Press release

12 September 2024

Aldermore delivers growth in profits despite a challenging market

Full year results to 30 June 2024

Aldermore Group has delivered robust financial results for the year, with profit before tax increasing 14% to £253.1m (FY2023: £222.5m). The Group's improved financial performance reflects a targeted approach to portfolio growth with a focus on higher returning segments, amidst market-wide margin pressure, and a lower impairment charge. The Group remains well capitalised, with a CET1 ratio of 15.9%, and maintains a strong liquidity coverage ratio of 241%.

Steven Cooper, CEO of Aldermore Group said:

"Aldermore has had a strong year, despite a challenging economic backdrop. With interest rates remaining high over the period, we are pleased to have achieved positive lending growth in a more subdued market, by focusing on higher returning, more specialised segments in which we retain a significant advantage.

"While market headwinds have begun to abate, with slowing inflation and the first interest rate cut in four years, we remain focused on ensuring we support our customers following one of the largest increases in the cost of living in a generation.

"Our recognition of the more challenging environment meant we exercised careful operational cost management, whilst continuing to invest in improving our customer and colleague experience. In addition, we have also benefitted from a lower impairment charge, reflecting a more stable macroeconomic outlook and progress on remediation activity, all whilst ensuring our capital and liquidity positions remain strong. With signs of a normalising market, Aldermore is well positioned to build on what it has already achieved to deliver significant future growth."

Group Financial Performance (£ million)	FY2024	FY2023	Change
Income Statement			
Net interest income	604.3	621.0	(3)%
Other operating income	(18.5)	43.7	>(100)%
Total income	**585.8**	**664.7**	**(12)%**
Operating expenses	(351.0)	(328.9)	7%
Impairment releases / (losses)	18.3	(113.3)	>(100)%
Profit before tax	**253.1**	**222.5**	**14%**
Key Performance Indicators			
Net interest margin (%)	4.00%	4.07%	(0.07)%
Cost / income ratio (%)	59.9%	49.5%	10.4%
Cost of risk (bps)	(12)bps	73bps	(85)bps
Return on equity (%)	11.8%	12.0%	(0.3)%

Group Balance Sheet (£ million)	FY2024	FY2023	Change
Customer lending balances	15,337	15,167	1%
Customer deposit balances	16,307	15,033	8%

Group Capital and Liquidity (%)	FY2024	FY2023	Change
CET1 ratio[1]	15.9%	14.8%	1.1%
Total capital ratio[1]	18.4%	17.4%	1.0%
Liquidity coverage ratio	241%	265%	(24)%

- Group profit before tax increased £30.6m (14%) to £253.1m (FY2023: £222.5m), reflecting a robust trading performance, with income pressures more than offset by a lower impairment charge. The Group's profit before tax was impacted by the following items, which drive a net reduction in reported profits:
  - Fair value accounting adjustments on interest rate risk hedging instruments, which have a net nil impact on the Group's profits across the life of the hedged exposure;
  - Notice of Sums in Arrears ('NOSIA') remediation activity within the Motor Finance division; and
  - Costs connected with the FCA's ongoing Motor Commission review. Further detail in relation to this matter is detailed below.
- Total customer lending at £15,337m increased £170m or 1% (FY2023: £15,167m), as the Group continued to ensure portfolio growth was achieved at appropriate returns in subdued lending markets.
- Total customer deposits at £16,307m increased £1,274m or 8% (FY2023: £15,033m) driven by growth from all three of the Group's core Savings franchises (Personal Savings, Business Savings and Corporate Treasury).
- Net interest income of £604.3m decreased 3% (FY2023: £621.0m) reflecting the impact of subdued lending markets and market-wide pricing pressures. The Group traded well against this backdrop, targeting pockets of opportunity to deliver continued loan growth at appropriate returns, with NIM reducing by 7bps to 4.00%.
- Other operating income reflects a loss of £18.5m (FY2023: £43.7m gain), largely driven by the impact of fair value accounting adjustments on derivatives and other financial instruments used by the Group to hedge interest rate risk. These adjustments in FY2024 resulted in a loss of £20.7m (FY2023: £25.8m gain), mainly due to the unwind of gains recognised in the previous year as a result of the magnitude and velocity of interest rate increases in FY2023.
- Operating expenses increased to £351.0m (FY2023: £328.9m), largely as a result of costs incurred in connection with the FCA's ongoing Motor Commission review (FY2024: £18.1m; FY2023: nil). Excluding this impact, the Group's operating expenses were broadly flat year-on-year, reflecting careful cost management against a backdrop of continued inflationary pressure. The Group's operating expenses continue to reflect investment in customer and colleague experience, as well as a programme of investment in its technology estate which will support Aldermore's long term growth ambitions (FY2024: £34.6m; FY2023 £34.6m).
- An impairment release of £18.3m was recognised (FY2023: £113.3m charge). This reflects the impact of a more stable macroeconomic outlook, allowing for the partial release of cost of living overlays raised in the previous year, as well as the release of provisions connected with the NOSIA remediation activity as this programme begins to draw to a close (FY2024: £39.5m release; FY2023: £22.0m charge). Underlying arrears performance continues to track broadly in line with expectation and the Group's impairment coverage ratio remains robust at 1.93% (FY2023: 2.06%).
- Return on equity was 11.8% (FY2023: 12.0%), a modest reduction as a result of higher average equity holdings in the year, on the back of a number of years of strong profitability.
- The Group continues to strengthen its capital position, with an improved CET1 ratio of 15.9% (FY2023: 14.8%) and a total capital ratio of 18.4% (FY2023: 17.4%), benefiting from the issuance of a £100m Tier 2 subordinated note in November 2023 and a £100m AT1 subordinated note in June 2024.
- A robust liquidity buffer has also been maintained, with a liquidity coverage ratio of 241% (FY2023: 265%). We expect the liquidity coverage ratio to reduce in FY2025 as contractual repayments of the Group's £1.1bn TFSME (Bank of England funding) balances commence.

FCA Motor Finance Commission Review

- On 11 January 2024, the FCA, announced a review of historical motor finance commission arrangements and sales by the mainstream lenders in the UK motor finance market. The FCA currently expects to report on next steps on this matter in May 2025.
- The Group welcomes the regulator's decision to undertake this review but continues to believe that its own practices were compliant with the laws and regulations in place at the time. In April 2024, the FCA formally communicated its expectation that the firms which fall within the remit of the process must, at all times, maintain adequate financial resources that consider their own specific circumstances. The Group has raised a provision of £15m at the year end for this matter. In addition, the Group incurred a further £3m of legal and professional costs during the year.

- The provision is based on probability-weighted scenarios constructed from the Group's own data analysis, assumptions and emerging estimates and includes probable legal, operational and redress costs (using a range of judgemental assumptions for commissions, interest rates, redress approaches and uphold rates). The amount covers origination by MotoNovo Finance Limited from May 2019 to January 2021 (from January 2021 the practice of discretionary commission arrangements ceased). It should also be noted that not all agreements written during the period under review by the regulator included a discretionary commission arrangement.

-ENDS-

Notes to Editors

[1] CET1 and total capital ratio are presented on an IFRS9 transitional basis.

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Aldermore Group

Aldermore backs more people to go for it, in life and business. We champion equality by supporting and getting finance to the people who want to get on in life; building businesses, buying property, and purchasing vehicles.

The Group consists of two operating companies, Aldermore Bank plc and MotoNovo Finance Limited. Aldermore Bank provides finance to business owners, homeowners, and landlords, and supports savers. It operates exclusively online, by phone and through networks. MotoNovo Finance helps people buy their next car, van, or motorcycle.

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

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