.

A deferred tax credit in respect of the fair value movements in assets held for sale debt securities of £1.0 million at 30 June 2023 (30 June 2022: £1.0 million) has been shown in other comprehensive income.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The first applicable accounting period for the Aldermore Group will be year ending 30 June 2025. The Group is assessing the impact of applying Pillar 2 tax rules. The Group has applied the mandatory deferred tax exception under the IAS 12 amendment for recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

11. Loans and advances to banks

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Included in cash and cash equivalents: balances with less than three months to maturity at inception	147.0	131.1
Cash collateral on derivatives placed with banks	161.2	90.5
Other loans and advances to banks	10.6	5.0
	318.8	**226.6**

£10.6 million is recoverable more than 12 months after the reporting date in respect of cash held by the Group's securitisation vehicles (30 June 2022: £5.0 million).

All loans and advances to banks were stage 1 assets under IFRS 9 as at 30 June 2023 and as at 30 June 2022. There were no significant impairment provisions in respect of expected losses as at 30 June 2023 or during the year then ended.

12. Debt securities

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
FVOCI debt securities:		
UK Government gilts	113.6	156.8
Supranational bonds	742.0	963.9
Asset-backed securities	112.8	146.0
Covered bonds	553.1	681.1
Debt securities at amortised cost:		
UK Government gilts	270.9	150.3
Supranational bonds	256.5	241.1
	2 048.9	**2 339.2**

At 30 June 2023, £1,720 million (30 June 2022: £2,104.3 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 2023 and as at 30 June 2022. There were no significant impairment provisions in respect of expected losses as at 30 June 2023 or as at 30 June 2022.

13. Derivatives held for risk management

Accounting policy

Derivative financial instruments

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

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

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

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

Hedge accounting

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

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

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

Fair value hedge accounting for portfolio hedges of interest rate risk

The Group applies fair value hedge accounting for portfolio hedges of interest rate risk. As part of its risk management process, the Group identifies portfolios whose interest rate risk it wishes to hedge.

The portfolios comprise either only assets or only liabilities. The Group analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates as the hedged item an amount of the assets or liabilities from each portfolio that it wishes to hedge.

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

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

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

Embedded derivatives

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

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

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

	2023		2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Instrument type				
Interest rate (not in hedging relationships)	46.5	33.5	8.2	8.5
Interest rate (fair value hedges)	665.4	29.0	282.9	15.7
Equity	-	-	0.1	0.1
Foreign exchange	0.1	-	0.4	0.2
	712.0	**62.5**	**291.6**	**24.5**

a. Fair value hedges of interest rate risk

In accordance with its risk management strategy as described on page 90 the Group enters into interest rate swap contracts to manage the interest rate risk arising in respect of the fixed rate interest exposures on loans and advances to customers, debt securities and customer deposits, which are each treated as separate portfolios.

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

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

The Group has identified the following possible sources of ineffectiveness:

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

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

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

Fair value hedges Interest rate risk	**Nominal amount of the hedging instruments Year ended 30 June 2023** £m	**Carrying amount of the hedging instruments Year ended 30 June 2023** **Assets** £m	**Liabilities** £m	**Line item in the statement of financial position where the hedging instrument is located**	**Changes in fair value used for calculating hedge ineffectiveness Year ended 30 June 2023** £m
Interest rate swaps	12 413.8	665.4	29.0	Derivatives held for risk management	288.8

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

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

Fair value hedges Interest rate risk	**Carrying amount of the hedged items Year ended 30 June 2023**		**Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged items Year ended 30 June 2023**		**Line item in the statement of financial position where the hedged items are included**
	Assets £m	**Liabilities** £m	**Assets** £m	**Liabilities** £m	
Loans and advances to customers	7 558.3	N/A	(417.8)	N/A	Loans and advances to customers
Debt securities	797.7	N/A	(120.8)	N/A	Debt securities
Customer deposits	N/A	4 126.9	N/A	21.0	Customer accounts

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

The table below summarises the hedge ineffectiveness recognised in profit or loss during the financial year ended 30 June 2023 and the comparative period, for the Group's designated fair value hedge relationships. The raising interest rates have driven an increase in the fair value of derivatives and the offsetting hedged assets and liabilities. The mismatch in the cash flow of the two components, as a result of changes in expected prepayments, creates ineffectiveness which has a larger impact in financial year 2023 as a result of the larger fair value measurements.

	Ineffectiveness recognised in the income statement Year ended 30 June 2023 £m	Line item in the statement of financial position where the hedged instrument is located
Fair value hedges Interest rate risk	22.1	Net gains / (losses) from derivatives and other financial instruments at fair value through profit or loss

	Ineffectiveness recognised in the income statement Year ended 30 June 2022 £m	Line item in the statement of financial position where the hedged instrument is located
Fair value hedges Interest rate risk	3.9	Net gains / (losses) from derivatives and other financial instruments at fair value through profit or loss

b. Other derivatives held for risk management

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

- Interest rate basis risk on certain mortgage loans;
- Equity market risk on equity-linked products offered to depositors; and

Foreign exchange risk on currency loans provided to Invoice Finance customers.

14. Loans and advances to customers

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Gross loans and advances	15 494.2	14 965.7
Less: allowance for impairment losses	(326.9)	(234.4)
	15 167.3	**14 731.3**
Amounts include:		
Expected to be recovered more than 12 months after the reporting date	12 998.8	12 470.1

At 30 June 2023, loans and advances to customers of £2,507.1 million (30 June 2022: £2,908.0 million) were pre-positioned into a Single Funding Pool with the Bank of England and HM Treasury Term Funding Scheme. These loans and advances were available for use as collateral with the Scheme. Details of amounts drawn on the facility are shown in note 18.

At 30 June 2023, loans and advances to customers included £1,465.1 million (30 June 2022: £1,349.5 million) which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to securitisation vehicles consolidated into these financial statements. All the assets pledged are retained within the statement of financial position as the Group retains substantially all the risks and rewards relating to the loans.

Analysis of gross loans and advances

	30 June 2023			
	Gross loans and advances (amortised cost)			
£m	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Amount as at 1 July 2022	**13 266.8**	**1 348.1**	**350.9**	**14 965.7**
Improvement in credit exposure				
Stage 2 to stage 1	590.3	(590.3)	-	-
Stage 3 to stage 1	41.1	-	(41.1)	-
Stage 3 to stage 2	-	19.0	(19.0)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(504.0)	504.0	-	-
Stage 1 to stage 3	(80.8)	-	80.8	-
Stage 2 to stage 3	-	(66.4)	66.4	-
Opening balance after transfers	**13 313.4**	**1 214.4**	**438.0**	**14 965.8**
Repayments of loans and advances	(4 835.9)	(534.1)	(132.8)	(5 502.8)
Change in exposure due to new business in the current year	5 594.0	357.6	103.0	6 054.6
Bad debts written off	-	-	(23.3)	(23.3)
Amount as at 30 June 2023	**14 071.5**	**1 037.9**	**384.9**	**15 494.3**

£m **Amount as at 1 July 2021**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 134.1	**1 086.2**	**392.3**	**13 612.6**
Improvement in credit exposure				
Stage 2 to stage 1	515.0	(515.0)	–	–
Stage 3 to stage 1	58.8	–	(58.8)	–
Stage 3 to stage 2	–	27.7	(27.7)	–
Deterioration of credit exposure				
Stage 1 to stage 2	(685.9)	685.9	–	–
Stage 1 to stage 3	(69.1)	–	69.1	–
Stage 2 to stage 3	–	(47.6)	47.6	–
Opening balance after transfers	**11 952.9**	**1 237.2**	**422.5**	**13 612.6**
Repayments of loans and advances	(3 692.5)	(367.4)	(121.8)	(4 181.7)
Change in exposure due to new business in the current year	5 006.4	478.2	70.4	5 555.0
Bad debts written off	–	–	(20.2)	(20.2)
Amount as at 30 June 2022	**13 266.8**	**1 348.0**	**350.9**	**14 965.7**

