MOODY'S RATINGS

Rating Action: Moody's Ratings assigns a first time issuer rating of Baa2 to Aldermore Group PLC and Baa2 long-term deposit and issuer ratings to Aldermore Bank, with a stable outlook

27 Jan 2025

London, January 27, 2025 -- Moody's Ratings (Moody's) today assigned a first time long-term issuer rating of Baa2 to Aldermore Group PLC ("Aldermore"), and a long-term bank deposit rating and issuer rating of Baa2 to Aldermore Bank plc ("Aldermore Bank"). We also assigned Aldermore Bank a Baseline Credit Assessment (BCA) of baa2 and an Adjusted BCA of baa2, long- and short-term Counterparty Risk Assessments (CR Assessment) of A3(cr)/P-2(cr), long- and short-term Counterparty Risk Ratings (CRR) of Baa1/P-2 and short-term deposit ratings of P-2. The outlook on the long-term bank deposit and issuer ratings of Aldermore Bank and long-term issuer rating of Aldermore is stable.

RATINGS RATIONALE

Aldermore has been servicing the near prime segment since 2009, through Aldermore Bank, a specialized lender and savings bank targeting self-employed, complex income and credit repair sub-segments which are usually underserved by mainstream providers. The bank offers a range of products to retail and business customers and has been historically more active in the buy to let sector, while it also offers structured and specialist finance. Aldermore also has a motor finance company, MotoNovo, mostly focused in the used car space offering vehicle financing, which was integrated in the group in 2019. Aldermore is the wholly owned subsidiary of FirstRand Limited, South Africa's largest financial services group by market capitalization.

Aldermore Bank's baa2 BCA reflects our view of the bank's key strengths including its focused business model, which is characterized by lower credit growth, high provision coverage and lower sector concentrations compared to peers, its adequate risk-based capitalization, stable profitability and large liquidity buffers. This is balanced against the higher credit risk compared to prime lenders, reliance on price sensitive depositors, and risks stemming from the pending Motor Finance investigation.

Aldermore benefits from good capital buffers above regulatory minimums, with a reported common equity tier 1 of 15.9% at end June 2024, compared to requirement of 9.9% (including the increased countercyclical buffer). Profitability is stable albeit at lower levels than peers, at approximately 0.86% of tangible banking assets (our adjusted figures). We expect profitability to decline moderately as interest rates decrease and competition in the buy-to-let segment intensifies.

Aldermore's funding profile is dominated by a granular retail deposit base, 80% of which are covered by the Financial Services Compensation Scheme (FSCS), funding facilities by its sister company FirstRand Bank Limited (ba2 BCA, Baa3/stable deposits) and some wholesale funding debt. Due to the nature of the deposits, being savings deposits mostly sourced online and to some extent through aggregators, they are quite price sensitive and hence potentially volatile in volumes.

Aldermore also benefits from large liquidity buffers that comfortably covers the amount of the bank's borrowings under the Term Funding Scheme (TFSME), which is due to be fully repaid by the end of this year.

Aldermore Bank's baa2 BCA incorporates the intrinsically higher credit risk of its loan book as compared to most UK retail and commercial banks, with significant exposures to the buy to let market to individuals with complex credit history and vehicle financing. These are risks related to a meaningful asset quality deterioration in the current higher interest rate and inflationary environment. As a result, Aldermore's arrears have increased, with non-performing loans (NPLs) at 3.3% at end June 2024, up from 2.5% in the previous year, driven by affordability pressures in the owner occupied and auto finance sectors.

Although we consider high support assumptions from FirstRand Limited to Aldermore Group as well as high dependence of Aldermore to its parent, Aldermore's Adjusted BCA does not benefit from any affiliate support uplift.

The Baa2 long-term deposit ratings of Aldermore Bank and the Baa2 issuer rating of Aldermore Group PLC are underpinned by the bank's baa2 Adjusted BCA and our assessment of moderate and low loss-given-failure under its Advanced Loss Given Failure (LGF) analysis. Given the bank's low systemic importance, we assume a low probability of support from the Government of the United Kingdom (UK, Aa3 stable), which does not result in any rating uplift.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

The assigned ratings also incorporate Aldermore's ESG considerations, as per our General Principles for Assessing Environmental, Social and Governance Risks methodology. The bank faces a low exposure to governance risks, reflected in a Governance Issuer Profile Score (IPS) of G-2. Its risk management, policies and procedures are in line with industry practices and has a track record of maintaining sound financial strategies and risk controls supported by Aldermore's relatively new but experienced executive team. The bank faces high exposure to social risks, reflected by in a Social IPS score of S-4. We consider the negative outcome of a judicial case against FirstRand Limited to reflect a materialization of customer relations risk. Overall, Aldermore's Credit Impact Score (CIS) of CIS-2 indicates that ESG considerations do not have a material impact on the current rating.

OUTLOOK

The stable outlook on the long-term issuer and deposit ratings reflects our view that Aldermore Bank will maintain its current strong performance, notwithstanding the impact of higher interest rates on borrowers' affordability and increased competition. The outlook also reflects our expectation that Aldermore will be able to absorb any potential redress costs related to the current Motor Finance investigation, while maintaining satisfactory capital buffers above its minimum requirements.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade on Aldermore Bank's BCA and Adjusted BCA, will be contingent on the upgrade of South Africa's government bond rating, where its parent FirstRand Limited is based. Aldermore Bank's BCA is currently three notches above the South African government bond rating, which generally acts as a cap on domestic financial institutions' standalone credit profile. For that reason and whilst FirstRand Limited is not currently rated, it is very unlikely that Aldermore's BCA would be upgraded.

Aldermore Bank's BCA could be upgraded based on an improvement in its own credit fundamentals. Upward pressure on Aldermore Bank's BCA could develop if (1) credit growth continues to moderate while the loan portfolio seasons with no material deterioration in asset quality, (2) its profitability continues to improve following the successful implementation of the new strategy, (3) the bank improves its funding profile by reducing its reliance on price sensitive deposits and while it continues to successfully issue debt in the wholesale markets. The BCA could also be upgraded if Aldermore materially increases its risk-weighted capitalisation. A BCA upgrade would likely result in an upgrade of all bank's long-term ratings and short-term CR Assessment.

Furthermore, deposit and issuer ratings could be upgraded following additional issuances of bail-in-able liabilities, leading to rating uplift under our Advanced LGF analysis.

Aldermore Bank's BCA could be downgraded following material deterioration in the bank's asset quality, a decline in capitalisation and sustained reduction in profitability. A downward movement on Aldermore Bank's BCA would likely result in a downgrade of all its ratings. A significant deterioration of its parent's creditworthiness or a downgrade of the South African government bond rating would also lead to a downgrade of the bank's BCA.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at https://ratings.moodys.com/rmc-documents/432741. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

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