Analysis of loss allowances

	30 June 2023			
	Allowance for impairment losses (amortised cost)			
£m	Stage 1	Stage 2	Stage 3	Total
Amount as at 1 July 2022	**88.7**	**44.5**	**101.2**	**234.4**
Improvement in credit exposure				
Stage 2 to stage 1	12.1	(12.1)	-	-
Stage 3 to stage 1	4.8	-	(4.8)	-
Stage 3 to stage 2	-	3.4	(3.4)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(4.7)	4.7	-	-
Stage 1 to stage 3	(0.8)	-	0.8	-
Stage 2 to stage 3	-	(5.2)	5.2	-
Opening balance after transfers	**100.1**	**35.3**	**99.0**	**234.4**
Change in exposure of back book in the current year	**12.5**	**4.3**	**37.1**	**54.0**
Attributable to change in measurement basis	-	(2.5)	-	(2.5)
Attributable to change in risk parameters	12.5	6.9	37.1	56.5
Change in exposure due to new business in the current year	26.3	13.2	22.4	61.9
Acquisition/(disposal) of advance	-	-	-	-
Bad debts written off	-	-	(23.3)	(23.3)
Amount as at 30 June 2023	**138.9**	**52.8**	**135.2**	**327.0**
Included in the total loss allowance				
Netted against loans and advances to customers	137.0	52.8	135.2	325.0
Included in respect of loan commitments*	1.9	-	-	1.9
Other components of the total loss allowance				
– Forward looking information	10.7	3.4	2.0	16.1
– Changes in models	19.7	(12.2)	(21.9)	(14.4)
– Interest on stage 3 advances**	-	-	-	-

£m	30 June 2022 Allowance for impairment losses (amortised cost)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Amount as at 1 July 2021	**60.1**	**42.5**	**89.6**	**192.2**
Improvement in credit exposure				
Stage 2 to stage 1	8.1	(8.1)	–	–
Stage 3 to stage 1	10.7	–	(10.7)	–
Stage 3 to stage 2	–	5.1	(5.1)	–
Deterioration of credit exposure				
Stage 1 to stage 2	(3.3)	3.3	–	–
Stage 1 to stage 3	(0.6)	–	0.6	–
Stage 2 to stage 3	–	(4.6)	4.6	–
Opening balance after transfers	**75.0**	**38.2**	**79.0**	**192.2**
Change in exposure of back book in the current year	**(15.4)**	**(10.8)**	**29.4**	**3.2**
Attributable to change in measurement basis	–	(6.2)	–	(6.2)
Attributable to change in risk parameters	(15.4)	(4.6)	29.4	9.4
Change in exposure due to new business in the current year	29.1	17.1	19.9	66.1
Acquisition/(disposal) of advance	–	–	(6.9)	(6.9)
Bad debts written off	-	-	(20.2)	(20.2)
Amount as at 30 June 2022	**88.7**	**44.5**	**101.2**	**234.4**
Included in the total loss allowance				
Netted against loans and advances to customers	86.8	44.5	101.2	232.5
Included in respect of loan commitments*	1.9	–	–	1.9
Other components of the total loss allowance				
-Forward looking information	9.9	15.2	2.0	27.1
-Changes in models	1.7	3.6	6.8	12.1
-Interest on stage 3 advances**	–	–	5.4	5.4

Breakdown of impairment charge recognised during the year

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Included in provisions in respect of loan commitments	0.2	1.3
Change in exposure of back book in the current year	53.8	1.9
Change in exposure due to new business in the current year	61.9	66.1
Interest income suspended	(2.4)	(2.4)
Increase in loss allowance	**113.5**	**66.9**
Recoveries of bad debts***	(0.2)	(9.5)
Impairment losses on loans and advances to customers	**113.3**	**57.4**
Impairment of advances recognised during the period	**113.3**	**57.4**

Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single EAD. The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.

**Cumulative balance as at 30 June 2023.

*** The June 2022 balance includes recoveries in relation to service quality complaints of £6.0m, the methodology was revised in the 2023 financial year. These recoveries are now included within administrative expenses, offsetting the underlying expense.

Basis of preparation of the gross carrying amount and loss allowance

The reconciliation of the gross carrying amount and loss allowance is prepared using a year-to-date view. This means that the Group reports exposures based on the impairment stage at the end of the reporting period. The Group transfers opening balances (back book), at the value as at 1 July 2022, based on the impairment stage at the end of the reporting period. Any additional ECL raised or released is included in the impairment stage as at the end of the reporting period. Exposures in the back book, can move directly from stage 3 to stage 1, if the curing requirements have been met in a reporting period. All new business (as defined below) is included in the change in exposure due to new business in the current year based on the exposures' impairment stage at the end of the reporting period. Similarly, exposures in the new business lines can be reported in stage 3 at the end of the reporting date.

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

Changes in exposure reflect the net amount of:

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

Decreases in the advance as a result of write-off are equal to the decrease in ECL as exposures are 100% provided for before being written off. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is £23.3 million (£20.2 million).

The reconciliation of the gross carrying amount and loss allowances has been prepared for the Group's three distinct customer facing businesses: Structured and Specialist Finance ("SaS") (made up of Asset Finance, Invoice Finance and SME Commercial Mortgages); Property Finance (made up of Residential Owner-Occupied Mortgages and Buy to Let Mortgages) and Motor Finance (made up of MotoNovo Finance).

Reconciliation of the allowance for impairment losses by class – Structured and Specialist Finance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2022	**27.0**	**8.7**	**20.5**	**56.2**
Improvement in credit exposure	–	–	–	–
Stage 2 to stage 1	2.6	(2.6)	–	–
Stage 3 to stage 1	1.2	–	(1.2)	–
Stage 3 to stage 2	–	0.6	(0.6)	–
Deterioration of credit exposure	–	–	–	-
Stage 1 to stage 2	(2.4)	2.4	–	–
Stage 1 to stage 3	(0.4)	–	0.4	–
Stage 2 to stage 3	–	(0.7)	0.7	–
Opening balance after transfers	**28.0**	**8.4**	**19.8**	**56.2**
Change in exposure of back book in the current year	0.3	4.3	(0.1)	4.5
Attributable to change in measurement basis	–	1.4	–	1.4
Attributable to change in risk parameters	0.3	2.9	(0.1)	3.1

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Change in exposure due to new business in the current year	12.3	2.9	4.4	19.6
Bad debt written off	–	–	(5.5)	(5.5)
Amount as at 30 June 2023	**40.6**	**15.6**	**18.6**	**74.8**
Included in the total loss allowance				
Netted against loans and advances to customers	40.1	15.6	18.6	74.3
Included in respect of loan commitments*	0.5	–	–	0.5
Other components of total loss allowance				
– Forward looking information	(5.4)	(1.4)	(0.1)	(6.9)
– Changes in models	0.4	(0.6)	11.3	11.1
– Interest on stage 3 advances**	-	-	-	-

Amount as at 1 July 2021	**21.3**	**14.3**	**32.0**	**67.6**
Improvement in credit exposure				
Stage 2 to stage 1	4.5	(4.5)	–	–
Stage 3 to stage 1	8.7	–	(8.7)	–
Stage 3 to stage 2	–	3.4	(3.4)	–
Deterioration of credit exposure				
Stage 1 to stage 2	(0.8)	0.8	–	–
Stage 1 to stage 3	(0.1)	–	0.1	–
Stage 2 to stage 3	–	(0.4)	0.4	–
Opening balance after transfers	**33.6**	**13.6**	**20.4**	**67.6**

Change in exposure of back book in the current year	**(15.8)**	**(6.7)**	**6.7**	**(15.8)**
Attributable to change in measurement basis	-	(3.0)	-	(3.0)
Attributable to change in risk parameters	(15.8)	(3.7)	6.7	(12.8)

Change in exposure due to new business in the current year	9.2	1.8	2.0	13.0
Bad debt written off	-	-	(8.6)	(8.6)
Amount as at 30 June 2022	**27.0**	**8.7**	**20.5**	**56.2**
Included in the total loss allowance				
Netted against loans and advances to customers	26.5	8.7	20.5	55.7
Included in respect of loan commitments*	0.5	-	-	0.5
Other components of total loss allowance				
– Forward looking information	1.6	2.9	(0.7)	3.8
– Changes in models	(1.0)	1.1	6.4	6.5
– Interest on stage 3 advances	–	–	1.2	1.2

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2022	**21.5**	**10.9**	**28.4**	**60.8**
Improvement in credit exposure				
Stage 2 to stage 1	3.8	(3.8)	–	-
Stage 3 to stage 1	1.1	–	(1.1)	–
Stage 3 to stage 2	-	0.2	(0.2)	–
Deterioration of credit exposure				
Stage 1 to stage 2	(0.3)	0.3	–	-
Stage 1 to stage 3	(0.1)	–	0.1	–
Stage 2 to stage 3	–	(0.6)	0.6	–
Opening balance after transfers	**26.0**	**7.0**	**27.8**	**60.8**
Change in exposure of back book in the current year	**19.4**	**(0.1)**	**(0.8)**	**18.6**
Attributable to change in measurement basis	-	(1.5)	-	(1.5)
Attributable to change in risk parameters	19.4	1.4	(0.8)	20.1
Change in exposure due to new business in the current year	5.5	2.5	3.0	11.0
Bad debt written off	-	-	(0.3)	(0.3)
Amount as at 30 June 2023	**50.9**	**9.4**	**29.7**	**90.0**
Included in the total loss allowance				
Netted against loans and advances to customers	49.5	9.3	29.7	88.5
Included in respect of loan commitments*	1.4	-	-	1.4
Other components of total loss allowance				
– Forward looking information	(4.7)	(1.1)	(1.9)	(7.7)
– Changes in models	0.6	(4.0)	(5.5)	(8.9)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**11.7**	**9.7**	**27.2**	**48.6**
Improvement in credit exposure				
Stage 2 to stage 1	1.9	(1.9)		-
Stage 3 to stage 1	0.9	-	(0.9)	-
Stage 3 to stage 2	-	0.2	(0.2)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(0.7)	0.7	-	-
Stage 2 to stage 3		(0.8)	0.8	-
Opening balance after transfers	**13.8**	**7.9**	**26.9**	**48.6**
Change in exposure of back book in the current year	**4.2**	**0.3**	**0.2**	**4.7**
Attributable to change in measurement basis	-	1.0	-	1.0
Attributable to change in risk parameters	4.2	(0.7)	0.2	3.7
Change in exposure due to new business in the current year	3.5	2.7	2.3	8.5
Bad debt written off	-	-	(1.0)	(1.0)
Amount as at 30 June 2022	**21.5**	**10.9**	**28.4**	**60.8**
Included in the total loss allowance				
Netted against loans and advances to customers	20.2	10.9	28.2	59.4
Included in respect of loan commitments*	1.4	-	-	1.4
Other components of total loss allowance				
– Forward looking information	2.0	5.4	2.2	9.6
– Changes in models	2.7	2.5	0.4	5.6
– Interest on stage 3 advances	-	-	3.4	3.4

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2022	**40.2**	**24.9**	**52.3**	**117.4**
Improvement in credit exposure				
Stage 2 to stage 1	5.7	(5.7)	–	–
Stage 3 to stage 1	2.6	–	(2.6)	
Stage 3 to stage 2	–	2.5	(2.5)	–
Deterioration of credit exposure				
Stage 1 to stage 2	(2.1)	2.1	–	-
Stage 1 to stage 3	(0.3)	–	0.3	-
Stage 2 to stage 3	–	(3.9)	3.9	-
Opening balance after transfers	**46.1**	**19.9**	**51.4**	**117.4**
Change in exposure of back book in the current year	(7.2)	0.2	38.0	31.0
Attributable to change in measurement basis	-	(2.4)	-	(2.4)
Attributable to change in risk parameters	(7.2)	2.6	38.0	33.4
Change in exposure due to new business in the current year	8.4	7.8	15.0	31.3
(Disposal)/Acquisition of advance	-	-	(12.8)	(12.8)
Bad debt written off	-	-	(4.7)	(4.7)
Amount as at 30 June 2023	**47.2**	**27.9**	**86.9**	**162.2**
Included in the total loss allowance				
Netted against loans and advances to customers	47.2	27.9	86.9	162.2
Other components of total loss allowance				
– Forward looking information	(0.6)	(0.9)	-	(1.5)
– Changes in models	(19.3)	8.8	5.1	(5.4)
– Interest on stage 3 advances	-	-	-	-

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Amount as at 1 July 2021	**27.1**	**18.5**	**30.4**	**76.0**
Improvement in credit exposure				
Stage 2 to stage 1	1.7	(1.7)	-	-
Stage 3 to stage 1	1.1	–	(1.1)	-
Stage 3 to stage 2	–	1.5	(1.5)	-
Deterioration of credit exposure				
Stage 1 to stage 2	(1.8)	1.8	–	-
Stage 1 to stage 3	(0.5)		0.5	-
Stage 2 to stage 3	–	(3.4)	3.4	-
Opening balance after transfers	**27.6**	**16.7**	**31.7**	**76.0**
Change in exposure of back book in the current year	**(3.8)**	**(4.4)**	**22.5**	**14.3**
Attributable to change in measurement basis	-	(4.2)	-	(4.2)
Attributable to change in risk parameters	(3.8)	(0.2)	22.5	18.5
Change in exposure due to new business in the current year	16.4	12.6	15.6	44.6
(Disposal)/Acquisition of advance	-	-	(6.9)	(6.9)
Bad debt written off	-	-	(10.6)	(10.6)
Amount as at 30 June 2022	**40.2**	**24.9**	**52.3**	**117.4**
Included in the total loss allowance				
Netted against loans and advances to customers	40.2	24.9	52.3	117.4
Other components of total loss allowance				
– Forward looking information	6.3	6.9	0.5	13.7
– Interest on stage 3 advances	-	-	0.8	0.8

*Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single EAD. The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.

**Cumulative balance as at 30 June 2023.

Lease Modifications

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

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Gross carrying amount of assets modified while in stage 2 or 3 and now in stage 1	11.9	28.2

Finance lease receivables

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

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Gross investment in finance leases, receivable:		
Less than one year	1 954.4	1 461.9
Between one and five years	4 669.1	3 692.9
More than five years	126.4	74.2
	6749.9	**5 229.0**
Unearned finance income	(1 039.4)	(764.1)
Net investment in finance leases	**5710.5**	**4 464.9**
Net investment in finance leases, receivable:		
Less than one year	1 632.9	1 233.3
Between one and five years	3 968.7	3 167.6
More than five years	108.9	64.0
	5 710.5	**4 464.9**

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 £127.7 million (30 June 2022: £82.1 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 2023 (30 June 2022: no material residual values).

15. Investment in associate

Accounting policy

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

The Group acquired a 48% stake in AFS Group Holdings Limited on 28 September 2017. The investment met the requirements to be classified as held for sale under IFRS 5 at 30 June 2023. Refer to note 34 for details.

Details of the investment at 30 June 2023:

	Principal activity	Registered office 30 June 2023 and 2022	Proportion of ownership interest/ voting rights held by the Group 30 June 2023 and 2022
AFS Group Holdings Limited (Company number 09438039)	Financial Services Intermediary	UK[1]	48%[2]

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

The carrying amount of the investment transferred to assets held for sale at 30 June 2023 is £6.4 million. This includes a £0.5 million share of profit of associate which has been recognised in the Consolidated Income Statement for the year ended 30 June 2023 (30 June 2022: £1.0 million). The Group received dividends of £1.2 million from its associate during the year ended 30 June 2023 (30 June 2022: £0.6 million).

16. Property, plant and equipment

Accounting policy

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

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

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

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

All items of property, plant and equipment are reviewed at the end of each reporting period for indicators of impairment. 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.

	Computer Systems £m	Furniture, fixtures & fittings £m	Right of Use Assets – Property £m	Right of Use Assets – Motor vehicle £m	Assets Under Operating Lease £m	Total £m
Cost						
1 July 2022	10.5	13.1	38.0	2.2	7.9	71.7
Additions	2.3	2.3	0.2	0.7	0.2	5.7
Disposal	(3.2)	(2.2)	(0.3)	-	(2.8)	(8.5)
30 June 2023	**9.6**	**13.3**	**37.9**	**2.9**	**5.3**	**68.9**
1 July 2021	9.5	12.1	38.0	1.9	7.8	69.3
Additions	1.0	1.0	-	0.5	0.6	3.1
Disposals	-	-	-	(0.3)	(0.5)	(0.8)
30 June 2022	**10.5**	**13.1**	**38.0**	**2.1**	**7.9**	**71.6**
Depreciation						
1 July 2022	8.3	7.0	12.7	1.2	3.1	32.3
Charge for the year	1.5	1.7	4.5	0.6	1.1	9.5
Impairments	-	-	0.7	-	-	0.7
Disposals	(3.2)	(1.3)	(0.2)	-	(1.8)	(6.6)
30 June 2023	**6.6**	**7.4**	**17.7**	**1.8**	**2.4**	**35.9**
1 July 2021	6.8	5.3	8.1	0. 9	1.1	22.2
Charge for the year	1.5	1.7	4.6	0.6	2.2	10.6
Disposals	-	-	-	(0.3)	(0.2)	(0.5)
30 June 2022	**8.3**	**7.0**	**12.7**	**1.2**	**3.1**	**32.3**
Net book value						
30 June 2023	**3.0**	**5.7**	**20.3**	**1.0**	**3.0**	**33.0**
30 June 2022	2.2	6.1	25.3	0.9	4.8	39.3

During the year, a detailed assessment of the Group's property, plant and equipment assets was undertaken to identify assets that held no or minimal economic benefit in the period. The impacts of this assessment are reflected in the disposal of certain assets shown above that had fully depreciated, primarily within Computer Systems.

17. Intangible assets

Accounting policy

Computer systems

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

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

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

Other intangible assets are tested for impairment when there is any indication that the intangible asset may be impaired.

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.

Goodwill

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

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

	Computer Systems £m	Goodwill £m	Total £m
Cost			
1 July 2022	**17.7**	**8.6**	**26.3**
Retirements	(6.8)	-	(6.8)
30 June 2023	**10.9**	**8.6**	**19.5**
1 July 2021	23.2	8.6	31.8
Other Movement	(5.5)	–	(5.5)
30 June 2022 Amortisation	**17.7**	**8.6**	**26.3**
1 July 2022	**17.5**	–	**17.5**
Charge for the year	0.2	-	0.2
Retirements	(6.8)	-	(6.8)
30 June 2023	**10.9**	**–**	**10.9**
1 July 2021	16.8	–	16.8
Charge for the year	0.7	-	0.7
30 June 2022	**17.5**	**–**	**17.5**
Net book value			
30 June 2023	**-**	**8.6**	**8.6**
30 June 2022	0.2	8.6	8.8

The goodwill disclosed above relates to the SME Commercial Mortgages segment (included within SaS). 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 2023 has been determined in a similar manner as at 30 June 2022.

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

→ Cash flows were projected based on past experience, actual operating results and the six year business plan. Cash flows after the planning period were extrapolated using a constant growth rate of 2.0% (30 June 2022: 2.0%) into perpetuity; and

→ A pre-tax discount rate of 14.6% (30 June 2022: 14.5%) 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.

18. Amounts due to banks

	30 June 2023 £m	30 June 2022 £m
Cash collateral received on derivatives	-	0.4
Due to banks - central banks - TFSME interest accrual	12.1	2.8
	12.1	**3.2**
Amounts repayable within 12 months:		
Due to banks – central banks – variation margin	604.8	273.6
	604.8	**273.6**
Amounts repayable after 12 months:		
Due to banks – central banks – TFSME	1 065.0	1 065.0
	1 065.0	**1 065.0**
	1 681.9	**1 341.8**

Amounts repayable after 12 months

Loans received from the Bank of England against which the Group provides collateral under the TFSME 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 14.

19. Customers' accounts

	30 June 2023 £m	30 June 2022 £m
Retail deposits	10 169.0	9 662.0
SME deposits	2 780.4	2 499.1
Corporate deposits	2 083.9	1 944.3
	15 033.3	**14 105.4**
Amounts repayable within one year	13 526.3	12 729.8
Amounts repayable after one year	1 507.0	1 375.6
	15 033.3	**14 105.4**

20. Other liabilities, accruals and deferred income

	30 June 2023 £m	30 June 2022 £m
Amounts payable within 12 months:		
Amounts payable to Invoice Finance customers	16.7	12.9
Other taxation and social security costs	4.3	3.8
Trade creditors	20.9	44.3
Lease liabilities	22.8	27.1
Accruals	81.0	74.3
Deferred income	0.8	0.9
Other payables	4.3	4.3
	150.8	**167.6**

Trade creditors were lower compared to prior year, primarily as a result of lower outstanding dealer commission in the Motor Finance business as at 30 June 2023. The increase in accruals for the year ended 30 June 2023 is largely due to the Group's increased investment in its technology strategy.

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

	30 June 2023 £m	30 June 2022 £m
Maturity analysis of finance leases:		
Less than one year	4.8	4.7
Between one and five years	12.9	15.1
More than five years	5.1	7.3

21. Provisions

Accounting policy	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.

	Customer Redress £m	Other £m	Total £m
1 July 2022	19.8	0.2	20.0
Utilised during the year	(11.1)	(0.1)	(11.2)
Provided during the year	17.6	2.0	19.6
30 June 2023	**26.3**	**2.1**	**28.4**
1 July 2021	4.8	0.3	5.1
Utilised during the year	(1.6)	(0.3)	(1.9)
Provided during the year	16.6	0.2	16.8
30 June 2022	**19.8**	**0.2**	**20.0**

Customer Redress

Motor Finance Remediation

As a result of implementing rapid measures in the Motor Finance business to ensure that customers financially impacted by Covid-19 were able to take advantage of Government support measures, certain variations in procedures were undertaken by the Group. Management discovered that certain Consumer Credit Act ("CCA") related documents that were required to have been delivered to a sub-section of loan receivable customers were not delivered. In addition, as part of a wider thematic review, a number of other operational issues have been identified that will also require remediation. Provisions include £25.6 million (30 June 2022: £15.9 million) in respect of estimated costs to undertake a remediation programme with the support of external advisors, to ensure impacted customers' loan balances and documentation are up to date. As the Aldermore Group provides operational support to Motonovo London Branch (part of FirstRand London Branch ("FRLB")), for whom a sub-section of loan receivable customers are also impacted, £20.1 million of this provision (30 June 2022: £7.3 million) is recoverable from FRLB. There remains some uncertainty in respect to the amount of the provision recorded as the remediation programme progresses and as the remediation outcomes are overseen by one of the Group's Regulators, the Financial Conduct Authority ("FCA").

This provision is expected to be utilised over the next twelve months to eighteen months.

Other

Onerous contract

A £2.0 million provision has been recognised, representing management's best estimate of the costs associated with an onerous contract for the exit from one of the Group's legacy IT systems. This provision is expected to be utilised over the next twelve months.

Financial Services Compensation Scheme ("FSCS")

In common with all regulated UK deposit takers, the Group's principal subsidiary, Aldermore Bank PLC, pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS provision at 30 June 2023 of £0.0 million (30 June 2022: £0.2 million) represents the interest element of the compensation levy for the 2022/2023 scheme year (30 June 2022: interest levy for the 2021/2022 scheme year).

22. Debt securities in issue

	30 June 2023 £m	30 June 2022 £m
Debt securities in issue – Oak No 2 PLC	-	65.5
Debt securities in issue – Oak No 3 PLC	102.7	144.5
Debt securities in issue – Oak No 4 PLC	404.4	-
Debt securities in issue – MotoMore Limited	683.4	682.4
Debt securities in issue – Turbo Finance 9 PLC	94.6	277.8
	1 285.1	**1 170.2**

Debt securities in issue with a book value of £1,285.1 million (2022: £1,170.2 million) are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicles. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage customers in respect of the underlying assets.

The call option in respect of the Oak No.2 PLC notes was exercised on 27 February 2023, with the full balance outstanding redeemed on the redemption date. The final maturity date in respect of the Oak No.3 PLC notes is 28 July 2061 with a call option exercisable on the notes falling due on 29 July 2024. The final maturity date in respect of the MotoMore Limited notes is 19 October 2029 with the revolving period end date to occur in September 2023. The final maturity date in respect of Turbo Finance 9 PLC is 21 August 2028. A clean up call will occur when the book value of the Turbo 9 Finance PLC notes becomes less than 10% of the initial principal balance.

The Group issued a new securitisation (Oak No.4 PLC) on 24 May 2023 providing £402.6m of funding, with total debt securities issued to the value of £446.6 million. The final maturity date in respect of the Oak No.4 PLC notes is in February 2065 with a call option exercisable on the notes falling due in February 2028.

23. Subordinated notes

	30 June 2023 £m	30 June 2022 £m
Subordinated notes 2028	100.5	100.5
Subordinated notes 2029	52.3	52.3
	152.8	**152.8**

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%.

24. 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 2023

	As at 1 July 2022 £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 2023 £m
Debt Securities in Issue – note 22	1 170.2	402.6	(291.3)	(31.3)	34.9	**1 285.1**
Subordinated notes – note 23	152.8	-	-	(7.5)	7.5	**152.8**

Year ended 30 June 2022

	As at 1 July 2021 £m	Financing cash flows- debt issued £m	Financing cash flows – repayment of debt £m[1]	Financing cash flows – interest paid on debt £m	Non-cash changes- Interest expense per Income Statement £m	As at 30 June 2022 £m
Debt Securities in Issue – note 22	1 085.7	432.4	(349.1)	(10.0)	11.2	**1 170.2**
Subordinated notes – note 23	213.6	-	(60.0)	(9.7)	8.9	**152.8**

In June 2022, the Group (as borrower) entered into a committed liquidity facility with FirstRand Bank Limited (as lender) for £100 million with no drawn balance as at 30 June 2023. The facility has a final repayment date in August 2023.

In October 2022, the Group also entered into an uncommitted liquidity facility with FirstRand Bank Limited (as lender) for £400 million with no drawn balance as at 30 June 2023. The facility has a final repayment date in October 2023.

25. Share capital

	30 June 2023 £m	30 June 2022 £m
Group and company		
Ordinary shares authorised and fully paid up of £0.10 each	**243.9**	**243.9**

As at 30 June 2023, there were 2,439,016,380 ordinary £0.10 shares in issue resulting in share capital of £243,901,637 (30 June 2022: 2,439,016,370 and £243,901,637 respectively).

26. Share-based payments

Accounting policy

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

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

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

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

The table below shows the charge to the income statement:

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Share plans issued in period ended 30 June 2018	-	0.1
Share plans issued in year ended 30 June 2019	(0.6)	0.3
Share plans issued in year ended 30 June 2020	(0.1)	0.6
Share plans issued in year ended 30 June 2021	0.6	1.0
Share plans issued in year ended 30 June 2022	1.1	0.7
Share plans issued in year ended 30 June 2023	1.9	-
Total share-based payment charge	**2.9**	**2.7**

Awards

The table below shows the number of awards outstanding as at 30 June 2023:

Plan	Awards outstanding value 30 June 2023 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached [1]	Settlement	Liability transferred to RMBMS by assumption of liability agreement [2]	Aldermore Group Residual Liability	Charge for current year £m
Deferred Bonus Scheme – FY19	-	Sep-20 Sep-21 Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	(0.5)
Deferred Bonus Scheme – FY21	0.6	Sep-22 Sep-23 Sep-24	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.2
Deferred Bonus Scheme – FY22	0.5	Sep-23 Sep-24 Sep-25	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.3
LTIP awards (risk & compliance) – FY20	-	Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	(0.1)

Plan	Awards outstanding value 30 June 2023 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached [1]	Settlement	Liability transferred to RMBMS by assumption of liability agreement [2]	Aldermore Group Residual Liability	Charge for current year £m
LTIP awards (risk & compliance) – FY21	0.7	Sep-23	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.2
LTIP awards (risk & compliance) – FY22	1.6	Sep-24	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards – FY20	-	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	(0.5)
LTIP awards – FY21	0.5	Sep-23	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	(0.2)
LTIP awards – FY22	0.6	Sep-24	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	1.2
LTIP awards – FY23	2.4	Sep-25	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.6
LTIP awards (ExCo) – FY20	-	Sep-22	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (ExCo) – FY21	0.8	Sep-23	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (ExCo) – FY22	0.5	Sep-24	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	(0.5)
Equity linked compensation – CRDV FY23	1.5	Sep-25	Yes	No	FirstRand shares to the value of the award at the vesting date	Yes	No	1.3
Covid Conditional Incentive Plan – FY21	0.6	Sep-23	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
Total	**10.1**							**2.9**

1. Non-Market Performance Conditions – for awards granted in the year ended 30 June 2023 20% will vest if: FirstRand's normalised earnings per share over the performance period exceed the South Africa CPI plus real GDP growth on a cumulative basis by 1.5% and FirstRand Limited delivers ROE of at least 19.0% over the performance period; and 80.0% of the conditional award is based on the performance conditions linked to Aldermore. For equity linked LTIP awards granted in the year ended 30 June 2022 (and earlier) 40% will vest if FirstRand's normalised earnings per share over the performance period exceeds the South Africa CPI plus real GDP growth, on a cumulative basis by 0% and 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. Cash LTIP awards granted prior to 2023 were 100% linked to Aldermore performance conditions.

2. Aldermore entered into an assumption of liability and novation agreement with RMB Morgan Stanley Proprietary Ltd ("RMBMS"), a 50.0% owned JV of the FirstRand Group to hedge the cost of the awards linked to the FirstRand share price. In return for Aldermore making a payment to RMBMS, RMBMS is substituted in the agreement and is obligated to pay the GBP amount due to the Aldermore employees at the vesting date.

The table below shows the number of awards outstanding as at 30 June 2022:

Plan	Awards outstanding value 30 June 2022 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached	Settlement	Liability transferred to RMBMS by assumption of liability agreement	Aldermore Group Residual Liability	Charge for current year £m
Deferred Bonus Scheme – FY19	0.2	Sep-20 Sep-21 Sep 22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	–
Deferred Bonus Scheme – FY21	0.9	Sep-22 Sep-23 Sep 24	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.2
LTIP awards (risk & compliance) – FY20	0.2	Sep-22	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards (risk & compliance) – FY21	0.1	Sep-23	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards (risk & compliance) – FY22	0.3	Sep-24	Yes	No	Cash or FirstRand shares to the value of the award at the vesting date	Yes	Yes	0.1
LTIP awards – FY20	0.5	Sep-22	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2

Plan	Awards outstanding value 30 June 2022 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached	Settlement	Liability transferred to RMBMS by assumption of liability agreement	Aldermore Group Residual Liability	Charge for current year £m
LTIP awards – FY21	0.7	Sep-23	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards – FY22	0.7	Sep-24	Yes	Yes	Cash or FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (ExCo) – FY20	0.4	Sep-22	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.1
LTIP awards (ExCo) – FY21	0.9	Sep-23	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
LTIP awards (ExCo) – FY22	1.2	Sep-24	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.3
Covid Conditional Incentive Plan – FY21	0.6	Sep-23	Yes	Yes	FirstRand shares to the value of the award at the vesting date	Yes	No	0.2
Conditional Share Plan (MotoNovo Finance) – CP18	–	Sep-21	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1
Conditional Share Plan (MotoNovo Finance) – CP19	0.1	Sep-22	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.3
Conditional Share Plan (MotoNovo Finance) – CP20	0.4	Sep-23	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.3

Plan	Awards outstanding value 30 June 2022 £m	Vesting Dates	Adjusted for movement in FirstRand ZAR Share Price	Non Market Performance Conditions Attached	Settlement	Liability transferred to RMBMS by assumption of liability agreement	Aldermore Group Residual Liability	Charge for current year £m
Conditional Share Plan (MotoNovo Finance) – CP21	0.3	Sep-24	No	No	Cash or FirstRand shares to the value of the award at the vesting date	No	Yes	0.1
Total	**7.5**							**2.7**

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

a. Deferred Bonus Scheme

A deferred portion of the annual bonus, which is equity linked. The deferral vests in three equal annual instalments, on the first, second and third anniversary of the date the annual bonus deferral is granted. There are no performance conditions in respect of the awards, however an individual needs to remain in active service, or be in receipt of good leaver status, for the awards to vest.

b. LTIP (Long Term Incentive Plan)

A long term incentive plan ("LTIP") for which vesting occurs three years after the award date. The awards are equity linked without performance conditions for a small number of employees engaged in risk and control functions. The awards are equity linked with performance conditions for other senior employees linked to FirstRand and Aldermore performance. An individual needs to remain in active service, or be in receipt of good leaver status, for the awards to vest.

c. Covid-19 Conditional Incentive Plan

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

27. Additional Tier 1 capital

	30 June 2023 £m	30 June 2022 £m
Perpetual subordinated capital notes – issued June 2019	47.0	47.0
Perpetual subordinated capital notes – issued April 2020	61.0	61.0
	108.0	**108.0**

Perpetual subordinated capital notes

On 27 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 terms and conditions. Interest is payable on the Securities semi-annually in arrears on each interest payment date commencing from 27 December 2019 and is non-cumulative. The Borrower has the full discretion to cancel any interest scheduled to be paid on the Securities.

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

The Securities are perpetual and have no fixed redemption date. Redemption of the Securities is at the option of the Company on 29 April 2025 and semi-annually thereafter. The Securities bear interest at an initial rate of 8.5% per annum until 29 April 2025 and thereafter at the relevant Reset Interest Rate as provided in the terms and conditions. Interest is payable on the Securities semi-annually in arrears on each interest payment date commencing from 29 October 2020 and is non-cumulative. The Borrower has the full discretion to cancel any interest scheduled to be paid on the Securities.

28. Statement of cash flows

Accounting policy

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

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

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Depreciation and amortisation	9.7	11.3
Impairment of intangibles / goodwill	-	5.5
Impairment of right of use assets	0.7	-
Impairment of operating leases	(0.2)	-
Amortisation of securitisation issuance cost	0.6	0.8
Impairment losses on loans and advances	113.3	57.4
Gains on hedged available for sale debt securities recognised in profit or loss	2.3	0.2
Net losses on disposal of available for sale debt securities	(2.3)	(0.2)
Interest expense on subordinated notes	7.5	9.2
Interest income on debt securities	(19.8)	(9.2)
Interest expense on debt securities in issue	34.0	10.7
Share of profit of associate	(0.5)	(1.0)
	145.3	**84.7**

b. Increase in operating assets

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Loans and advances to customers	(582.1)	(1 368.3)
Loans and advances to banks	(68.9)	(21.3)
Derivative financial instruments	(420.5)	(272.0)
Fair value adjustments for portfolio hedged risk	218.1	213.4
Other operating assets	(32.9)	(13.5)
Dividend received from associate	0.3	0.6
	(886.0)	**(1 461.1)**

c. Increase in operating liabilities

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Amounts due to banks	340.1	15.1
Customers' accounts	927.9	1 678.1
Derivative financial instruments	37.9	(16.4)
Fair value adjustments for portfolio hedged risk	(8.4)	(12.2)
Increase in operating liabilities	(11.1)	25.4
Increase in provisions	8.4	14.9
	1 294.8	**1 704.9**

d. Cash and cash equivalents

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

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Cash and balances at central banks	1 923.4	838.3
Less restricted balances	(53.1)	(46.2)
Loans and advances to banks	128.7	105.3
	1 999.0	**897.4**

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 2023 include £10.6 million held by the securitisation vehicles, which are not available to the other members of the Aldermore Group (30 June 2022: £5.0 million).

29. Commitments and contingencies

At 30 June 2023, the Group had undrawn commitments to lend of £382.6 million (30 June 2022: £636.0 million). These relate mostly to irrevocable lines of credit granted to customers.

Legislation

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

Motor commission review

During the year, the Group has received a number of claims, complaints and class actions, relating to historic motor commission arrangements, a proportion of which are with the Financial Ombudsman Service. One class action was received after the Balance Sheet date. The eventual outcome of the claims, complaints and class actions cannot currently be reliably predicted, including the financial impact or the nature or scope of any remediation and any broader ramifications, if any.

30. Financial instruments and fair values

The following table summarises the classification and carrying amounts of the Group's financial assets and liabilities:

30 June 2023	**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	1 923.4	-	-	-	-	1 923.4
Loans and advances to banks	318.8	-	-	-	-	318.8
Debt securities	527.4	1 521.5	-	-	-	2 048.9
Derivatives held for risk management	-	-	712.0	-	-	712.0
Fair value adjustment for portfolio hedged risk	-	-	-	(417.8)	-	(417.8)
Loans and advances to customers	15 167.3	-	-	-	-	15 167.3
Other assets	54.9	-	-	-	-	54.9
Total financial assets	**17 991.8**	**1 521.5**	**712.0**	**(417.8)**	**-**	**19 807.5**
Non-financial assets	-	-	-	-	-	111.8
Total assets	**17 991.8**	**1 521.5**	**712.0**	**(417.8)**	**-**	**19 919.3**
Amounts due to banks	-	-	-	-	1 681.9	1 681.9
Customers' accounts	-	-	-	-	15 033.3	15 033.3
Derivatives held for risk management	-	-	62.5	-	-	62.5
Fair value adjustment for portfolio hedged risk	-	-	-	(21.0)	-	(21.0)
Other liabilities	-	-	-	-	69.0	69.0
Debt securities in issue	-	-	-	-	1 285.1	1 285.1
Subordinated notes					152.8	152.8
Total financial liabilities	**-**	**-**	**62.5**	**(21.0)**	**18 222.1**	**18 263.6**
Non-financial liabilities	-	-	-	-	-	117.2
Total liabilities	**-**	**-**	**62.5**	**(21.0)**	**18 222.1**	**18 380.8**

30 June 2022	Assets at amortised cost £m	Debt securities at FVOCI £m	Fair value through profit or loss (required) £m	Fair value hedges £m	Liabilities at amortised cost £m	Total £m
Cash and balances at central banks	838.3	-	-	-	-	838.3
Loans and advances to banks	226.6	-	-	-	-	226.6
Debt securities	391.4	1 947.8	-	-	-	2 339.2
Derivatives held for risk management	-	-	291.6	-	-	291.6
Fair value adjustment for portfolio hedged risk	-	-	-	(199.7)	-	(199.7)
Loans and advances to customers	14 731.3	-	-	-	-	14 731.3
Other assets	32.3	-	-	-	-	32.3
Total financial assets	**16 219.9**	**1 947.8**	**291.6**	**(199.7)**	**-**	**18 259.6**
Non-financial assets	-	-	-	-	-	89.4
Total assets	**16 219.9**	**1 947.8**	**291.6**	**(199.7)**	**-**	**18 349.0**
Amounts due to banks	-	-	-	-	1 341.8	1 341.8
Customers' accounts	-	-	-	-	14 105.4	14 105.4
Derivatives held for risk management	-	-	24.5	-	-	24.5
Fair value adjustment for portfolio hedged risk	-	-	-	(12.7)	-	(12.7)
Other liabilities	-	-	-	-	92.4	92.4
Debt securities in issue	-	-	-	-	1 170.2	1 170.2
Subordinated notes	-	-	-	-	152.8	152.8
Total financial liabilities	**-**	**-**	**24.5**	**(12.7)**	**16 862.6**	**16 874.4**
Non-financial liabilities	-	-	-	-	-	95.2
Total liabilities	**-**	**-**	**24.5**	**(12.7)**	**16 862.7**	**16 969.6**

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 2023		30 June 2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and balances at central banks	1 923.4	1 923.4	838.3	838.3
Loans and advances to banks	318.8	318.8	226.6	226.6
Loans and advances to customers	15 167.3	14 690.9	14 731.3	14 643.8
Debt securities	527.4	527.7	391.4	392.0
Other assets	54.9	34.8	32.4	32.4
Total financial assets	**17 991.9**	**17 495.6**	**16 220.0**	**16 133.1**
Amounts due to banks	1 681.9	1 681.9	1 341.8	1 341.8
Customers' accounts	15 033.3	14 916.9	14 105.4	14 085.2
Other liabilities	69.0	69.0	92.4	92.4
Debt securities in issue	1 285.1	1 286.3	1 170.2	1 172.3
Subordinated notes	152.8	148.1	152.8	150.0
Total financial liabilities	**18 222.1**	**18 102.2**	**16 862.6**	**16 841.7**

The Directors consider that the fair value of the Company's 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 fair value of the Company's investments in Aldermore Bank PLC and MotoNovo Finance Limited are considered to be greater than the carrying value (given the investments in the subsidiaries are held at cost).

Key considerations in the calculation of the disclosed fair values for those financial assets and liabilities carried at amortised cost include the following:

a. Cash and balances at central banks

These represent amounts with an initial maturity of less than three months and as such, their carrying value is considered a reasonable approximation of their fair value.

b. Loans and advances to banks

These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to be not materially different from their fair value.

c. Loans and advances to customers

For fixed rate lending products, the Group has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent products plus the credit spread attributable to the borrower. The Group has calculated the fair value of loans and advances to customers based on the present value of expected future principal and interest cash flows, discounted at appropriate market rates, and then adjusted for lifetime expected credit losses.

d. Other assets and liabilities

These represent short term receivables and payables and as such, their carrying value is not considered to be materially different from their fair value.

e. Amounts due to banks

These mainly represent securities sold under agreements to repurchase which were drawn down from the Bank of England under the terms of the Funding for Term Funding Schemes ("TFSME"). These transactions are collateralised by UK Government Treasury Bills, which have a low susceptibility to credit risk, so adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying values of the liabilities are not considered to be materially different from their fair value.

f. Customers' accounts

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

g. Debt securities in issue

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

h. Subordinated notes

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

The following table provides an analysis of financial assets and liabilities held on the consolidated statement of financial position at fair value, which are all subject to recurring valuation, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

i. Debt securities

Debt Securities held as part of the Group's Capital Investment Strategy are classified as amortised cost only if they meet both the business model assessment and SPPI tests. These debt securities are publicly traded in the market and the quoted prices are used as a fair value disclosure.

30 June 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	712.0	-	712.0
Debt securities:				
Asset-backed securities	-	112.8	-	112.8
UK Gilts and Supranational bonds	855.6	-	-	855.6
Covered bonds	553.1	-	-	553.1
Treasury bills	-	-	-	-
	1 408.7	**824.8**	**-**	**2 233.5**
Financial liabilities:				
Derivatives held for risk management	-	62.5	-	62.5
	-	**62.5**	**-**	**62.5**

30 June 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivatives held for risk management	-	291.6	-	291.6
Debt securities:				
Asset-backed securities	-	145.9	-	145.9
UK Gilts and Supranational bonds	1120.6	-	-	1120.6
Covered bonds	681.2	-	-	681.2
	1 801.8	**437.5**	**-**	**2 239.3**
Financial liabilities:				
Derivatives held for risk management	-	24.5	-	24.5
	-	**24.5**	**-**	**24.5**

Level 1: Fair value determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determined using directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable.

Level 3: Fair value determined using one or more significant inputs that are not based on observable market data.

The fair values of UK T-bills, Gilts, Supranational bonds, Corporate bonds and Covered bonds are based on quoted bid prices in active markets.

The fair value of asset-backed securities is based on the average price of indicative prices from counterparties and Bloomberg, but before relying on these prices, the Group has obtained an understanding of how the prices were derived to ensure that each investment is assigned an appropriate classification within the fair value hierarchy.

The fair values of derivative assets and liabilities are determined using widely recognised valuation methods for financial instruments such as interest rate swaps and use only observable market data that require little management judgement and estimation. Credit value and debit value adjustments have not been applied as the derivative assets and liabilities are largely conducted through a recognised exchange and as such are subject to daily margining requirements.

Fair value measurement – financial assets and liabilities held at amortised cost

The debt securities falling into the Capital Investment business model are classified at amortised cost. The fair value of the debt securities classified at amortised cost is based on quoted bid prices in active markets.

All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for debt securities in issue which are Level 1 and loans and advances to customers which are Level 3.

Fair value of transferred assets and associated liabilities

Securitisation vehicles

The sale of the beneficial ownership of the loans and advances to customers to the securitisation vehicles by the Bank fail the derecognition criteria, and consequently, these loans remain on the statement of financial position of the Group. The Bank, therefore recognises a deemed loan financial liability on its statement of financial position and an equivalent deemed loan asset is held on the securitisation vehicle's statement of financial position. As the securitisation vehicle is consolidated into the Group with the Bank, the deemed loans are eliminated in the consolidated accounts. The deemed loans are repaid as and when principal repayments are made by customers against these transferred loans and advances.

The Group retains substantially all of the risks and rewards of ownership. The Group benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of these mortgages. The Group continues to bear the credit risk of these mortgage assets.

The results of the securitisation vehicles listed in note 22 are consolidated into the results of the Group. The table below shows the carrying values and fair value of the assets transferred to the securitisation vehicles and its associated liabilities. The carrying values presented below are the carrying amounts recorded in the Group accounts. Some of the notes issued by the securitisation vehicles are held by the Group and as such are not shown in the consolidated statement of financial position of the Group.

30 June 2023	**Carrying amount of transferred assets not derecognised £m**	**Carrying amount of associated liabilities £m**	**Fair value of transferred assets not derecognised £m**	**Fair value of associated liabilities £m**	**Net position £m**
Oak No.3 PLC	124.2	102.7	127.0	103.3	**23.7**
Oak No.4 PLC	423.8	404.4	406.8	405.3	**1.5**
MotoMore Limited	763.3	683.4	670.9	682.5	**(11.6)**
Turbo Finance 9 PLC	153.8	94.7	137.6	95.2	**42.4**

30 June 2022	**Carrying amount of transferred assets not derecognised £m**	**Carrying amount of associated liabilities £m**	**Fair value of transferred assets not derecognised £m**	**Fair value of associated liabilities £m**	**Net position £m**
Oak No.2 PLC	95.9	65.5	99.8	65.7	**34.1**
Oak No.3 PLC	171.5	144.5	173.1	145.2	**27.9**
MotoMore Limited	753.9	628.4	709.1	682.1	**27.0**
Turbo Finance 9 PLC	330.9	277.8	300.9	279.3	**21.6**

31. Related parties

a. Controlling parties

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

During the year ended 30 June 2023, the Group also incurred fees of £140,000 (30 June 2022: £208,500) in relation to the Directors who represent the ultimate parent company.

As at 30 June 2023, the Group owed FirstRand Bank Limited a balance of £261.8 million (30 June 2022: £268.4 million) which includes subordinated securities totalling £260.8 million (30 June 2022: £260.8 million) and were owed a balance of £31.0 million from FirstRand Bank Limited (30 June 2022: £10.9 million) consisting of recharged administrative and operational costs, predominately in relation to Motor Finance remediation.

During the year ended 30 June 2023, the Group received income from FirstRand Bank Limited totalling £29.3 million (30 June 2022: £23.4 million) relating to administrative costs recharged to FirstRand Bank Limited by MotoNovo Finance Limited and were recharged expenses totalling £21.4 million (30 June 2022: £16.6 million) which includes a subordinated loan note coupon of £7.5 million, an AT1 coupon of £8.6 million and the remainder being software licence costs, non-executive director fees, insurance costs, rent and liquidity facility and guarantee fees.

FirstRand Limited has issued a guarantee to the Bank of England to cover Aldermore Group's drawings on the TFSME facility. See page 125 for the Group's drawings as at 30 June 2023.

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 2023, the Group paid commission of £2.9 million to the associate (year ended 30 June 2022: £3.0 million). The Group also received dividends totalling £1.2 million during the year (30 June 2022: £0.6 million). The investment in associate AFS is classified as held for sale at 30 June 2023, more details are available in note 34.

c. Key management personnel compensation

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

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Emoluments	13 278.0	7 061.1
Payments in respect of personal pension plans	245.7	210.7
Contributions to money purchase scheme	28.9	64.2
Termination benefits	-	792.5
Share-based payments	57.8	318.0
	13 610.3	**8 446.5**

The above table reflects remuneration paid to KMP during the year.

During the year ended 30 June 2023, KMP were granted awards which are linked to the share price of the ultimate parent FirstRand Limited of £2.3 million (2022: £2.3 million), and a deferred bonus of £1.7 million (2022: £1.7 million). Further details of these schemes are provided in note 26.

32. Country-by-Country

The Capital Requirements (Country-by-Country reporting) Regulations came into effect on 1 January 2014 and introduce reporting obligations for institutions within the scope of the 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 33 to these financial statements include an analysis of subsidiary undertakings and their principal activities. All of the subsidiary undertakings were incorporated in the UK. The Group did not receive any public subsidies.

	Jurisdiction income/expense arose	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Total operating income	UK	**664.2**	563.1
Profit before tax	UK	**222.5**	204.7
Corporation tax (paid net of refunds received)	UK	**(35.1)**	(64.1)
Employees (average FTE equivalent)	UK	**2 124**	2 198

33. Investment in subsidiaries

Accounting policy	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.

The investment in subsidiary £515.6 million (30 June 2022: £515.6 million) in the Company balance sheet relates to interests 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. There were no indicators of impairment during the year relating to these investments (30 June 2022: none).

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 emulmen02483505)	Dormant	100	Ordinary	UK[1]
Aldermore Invoice Finance (Oxford) Limited (Company number 02129734)	Dormant	100	Ordinary	UK[1]
AR Audit Services Limited (Company number 09495046)	Dormant	#	#	UK[3]
Securitisation vehicles (indirect interest)				
Oak No.2 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.2 PLC*[5]	Securitisation vehicle	*	*	UK[4]

Subsidiary undertakings` (direct interest)	Principal activity	Shareholding %	Class of shareholding	Country of incorporation
Oak No.3 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.3 PLC*	Securitisation vehicle	*	*	UK[4]
Oak No.4 Mortgage Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Oak No.4 PLC*	Securitisation vehicle	*	*	UK[4]
MotoMore Limited*	Securitisation vehicle	*	*	UK[4]
Turbo Holdings Limited*	Holding company for securitisation vehicle	*	*	UK[4]
Turbo 9 Finance Limited*	Securitisation vehicle	*	*	UK[4]

The share capital of this company is not owned by the Group but is included in the consolidated financial statements as it is controlled by the Group.

* The share capital of the securitisation vehicles is not owned by the Group but the vehicles are included in the consolidated financial statements as they are controlled by the Group.

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

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

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

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

5 The Oak No.2 securitisation vehicle is in the process of being liquidated.

34. Non-current assets held for sale

Accounting policy

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

For non-current assets to be classified as held for sale, the following conditions

must be met:

- The asset must be available for sale in its present condition, allowing for terms that are usual or customary for such transactions; and
- The sale must be highly probable.

The sale is highly probable when the following conditions are met:

- The appropriate level of management must be committed to a plan to sell the asset or disposal group;
- An active programme to locate a buyer and complete the plan must have been initiated;
- The asset/disposal group must be actively marketed at a price that is reasonable in relation to its current fair value;
- The sale must be expected to qualify for recognition as a completed sale within one year from the date of classification; and
- Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

Details of the Group's assets held for sale at 30 June 2023:

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Investment in associates – comprising:	-	-
Investment held at cost	4.8	-
Share of post-acquisition earnings	1.6	-
Loans and advances to customers	32.8	-
	39.2	**-**

Investment in associate held for sale

During 2023, the Group approved the sale of its shares in AFS to a new entity (partly owned by the other remaining shareholders of AFS and partly by a third-party investor). The key terms upon which the Group is prepared to sell its shares, subject to contract, have been agreed. The sale is expected to be finalised during the second half of 2023. The carrying amount of the investment in associate is less than the fair value less cost to sell.

Loans and advances to customers held for sale

During 2023, the Group approved the sale of its Working Capital Finance business. At completion all risks and rewards will transfer to the purchasing company and as at 30 June 2023 the sale of the business (encompassing a portfolio of loans which will continue to be held by the Group) meets the requirements to be classified as held for sale under IFRS 5. The sale was completed in July 2023 for a consideration equal to the carrying amount of the amortised cost loan portfolio. Refer to note 35 for further details.

35. Post balance sheet events

The directors are aware of one material event that has occurred between the date of the statement of financial position and the date of this report.

This relates to the completion of a transaction to sell the Group's Working Capital Finance business. This transaction completed on 3 July 2023. Prior to this, the associated balances were transferred on the statement of financial position from 'Gross Loans and Advances to Customers' to 'Non-Current Assets Held for Sale', this is reflected in these financial statements.

The following relate to Aldermore Group PLC

36. Amounts receivable from Group undertakings

	30 June 2023 £m	30 June 2022 £m
Subordinated loan to Aldermore Bank PLC	100.5	100.5
Deposit with Aldermore Bank PLC	207.2	204.1
	307.3	**304.6**

On the 22 November 2018, the Company made a £100.0 million subordinated 4.9% loan to Aldermore Bank PLC, repayable in 2028, with an option for the Bank to redeem after five years. The interest rates are fixed until November 2023. The loan is 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.

Group PLC placed £52.0 million and £47.0 million of deposits with Aldermore Bank PLC with interest of 2.5% and 2.3% fixed rate on the outstanding balances. The interest is paid semi-annually.

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

37. Amounts payable to Group undertakings

	30 June 2023 £m	30 June 2022 £m
Intercompany loans from Aldermore Bank PLC	22.7	21.9
	22.7	**21.9**

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

Glossary and Definition of Key Terms

Capital Requirements Directive V ("CRD V")	European Union regulation transposed into UK CRR for implementing Basel III requirements.
Capital Requirements Regulation ("CRR")	Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR").
CET1 capital ratio	Measure of the Group's CET1 capital as a percentage of risk weighted assets, as required by CRR.
Climate-related financial disclosures ("CFD")	Companies falling within the scope of the requirements are required under the Companies Act to disclose material climate-related risks and opportunities, including the impact on strategy, how these risks are managed and the performance measures and targets applied in managing these issues.
Cost: Income Ratio	Total operating expenses divided by operating income.
Cost of risk	Total impairment charges divided by average customer loan balances gross of impairment (13-month average).
Discounting	The process of determining the present value of future payments.
Effective interest rate ("EIR")	The interest rate at which revenue is recognised on loans and discounted to their carrying value over the life of the financial asset.
Effective tax rate	Tax on operating profit/(loss) as a percentage of operating profit/(loss) on ordinary activities before tax.
Exposure at default ("EAD")	The capital outstanding at the point of default.
Financial Conduct Authority ("FCA")	A financial regulatory body in the UK, regulating financial firms and maintaining the integrity of the UK's financial market.

Financial Reporting Council ("FRC")	An independent regulatory body responsible for ensuring transparency and integrity in business and sets the UK's Corporate Governance and Stewardship Codes.
Forbearance	Forbearance is a concession granted towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments by changing the terms of the financial arrangement, which would otherwise not be considered.
General Data Protection Regulation ("GDPR")	A regulation implemented to strengthen and protect the data protection and privacy of individuals within the UK.
High quality liquid assets ("HQLA")	Assets which are able to be converted easily and quickly with no significant loss of value. These assets qualify for regulatory liquidity purposes, including Bank of England deposits and sovereign and central bank debt.
HM Revenue & Customs ("HMRC")	The UK's tax, payments and customs authority.
Internal Capital Adequacy Assessment Process ("ICAAP")	An assessment of the bank's current risks, how the bank plans to alleviate those risks and the quantity of current and future capital that is required.
Internal Liquidity Adequacy Assessment Process ("ILAAP")	A comprehensive framework designed to identify, measure, manage and monitor the liquidity risk of a bank ensuring that it has sufficient resources to meet its financial obligations as they fall due.
International Accounting Standards ("IAS")	A set of guidelines for preparing financial statements as established by the International Accounting Standards Board (IASB).
International Financial Reporting Standards ("IFRS")	A globally accepted set of accounting standards issued by the IFRS Foundation and the IASB.
Indexed Long Term Repo Scheme ("ILTR")	Funding provided by the Bank of England with a six-month maturity.
Loan to value ("LTV") ratio	The loan balance as a percentage of the total value of the asset.

Loss given default ("LGD")	The amount lost on a loan if a customer defaults.
Bank of England's Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")	MREL determines the minimum loss-absorbing capacity that institutions must hold to ensure it can execute its resolution strategy.
Modification losses	Modification losses arise when the contractual terms of a financial asset are modified. An adjustment to the carrying value of the financial asset is required to reflect the present value of modified future cash flows discounted at the original effective interest rate, with the modification loss representing the difference in the carrying value immediately before and after the modification.
Net interest margin ("NIM")	Net interest income divided by average net customer loans (13-month average).
Net promoter score ("NPS")	A widely used metric of customer satisfaction calculated by subtracting the percentage of customers who are detractors (giving a score of 6 or less) from the percentage of promoters (giving a score of 9 or 10), with a final score of between – 100 and 100.
Net zero	Net zero means not adding to the amount of greenhouse gases (GHGs) in the atmosphere by reducing GHGs insofar as possible and balancing out any remaining emissions by removing an equivalent amount.
Probability of default ("PD")	The probability that a customer will default on their loan.
Prudential Regulation Authority ("PRA")	A financial regulatory body responsible for regulating and supervising banks and other financial institutions in the UK.
Return on equity ("RoE")	A measure of financial performance calculated by dividing profit attributable to ordinary equity holders by average ordinary shareholder equity and retained earnings (13-month average)

Risk weighted assets ("RWAs")	A measure of the amount of a bank's assets, adjusted for risk in line with the CRR. It is used in determining the capital requirement for a financial institution.
Scope 1, 2 and 3 emissions	Categorisation of greenhouse gas emissions, as defined by the Greenhouse Gas (GHG) Protocol, into direct emissions from owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that occur in a company's value chain (Scope 3).
Significant increase in credit risk ("SICR")	An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to stage 2.
Subordinated debt	An unsecured loan or bond that will be repaid after other, more senior loans or securities owed by the issue, and ranks below these more senior loans or securities.
Term funding	Funding with a remaining maturity of more than 12 months.
Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME")	The Bank of England's Term Funding Scheme with additional incentives for SMEs.
Tier 1 capital	Tier 1 capital represents a bank's core equity assets and includes shareholders' equity and retained earnings.
Tier 2 capital	Additional regulatory capital that along with Tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt.