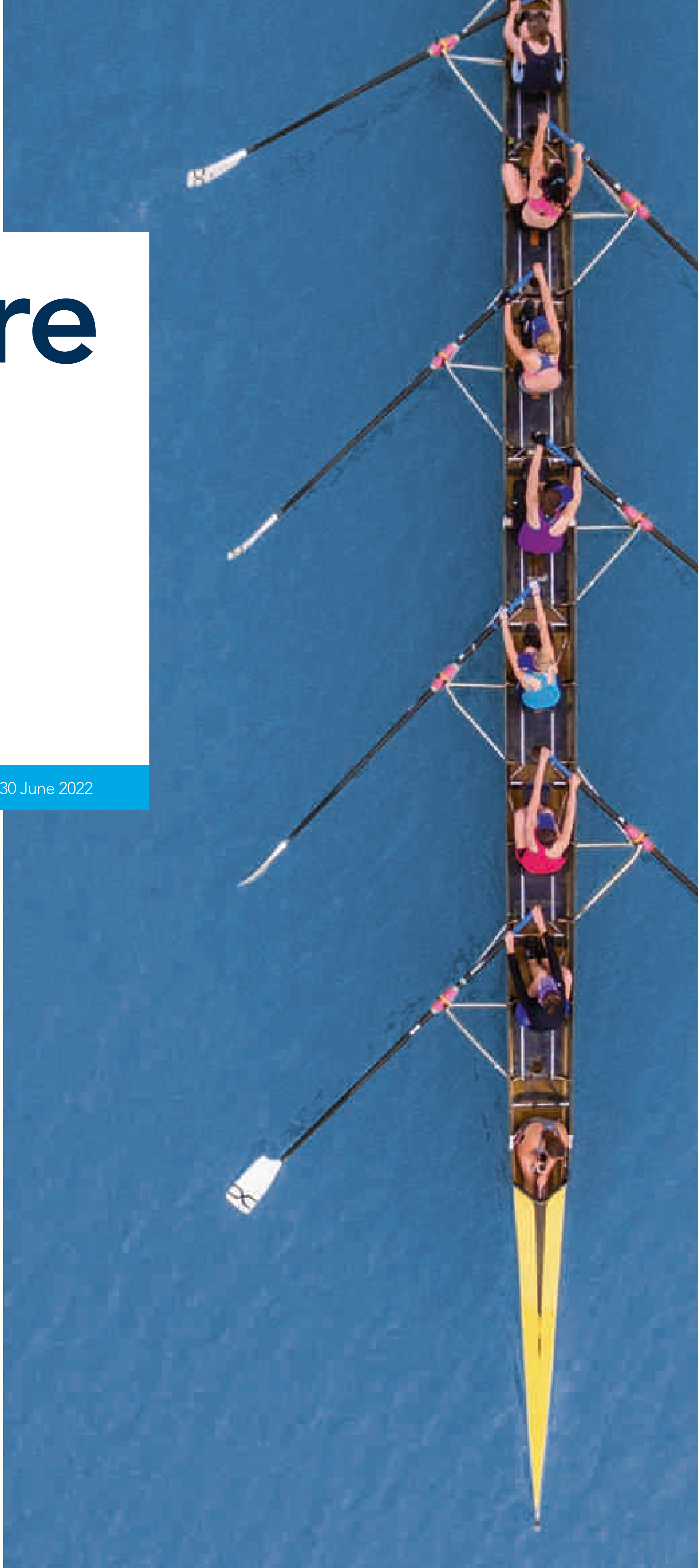
Secure Trust Bank PLC

Interim Report for the six months ended 30 June 2022



Secure Trust Bank

About us

Our vision

To be the most trusted specialist lender in the UK

Our purpose

To help more consumers and businesses fulfil their ambitions

Our strategy

- Grow
- Sustain
- Care

Our strengths

- Specialist
- Expert
- Diverse
- Ambitious

Our values

- Customer Focused
- Risk Aware
- Future Orientated
- Teamwork
- Ownership
- Performance Driven

Best Workplaces Large Organisations Great Place To Work UK 2022

Best Workplaces for Women Large Organisations Great Place To Work UK 2022

Best Workplaces For Wellbeing Large Organisations Great Place To Work UK 2022

CUSTOMER SERVICE EXCELLENCE CSE

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Contents

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under IFRS. Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 48.

Prior year results and key performance indicators have been restated to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided in the 2021 Annual Report and Account within Note 1 to the Financial Statements (page 115) and Note 1.3.1 to the Interim Financial statements (page 28).

Forward looking statements

This document contains forward looking statements with respect to the business, strategy and plans of Secure Trust Bank PLC and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Secure Trust Bank PLC's or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Secure Trust Bank PLC's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors. These include UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks including interest rate risk, inherent risks regarding market conditions and similar contingencies outside Secure Trust Bank PLC's control, any adverse experience in inherent operational risks, any unexpected developments in regulation, or regulatory and other factors. The forward looking statements contained in this document are made as of the date hereof, and Secure Trust Bank PLC undertakes no obligation to update any of its forward looking statements.

Measuring performance: Key Performance Indicators

The following key performance indicators are the primary measures used by management to assess the performance of the Group. During 2021 the number of key performance indicators was reduced and realigned to the Group's published medium-term guidance measures.

	30June 2022	30 June 2021	31 December 2021
Grow			
Core loans and advances to customers (£million)	**2,751.2**	2,234.6	2,451.0
Why we measure this: Shows the growth in the Group's lending balances, which generate income			
Core compound annual growth rate[1] (%)	**16.7**	4.6	12.2
Why we measure this: Shows the rate of growth in the Group's lending balances			
Core net interest margin (%)	**5.7**	6.0	6.1
Why we measure this: Shows the interest margin earned on the Group's lending balances, net of funding costs			
Total return on average equity (%)	**12.5**	19.0[5]	15.9
Why we measure this: Measures the Group's ability to generate profit from the equity available to it			

Sustain			
Core cost to income ratio[2] (%)	**57.0**	60.3	60.0
Why we measure this: Measures how efficiently the Group utilises its cost base to produce income			
Core cost of risk[3] (%)	**1.3**	(0.1)	0.2
Why we measure this: Measures how effectively the Group manages the credit risk of its lending portfolios			
Common Equity Tier 1 ('CET 1') ratio (%)	**14.0**	14.1[5]	14.5
Why we measure this: The CET 1 ratio demonstrates the Group's capital strength			

Care			
Customer Feefo ratings (Stars) (mark out of 5 based on star rating from 496 reviews (30 June 2021: 594 reviews, 31 December 2021: 937 reviews)	**4.5**	4.7	4.6
Why we measure this: Indicator of customer satisfaction with the Group's products and services			
Employee survey trust index score (%)[4] (based on 2021 all employee survey)	**N/A**	N/A	80
Why we measure this: Indicator of employee engagement and satisfaction			
Environmental intensity indicator[4] (tonnes of carbon dioxide equivalent per £1 million Group income)	**N/A**	N/A	3.0
Why we measure this: Indicator of the Group's impact on the environment			

Certain key performance indicators represent alternative performance measures that are not defined or specified under International Financial Reporting Standards ('IFRS'). Definitions of the financial key performance indicators, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 47.

Core businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only, and are equivalent to continuing operations. It excludes the Debt Management, Consumer Mortgages and Asset Finance businesses. As a result, certain ratios have been restated on a 'Core' basis. Further details can be found in Note 3 to the Interim Financial Statements. Further explanation of the financial key performance indicators is discussed in the narrative of the Financial review on pages 7 to 13, where they are identified by being in bold font. Further explanation of the non-financial key performance indicators is provided in the Managing our business responsibly and Climate-related financial disclosures sections on pages 38 and 49 of the 2021 Annual Report and Accounts.

1. CAGR is the annual growth rate calculated as the annualised compound growth in 'core' loans and advances to customers since 31 December 2020.
2. The decrease in the cost to income ratio reflects an improving trend.
3. The increase in the cost of risk reflects a declining trend.
4. Data is only collated on an annual basis.
5. KPIs have also been restated in relation to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided Note 1.3.1 to the Interim Financial statements (page 28).

Chairman's statement

"We are determined to be the UK's most trusted specialist lender"

I am pleased to report that the Group has continued to capture the growth opportunities that were outlined at the Capital Markets Day in November 2021. The team has completed the simplification of the Group's business activities and has a clear plan to achieve further lending in each of our specialist lending businesses.

As expected, the Group delivered a lower total statutory profit before tax of £24.7 million (30 June 2021: £30.7 million) for the first half of 2022 as impairment levels normalised and lending accelerated. The Board is proposing an interim dividend of 16.0 pence per share (30 June 2021: 20 pence per share). The challenges of COVID-19 have been successfully navigated and there is strong growth in our businesses. The Board is mindful of current uncertainty and how high levels of inflation, the war in Ukraine and the impending changes in the Government will affect our customers. We will continue to support them during these challenging times and manage our business responsibly. The Group is maintaining a cautious approach to loan loss provisioning and has set an overall impairment charge of £18.6 million (30 June 2021: £1.1 million credit).

Our new vision is fully embedded and being driven forward by the management team. The focus on our core[1] businesses saw the sale of Debt Manager (Services) Limited's loan portfolio completed in May 2022 generating an initial profit of £8.1 million[2]. In the same month we received approval from the FCA to complete the purchase of AppToPay Limited. This technology will enable Retail Finance to offer a new regulated digital 'Buy Now Pay Later' product which applies affordability assessments and appropriate consumer protections.

We are determined to be the UK's most trusted specialist lender and will continue to consider strategic acquisitions which complement our business.

I would like to thank the Board for their strong support during this eventful period, as well as our fantastic employees, whose resilience and dedication has achieved success despite unprecedented challenges.

We have a well-established and diversified business, an excellent management team and can look forward to the future with confidence.

Lord Forsyth
Chairman

3 August 2022

1. Core businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only, and are equivalent to continuing operations. It excludes the Debt Management, Consumer Mortgages and Asset Finance businesses. The associated loan portfolios for all non-core businesses were sold in 2022 or 2021 and have been treated as discontinued operations for statutory purposes.

2. Includes selling costs of £1.2 million, and £0.8 million of associated costs to wind down the debt management business. See Note 6 to the Interim Financial Statements for further details.

Chief Executive's statement

Positive performance and sustained growth

I am delighted with our positive operational performance during the first six months of the year. We have continued to build momentum, delivered strong income growth, been disciplined in managing our cost base and delivered a significant increase in core[1] profit before tax pre impairments. The Group's impairment provisions are normalising, as expected.

The Group has grown lending beyond pre-pandemic levels in all our core[1] businesses and achieved record new business volumes of £1,121.0 million in the six months to June 2022 (H1 2021: £603.2 million).

At the end of the first six months, we delivered core[1] net lending growth of 12.2% (£300.2 million). Our Consumer Finance businesses contributed significantly to this growth, increasing by 21.5%, with Business Finance lending increasing by 5.6%. Total loan balances including non-core lending grew 8.7% during the period.

Across our core[1] businesses, net interest margin was 5.7% in the six months to June 2022 (H1 2021: 6.0%). Total net interest margin decreased to 5.9% compared to 6.3% in the first half of 2021. These decreases were primarily driven by the growth of lower risk lending in Retail Finance, with average balances increasing by 24.5%.

In March we announced our exit from the debt purchase market and in May we completed the sale of Debt Manager (Services) Limited's ('DMS's') portfolio of loans, which generated an initial profit of £8.1 million[2]. We expect further closure related costs to be incurred in the second half of the year. As a consequence of exiting this business, we have previously reset our medium-term market guidance for net interest margin to be >5.5% and cost income ratio to <50%. The exit from the debt purchase market completes the simplification of our lending activities.

We have raised record levels of deposits (including retained funds on maturing products), and supported customers by increasing rates on managed rate products as the Bank of England Base Rate increased. However, we are mindful of the risks a rapidly changing rate environment can have on the Group's cost of funds and new business pricing and continue to manage this challenge as effectively as possible, noting it may take time to fully pass through funding cost increases to the various business lines.

Operating income in our core[1] businesses increased by 14.1% and with a greater focus on cost discipline we contained cost growth at 7.9%. Our performance is reflected in the improved core[1] cost income ratio, which reduced from 60.3% in H1 2021 to 57.0%.

Group impairment provisions are normalising and returning towards pre-pandemic levels. That combined with the growth of our lending book, has resulted in the recognition of a core[1] impairment charge of £17.9 million (30 June 2021: £0.4 million credit). Including non-core businesses, the impairment charge was £18.6 million (30 June 2021: £1.1 million credit). We are also mindful of the high levels of inflation, the impact on cost-of-living, household incomes and potential consequences for customers' ability to service their debts. We have therefore maintained management overlays in our loan loss provisioning to reflect these risks. The Business Finance businesses are more resilient to these impacts due to the secured nature of lending.

Following a normalisation of impairment charges in the Consumer Finance businesses, we have observed arrears within our Vehicle Finance business returning towards pre-pandemic levels as Government support though COVID-19 has tapered off, however these remain below pre-pandemic levels. As a result we have achieved a total profit before tax of £24.7 million (30 June 2021: £30.7 million). On a core[1] basis profit before tax was £17.1 million (30 June 2021: £29.3 million).

Capital and liquidity strength

We have maintained strong capital ratios during the period with a Common Equity Tier 1 ratio of 14.0% as at 30 June 2022 (30 June 2021: 14.1%), where we continue to utilise the transitional IFRS 9 provisions, albeit with the benefit tapering down as we entered the year. The sale of the DMS loan portfolio released approximately £72 million of risk weighted assets, and the associated capital has been deployed to support growth in our remaining core[1] businesses.

The Financial Policy Committee ('FPC') have announced plans to increase the Countercyclical Buffer ('CCyB') from 0% to 1% in December 2022. Alongside this, the PRA announced the removal of temporary firm specific PRA buffers to take effect at the same time. Furthermore, in July the FPC announced a further increase to the CCyB to 2% to take effect in July 2023. Our capital planning considers these changes, and we are positioned well to manage the impact of the adjustments. We will continue to consider options to optimise and increase our capital resources to support the continued growth of our balance sheet.

We have maintained liquidity metrics above the regulatory thresholds throughout the period.

Vision and purpose

We have firmly embedded our strategy of focusing on our core markets where we have depth of expertise and opportunity to grow. We are determined to become the UK's most trusted specialist lender. As part of our communication strategy, we held a 'Mega Teambrief' event in June 2022 for all colleagues to attend, which focussed on how each of our diverse, specialist businesses support the Group's vision, purpose and strategy.

As noted above, our focus on delivering against our strategic objectives saw the completion of the sale of DMS's portfolio of loans. We are now working with the purchaser to migrate customers and employees to their business operations and this will complete later in the year. This will allow us to focus on the remaining four core[1] lending businesses which each have significant growth opportunities. We also completed the purchase of AppToPay Limited, which will provide the proprietary technology platform to enable the Retail Finance business to enter the digital 'Buy Now Pay Later' market.

We will continue to consider potential M&A opportunities which can complement our core markets.

Supporting our customers

In the first six months of the year, we received awards from Moneyfacts and Feefo. Moneyfacts recognised the strength of our Savings proposition and awarded us 'Best Notice Account Provider', and Feefo awarded us the Platinum Trusted Service award for Vehicle Finance and Retail Finance, and the Feefo Trusted Service Award for our Savings proposition. The Feefo Platinum award is awarded to those companies who have achieved the Gold service award for three consecutive years, and recognises our consistent support for customers during the challenging period of these last few years. Feefo scores continue to rate highly at 4.5 stars out of 5 (31 December 2021: 4.6 stars out of 5).

We have continued to support our customer needs by growing volumes in the new products that were introduced in 2021. Within our Vehicle Finance business, Prime Hire Purchase lending and Prime Personal Contract Purchase ('PCP') lending grew £42.3 million since 31 December 2021. In addition, Stock Funding has been supporting the dealer network, with new business more than doubling compared to H1 2021. We also continue to support Commercial Finance clients through the UK Government Coronavirus Business Interruption Loan Schemes and Recovery Loan Schemes ('RLS') and have recently been accredited by the British Business Bank to offer the forthcoming RLS Phase 3 product.

As the country faces high levels of inflation, we are aware of the stress it will have on household and business finances. We are committed to supporting our customers and business partners through these challenging times.

Our people

I am hugely appreciative of the support from colleagues across the Group, and the first six months brought about a number of reasons to celebrate.

We were listed as an official UK Best Workplace™ for the fourth year running. We were ranked 29 out of 67 companies and we have now been awarded a trio of accolades from Great Place to Work®: UK Best Workplace™, UK Best Workplace for Women™ and more recently for UK Best Workplace for Wellbeing™. We were also able to finally celebrate and recognise our Outstanding Achievers from the last three years at a celebratory event held in April.

We undertook an external employee 'pulse' survey, where 85% of colleagues continue to say that this is a great place to work and our Trust Outcome increased by 1% to 87% from H1 2021. We also signed up to the HM Treasury's Women in Finance Charter which underlines our commitment to equality, diversity and inclusion.

We have introduced a range of resources and information on financial wellbeing for our colleagues in recent times. Although rising prices impact everyone, we know that those who earn less are most affected. Recognising this, we announced that we will pay an exceptional, one-off payment in October of £1,000 to colleagues who earn £35,000 or below.

I would like to take this opportunity to thank all colleagues across the Group for their continued hard work and commitment during the first half of the year.

Expertise and technology

We have deep expertise and strengths in our businesses, and diversity across the Group as a whole. Our core businesses are scalable and supported by established management teams with the underlying technology to support and deliver further growth.

Outlook

We are committed to carefully navigating our businesses during these uncertain times and will continue to be flexible in how we react during this period of economic uncertainty. Our new purpose will guide us – to help consumers and businesses fulfil their ambitions – and we are committed to supporting our customers and business partners.

We will continue to monitor inflation and the impact it will have on the cost-of-living. Further increases in the Bank of England Base Rate are predicted and this will have a direct impact on customer pricing. Despite these challenges, we have significant growth potential and will capture opportunities with our usual focus on disciplined risk management. We are well placed to realise our ambitions and have shown resilience through the challenges of the last few years. We remain confident about the future despite near term uncertainties.

David McCreadie
Chief Executive Officer

3 August 2022

1. Core businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only, and are equivalent to continuing operations. It excludes the Debt Management, Consumer Mortgages and Asset Finance businesses. The associated loan portfolios for all non-core businesses were sold in 2022 or 2021 and have been treated as discontinued operations for statutory purposes.
2. Includes selling costs of £1.2 million, and £0.8 million of associated costs to wind down the debt management business. See Note 6 to the Interim Financial Statements for further details.

Financial review

“Positive growth in core operating income combined with cost discipline have produced a solid first half result”

Income statement	30 June 2022 £million	30 June 2021 £million	Movement %	31 December 2021 £million
Continuing/Core				
Interest income and similar income	90.6	80.0	13.3	163.9
Interest expense and similar charges	(17.5)	(14.8)	18.2	(27.7)
Net interest income	**73.1**	**65.2**	**12.1**	**136.2**
Fee and commission income	8.1	6.1	32.8	13.3
Fee and commission expense	(0.2)	(0.3)	(33.3)	(0.6)
Net fee and commission income	**7.9**	**5.8**	**36.2**	**12.7**
Operating income	**81.0**	**71.0**	**14.1**	**148.9**
Net impairment (charge)/credit on loans and advances to customers	(17.9)	0.4	(4,575.0)	(5.0)
Gains on modification of financial assets	0.7	0.7	–	1.5
Losses from derivatives and hedge accounting	(0.5)	–	–	(0.1)
Operating expenses	(46.2)	(42.8)	7.9	(89.4)
Profit before income tax from continuing operations	**17.1**	**29.3**	**(41.6)**	**55.9**
Income tax expense	(4.2)	(4.5)	(6.7)	(10.4)
Profit for the period from continuing operations	**12.9**	**24.8**	**(48.0)**	**45.5**
Discontinued operations:				
Profit before income tax from discontinued operations	**7.6**	**1.4**	**442.9**	**0.1**
Income tax expense	(1.4)	(0.2)	600.0	–
Profit for the period from discontinued operations	**6.2**	**1.2**	**416.7**	**0.1**
Profit for the period	**19.1**	**26.0**	**(26.5)**	**45.6**
Basic earnings per share (pence) - Total	102.4	139.5	(26.6)	244.7
Basic earnings per share (pence) - Continuing	69.1	133.1	(48.1)	244.1

Selected Key Performance Indicators and performance metrics	£million	£million	Movement %	£million
Total profit before tax	24.7	30.7	(19.5)	56.0
	%	%	Percentage point movement	%
Core net interest margin	5.7	6.0	(0.3)pp	6.1
Core cost of funds	1.4	1.4	–	1.2
Core cost to income ratio	57.0	60.3	(3.3)pp	60.0
Core cost of risk	1.3	(0.1)	1.4pp	0.2
Total return on average equity[1]	12.5	19.0	(6.5)pp	15.9
Common Equity Tier 1 (‘CET 1’) ratio[1]	14.0	14.1	(0.1)pp	14.5
Total capital ratio[1]	16.3	16.3	–	16.8

1. June 2021 KPIs have been restated in relation to reflect the IFRS Interpretations Committee’s clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided Note 1.3.1 to the Interim Financial statements (page 28).

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under IFRS. Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 48. In the narrative of this Financial review, key performance indicators are identified by being in bold font.

‘Core’ key performance indicators and performance metrics have been presented above. Core businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only, and are equivalent to continuing operations. It excludes the Debt Management, Consumer Mortgages and Asset Finance businesses. The associated loan portfolios for all non-core businesses were sold in 2022 or 2021 and have been treated as discontinued operations for statutory purposes. As a result, certain ratios have been restated on a ‘Core’ basis. Further details of core business can be found in the Appendix to the Interim Report on page 48.

Profit and earnings

The Group achieved strong growth in its balance sheet, exceeding pre-pandemic levels. Profit before tax was affected by a number of factors. Whilst growth in the Group's lending balances increased operating income, this combined with a normalisation of impairment rates led to an increase in impairment charges compared with H1 2021, primarily driven by the Vehicle Finance business. In addition, profit before tax benefited from the recognition of the profit on disposal of the Debt Manager (Services) Limited ('DMS') loan portfolio.

As a result of the above, total statutory profit before tax decreased by 19.5% to £24.7 million (H1 2021: £30.7 million). On a core basis (continuing operations), statutory profit before tax decreased by 41.6% to £17.1 million (H1 2021: £29.3 million). As a result, total earnings per share decreased from 139.5 pence per share to 102.4 pence per share, and core earnings per share decreased from 133.1 pence per share to 69.1 pence per share. Total **return on average equity** decreased from 19.0% to 12.5%. Detailed disclosures of earnings per ordinary share are shown in Note 7 to the Interim Financial Statements. The components of the Group's profit are analysed in more detail in the sections below.

Net interest income

Core net interest income of £73.1 million was 12.1% higher than the prior year. This was driven by a change in mix business towards Consumer Finance off-set by interest expense. **Core loans and advances** to customers increased by 12.2% from £2,451.0 million to £2,751.2 million.

On a total basis, net interest income was £77.6 million, 5.6% higher than the prior period. Total loans and advances to customers increased by 8.7% from £2,531.9 million[1] to £2,751.2, average lending balances over 2022 were 12.5% higher than the average over the first six months of 2021.

Interest income increased over the period and was attributed to the Consumer Finance and Commercial Finance business. A reduction in Real Estate Finance interest income has been a consequence of the move from higher margin development lending to lower margin, lower risk, residential investment lending.

The Group has passed on Bank of England Base Rate increases on to our managed rate products and has refocussed funding sources to fixed term bonds. As a result of this core interest expense was £17.5 million (H1 2021: £14.8 million), an increase of 18.2%. The **cost of funds** remained at 1.4% (H1 2021: 1.4%), however with the continued increase in Base Rate our funding cost will increase for the full year.

The Group's **core net interest margin** decreased to 5.7% (H1 2021: 6.0%). On a total basis **net interest margin** was 5.9% (H1 2021: 6.3%). The decrease has primarily been driven by the continued shift towards prime interest free lending in Retail Finance, which has a lower gross yield and cost of risk as well as the reduction in higher yielding development loans in Real Estate Finance.

1. Including assets held for sale of £1.3 million relating to a small leasing book.

Net fee and commission income

Core net fee and commission income increased by 36.2% to £7.9 million (H1 2021: £5.8 million). This was predominantly driven by growth in Commercial Finance fee income.

Impairment charge

In H1 2022 the **core cost of risk** increased from (0.1)% to 1.3% The core impairment charge for the period was a £17.9 million charge (H1 2021: £0.4 million credit, which reflected a release of COVID-19 driven provisions). **Total cost of risk** including non-core businesses increased from (0.2)% to 1.4%.

During the year the Group enhanced its IFRS 9 process by engaging the use of external economic advisors to inform its macroeconomic variables model assumption inputs. Our IFRS 9 models use the correlation between macroeconomic variables, such as unemployment and house price indices, and historic credit losses to derive estimated future losses given a range of economic forecast scenarios.

As in previous years, the majority of our impairment charge arises from growth in the Consumer Finance businesses. Although the economic inputs, compared to last year's pandemic impacted period, have given rise to a £2.6 million release of loan loss provisions, a number of other factors have impacted the IFRS 9 charge for the period. The core Consumer Finance loan book has grown 21.5% and we have observed an increase in customer arrears within the Vehicle Finance business which returned to pre-pandemic credit criteria for its lending at the end of 2021. This resulted in Vehicle Finance contributing £12.4 million to the overall charge, with the majority of the remainder of the charge relating to Retail Finance.

The impairment provision also included £2.0 million of management overlays which adjusted the loan loss provision levels estimated using the Group's IFRS 9 models as at 30 June 2022. In the ongoing response to the rising cost-of-living, the overlay for customer affordability was increased by £0.7 million to £5.3 million. An underlay of £2.2 million was established to adjust the elevated probability of default assumptions within the IFRS 9 model within the Vehicle Finance business. Further details of management overlays are included in Note 10 to the Interim Financial Statements.

Overall, the impairment provision as a proportion of the gross loans and advances to customers reduced from 2.6% as at 31 December 2021 to 2.4% as at 30 June 2022, however on a core basis was maintained at 2.4%. A breakdown of the charge by product is shown in Note 3 to the Interim Financial Statements. Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 9 and 20 to the Interim Financial Statements.

Operating expenses

In H1 2022 the Group's core cost base increased by £3.4 million to £46.2 million (H1 2021: £42.8 million), however the Group's **core cost to income ratio** decreased from 60.3% to 57.0%. The Group's **total cost to income ratio** decreased from 64.0% in H1 2021 to 59.6%. Included within costs were £1.1 million relating to non-recurring corporate projects (H1 2021: £nil), which if excluded would have reduced the core cost income ratio and the total cost income ratio to 55.7% and 58.3% respectively.

Taxation

The effective statutory tax rate has increased to 22.7% (H1 2021: 15.3%). On a continuing basis this is 24.6% (H1 2021: 15.4%).

The effective rate for 2022 has increased above the Corporation Tax rate of 19% as there is a deferred tax charge arising from a reassessment of the rates at which the deferred tax asset would reverse out in future periods, mainly arising from changes to the banking surcharge. Further information is provided in Note 5 to the Interim Financial Statements.

Discontinued business

In May 2022, the Group disposed of the loan portfolio of DMS, realising an overall initial profit on disposal of £8.1 million. Further costs are expected to be incurred during the remainder of the year. DMS will operate as a servicer for the purchaser whilst the loan book is migrated over to its operating platform. Further details of the impact of the closure of the business are provided in Note 6 to the Interim Financial Statements.

During 2021 the Group disposed of the Asset Finance and Consumer Mortgage portfolios. The loss on disposal primarily related to the sale of the Consumer Mortgage book (loss of £1.3 million). £1.3 million of interest income was recognised within net interest income, resulting in an overall nil profit impact. The Asset Finance sale resulted in a £0.1 million loss. Both had limited impact on Group's operations as the service delivery of both portfolios were outsourced to third party providers.

The profits and losses of all the business above, including the profit/loss on disposal, have been included within discontinued operations in the Interim Report. Further details of the contribution of each business unit can be found in Note 3 to the Interim Financial Statements.

Distributions to shareholders

The Group's policy is to pay total dividends representing 25% of annual earnings. The Board recommend the payment of an interim dividend for 2022 of 16.0 pence per share (H1 2021: 20.0 pence per share).

Balance sheet

Summarised balance sheet	30 June 2022 £million	Restated[1] 30 June 2021 £million	31 December 2021 £million
Assets			
Cash and balances at central banks	253.0	138.4	235.7
Loans and advances to banks	54.2	43.3	50.3
Debt securities	34.9	15.0	25.0
Loans and advances to customers[2]	2,751.2	2,389.9	2,531.9
Fair value adjustment for portfolio hedged risk	(17.0)	2.4	(3.5)
Derivative financial instruments	17.7	1.8	3.8
Other assets	41.1	43.4	42.7
	3,135.1	**2,634.2**	**2,885.9**
Liabilities			
Due to banks	400.3	310.4	390.8
Deposits from customers	2,290.9	1,939.7	2,103.2
Fair value adjustment for portfolio hedged risk	(15.2)	0.6	(5.3)
Tier 2 subordinated liabilities	51.0	50.8	50.9
Derivative financial instruments	17.3	4.0	6.2
Other liabilities	76.4	42.9	37.7
	2,820.7	**2,348.4**	**2,583.5**

1. Restated in relation to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided Note 1.3.1 to the Interim Financial statements (page 28).
2. Loans and Advances to customers include loan portfolios classified as Assets held for sale (30 June 2021: £62.4 million, 31 December 2021: £1.3 million).

The assets of the Group increased by 8.6% to £3,135.1 million as at 30 June 2021 (31 December 2021 £2,885.9 million). The liabilities of the Group increased by 9.2% to £2,820.7 million (31 December 2021: £2,583.5 million).

Loans and advances to customers

Loans and advances to customers (which include secured and unsecured loans and finance lease receivables) increased by 8.7% to £2,751.2 million as at 30 June 2021 (31 December 2021: £2,531.9 million[1]). Excluding non-core portfolios[2],which were sold during 2022 and 2021 the growth was stronger at 12.2%.

Loan originations in the year, being the total of new loans and advances to customers entered into during the period, increased by 79.4% to £1,121.0 million (H1 2021: £624.8 million).

New business volumes	30 June 2022	30 June 2021
Consumer Finance		
Retail Finance	535.0	353.1
Vehicle Finance	208.4	78.4
Debt Management	–	21.6
Business Finance		
Real Estate Finance	241.8	129.5
Commercial Finance	135.8	42.2
Total	**1,121.0**	**624.8**

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Note 10 and 20.

1. Including assets held for sale of £1.3 million at 31 December 2021
2. See Appendix for excluded businesses which were disposed of during 2021 and 2022.

Debt securities and Due to banks

Debt securities consist solely of sterling UK Government Treasury Bills ('T-Bills'). As at 30 June 2022 the Group held £34.9 million of T-Bills (31 December 2021: £25.0 million) which were temporarily required to be utilised as collateral against Term Funding Scheme with additional incentives for SMEs ('TFSME').

Amounts due to banks consisted primarily of drawings from the Bank of England TFSME facility.

Deposits from customers

Customer deposits include Fixed term bonds, ISAs, Notice and Access accounts. Customer deposits increased by 8.9% during the period and closed at £2,290.9 million (31 December 2021: £2,103.2 million). **Total funding ratio** of 110.8% reducing slightly from the end of 2021 (31 December 2021: 112.4%). As set out on page 13, the mix of the deposit book has continued to change as the Group has adapted to the recent Base Rate changes, with a focus on retaining stable funds, which is reflected in the increase in fixed term bonds.

Tier 2 subordinated liabilities

Tier 2 subordinated liabilities represent two £25.0 million tranches of 6.75% Fixed Rate Callable Subordinated Notes, including interest accrued. Further details of the note issuances are provided in Note 15 to the Interim Financial Statements. The Notes qualify as Tier 2 capital.

Capital

Management of capital

Our capital management policy is focused on optimising shareholder value over the long term. Capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements.

Key factors influencing the management of capital include:

- The level of buffers and the capital requirement set by the Prudential Regulation Authority ('PRA');
- Estimated credit losses calculated using IFRS 9 methodology, and the applicable transitional rules;
- New business volumes; and
- The product mix of new business.

Capital resources

Capital resources increased over the period from £350.6 million to £363.6 million. This includes the proposed interim dividend of £3.0 million (H1 2021: £3.7 million, 31 December 2021: £7.7 million). The increase was primarily due to CET 1 capital and was driven by retained earnings growth, offset by the impact of changes to the IFRS 9 adjustment as set out below.

Capital	30 June 2022 £million	Restated[1] 30 June 2021 £million	31 December 2021 £million
CET 1 capital	**313.8**	290.8	303.6
Tier 2 capital	**49.8**	46.5	47.0
Total capital	**363.6**	337.3	350.6
Total risk exposure	**2,237.1**	2,063.2	2,087.4
Capital ratios			
CET 1 capital ratio	**14.0**	14.1	14.5
Total capital ratio	**16.3**	16.3	16.8
Leverage ratio	**10.6**	10.9	10.3

1. Restated in relation to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided Note 1.3.1 to the Interim Financial statements (page 28).

The Group has elected to adopt the IFRS 9 transitional rules. For 2022, this allows for 25% (2021: 50%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible capital. The same relief is allowed for increases in provisions between 1 January 2018 to 31 December 2019, except where these provisions relate to defaulted accounts. The same relief is allowed for increases in provisions since 1 January 2020, however as a response to the COVID-19 pandemic, this is applied at 75% in 2022 (2021: 100%). All transitional relief will taper off by 31 December 2024.

The Group's regulatory capital is divided into:

- CET 1 capital, which comprises shareholders' funds, after adding back the IFRS 9 transition adjustment and deducting qualifying intangible assets, both of which are net of attributable deferred tax.
- Tier 2 capital, which is solely subordinated debt net of unamortised issue costs, capped at 25% of the capital requirement.

The Group operates the standardised approach to credit risk, whereby risk weightings are applied to the Group's on and off balance sheet exposures. The weightings applied are those stipulated in the Capital Requirements Regulation.

Excluding the impact of the IFRS 9 transitional rules, the Group's CET 1 capital ratio and total capital ratio would reduce to 13.7% and 15.9% respectively.

Capital requirements

The Total Capital Requirement, set by the PRA, includes both the calculated requirement derived using the standardised approach and the additional capital derived in conjunction with the Internal Capital Adequacy Assessment Process ('ICAAP'). In addition, capital is held to cover generic buffers set at a macroeconomic level by the PRA.

	30 June 2022 £million	Restated[1] 30 June 2021 £million	31 December 2021 £million
Total Capital Requirement	**211.9**	195.4	196.7
Capital conservation buffer	**55.9**	51.6	51.9
Countercyclical buffer	**–**	–	–
Total	**267.8**	247.0	248.6

1. Restated in relation to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided Note 1.3.1 to the Interim Financial statements (page 28).

The increase in lending balances through the first six months of the year resulted in an increase in risk weighted assets over 2022, bringing the total risk exposure up from £2,087.4 million to £2,237.1 million.

The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The countercyclical capital buffer was 0% throughout 2021 as part of the PRA's response to COVID-19 however the Financial Policy Committee have announced that the rate will increase to 1% of relevant risk exposures from 13 December 2022 and subsequently to 2% on 5 July 2023. In addition, the PRA confirmed the removal of firm specific temporary PRA buffers from December 2022.

Liquidity

Liquidity resources

We continued to hold significant surplus liquidity over the minimum requirements throughout the first six months of the year, managing liquidity by holding High Quality Liquid Assets ('HQLA') and utilising predominantly retail funding balances from customer deposits over 2022. Liquidity remained high at the end of the period due to a number of factors, including prefunding Notice account withdrawals and lending growth expected in July. Total liquid assets increased to £338.3 million as at 30 June 2022 (31 December 2021: £303.0 million).

The Group is a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework and has drawn £390.0 million under the TFSME. The Group has no liquid asset exposures outside of the United Kingdom and no amounts that are either past due or impaired.

Liquid assets	30 June 2022 £million	30 June 2021 £million	31 December 2021 £million
Aaa – Aa3	**285.6**	152.1	259.0
A1 – A3	**47.6**	28.7	38.9
Unrated	**5.1**	5.1	5.1
Total	**338.3**	185.9	303.0

We continue to attract customer deposits to support balance sheet growth. Although we have continued to focus on attracting ISA account funding, we have increased acquisition levels of fixed term bonds which are a more stable form of funding. The composition of customer deposits is shown in the table below.

Customer deposits	30 June 2022 %	30 June 2021 %	31 December 2021 %
Fixed term bonds	**52**	50	46
Notice accounts	**30**	35	37
ISA	**14**	6	12
Access accounts	**4**	9	5
Total	**100**	100	100

Management of liquidity

The Group uses a number of measures to manage liquidity. These include:

- The Overall Liquidity Adequacy Requirement ('OLAR'), which is the Board's view of the Group's liquidity needs as set out in the Board approved Internal Liquidity Adequacy Assessment Process ('ILAAP').
- The Liquidity Coverage Ratio ('LCR'), which is a regulatory measure that assesses net 30-day cash outflows as a proportion of HQLA.
- Total funding ratio, as defined in the Appendix to the Interim Report.
- High Quality Liquid Assets ('HQLA') are held in the Bank of England Reserve Account and UK Treasury Bills. For LCR purposes the HQLA excludes UK Treasury Bills which are encumbered to provide collateral as part of the Group's TFSME drawings with the Bank of England.

The Group met the LCR minimum threshold throughout the year and, with the Group's LCR (based on a rolling 12 month-end average) was 363.0%.

Business review

Consumer Finance

Retail Finance

Retail Finance includes lending products for in-store and online retailers to enable consumer purchases.

	30 June 2022 £million	30 June 2021 £million	Movement £million	Movement %	31 December 2021 £million
Lending balance	**916.2**	694.3	221.9	32.0	764.8
Total revenue	**35.9**	32.7	3.2	9.8	67.7
Impairment charge	**5.6**	2.4	3.2	133.3	5.0

H1 2022 performance

The Retail Finance business has reported strong lending growth in the first half of the year, with new lending volumes increasing to £535.0 million (an increase of 51.5% on the equivalent period last year). This has led to an increase of 19.8% in closing lending balances, to £916.2 million at the end of H1 2022 (31 December 2021: £764.8 million).

The growth in the first half of the year has come primarily from the furniture, jewellery and healthcare sub-markets. As such the mix of new business has continued to shift towards prime interest free lending, which has a lower gross yield and cost of risk. Market share of new business increased by 3.2%[1] to 11.7% linked to lending growth.

Total revenue increased by 9.8% to £35.9 million in H1 2022, compared to £32.7 million in H1 2021, driven by higher average lending balances.

Impairment charges increased to £5.6 million (H1 2021: £2.4 million) which is mainly linked to higher average lending balances, H1 2021 also benefited from lower provisioning under IFRS 9 due to improvements in macroeconomic factors. The shift in mix towards interest free has improved customer credit quality and resulted in a lower cost of risk.

We anticipate further lending growth from our existing retail partners and our operational plans are focused on digitalising all key processes to improve the customer and retail partners experience. The acquisition of AppToPay will promote additional lending in the new digital Buy Now Pay Later markets using mobile application-based technology.

1. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit. 2022 based on January to May, FLA total and Retail Finance new business of £3,661.0 million and £430.1 million respectively. 2021 based on January to December, FLA total and Retail Finance new business of £8,981.0 million and £771.5 million respectively.

Vehicle Finance

Finance is arranged through motor dealerships, brokers and internet introducers and involves fixed rate, fixed term hire purchase and personal contract purchase arrangements on used cars.

	30 June 2022 £million	30 June 2021 £million	Movement £million	Movement %	31 December 2021 £million
Lending balance	**332.6**	244.3	88.3	36.1	263.3
Total revenue	**22.3**	19.4	2.9	14.9	39.3
Impairment charge/(credit)	**12.4**	(3.4)	15.8	(464.7)	0.1

H1 2022 performance

In the five months to May 2022 the consumer used car finance market reported new business up 36% by value[1], and 15% by volume compared with the same month in 2021[2]. The Vehicle Finance business saw its consumer market share increase over the same period from 0.6% to 1.1%[1].

The Vehicle Finance business has reported strong lending growth in the first half of the year, with new lending volumes increasing to £208.5 million (an increase of 165.8% on the equivalent period last year). This has led to an increase of 26.3% in closing lending balances, to £332.6 million at the end of H1 2022 (31 December 2021: £263.3 million).

Total revenues increased by 14.9% to £22.3 million in H1 2022 compared to £19.4 million in H1 2021, driven by higher average lending balances.

Impairments have increased from a credit of £3.4 million in H1 2021 to a £12.4 million charge in H1 2022. This was impacted by increased new business volumes and arrears returning towards pre-pandemic levels after a relatively benign period. Credit criteria have been tightened to proactively manage the overall risk profile of the lending book, where the impact will be observed from the second half of 2022.

We will continue to drive returns on the technology investment and enhanced customer journeys delivered by our Motor Transformation Programme across all our products to improve growth and enhance earnings.

1. Source Finance and Leasing Association. Cars bought on finance by consumers through the point of sale: New business values. Used cars January to May 2022, FLA total and Vehicle Finance total of £10,159 million and £116.3 million respectively. Used cars January to May 2021, FLA total and Vehicle Finance total of £7,474 million and £42.6 million respectively.

2. Source Finance and Leasing Association. Cars bought on finance by consumers through the point of sale: New business volumes. Used cars. January to May 2022, FLA total of 624,894 and January to May 2021, FLA total of 561,411

Business Finance

Real Estate Finance

Supports SMEs in providing finance principally for residential development and residential investment.

	30 June 2022 £million	30 June 2021 £million	Movement £million	Movement %	31 December 2021 £million
Lending balance	**1,142.6**	1,056.6	86.0	8.1	1,109.6
Total revenue	**27.0**	27.5	(0.5)	(1.8)	54.8
Impairment (credit)/charge	**(0.2)**	1.1	(1.3)	(118.2)	0.1

H1 2022 performance

Real Estate Finance's lending balances increased to £1,142.6 million at 30 June 2022, which represented 3.0% growth since December 2021 (31 December 2021: £1,109.6 million). New Business has been very strong in H1 2022 with £241.8 million of new lending, but the lending balances have been affected by some larger, early repayments.

Total revenue in H1 2022 was £27.0 million (H1 2021: £27.5 million), which was 1.8% down on H1 2021 as the mix in lending balances moved towards investment loans from higher margin development loans. The mix of investment loans increased from 75% to 88% between H1 2021 and H1 2022, reflecting the maturity of a number of larger development loans, but has been stable since December 2021. The Bank of England Base Rate increases have not had a material impact on the existing portfolio.

The business recognised an impairment credit in H1 2022 of £0.2 million (H1 2021: £1.1 million charge) due to improved credit quality on stage 2 and 3 cases and continued strong portfolio management.

The outlook for new business is challenging in the second half of the year. The development market activity is slowing down due to the inflationary pressures and supply side constraints and the Residential Investment market is very competitive at a time of rising cost of funds.

Commercial Finance

Provision of invoice discounting and factoring to SME businesses.

	30 June 2022 £million	30 June 2021 £million	Movement £million	Movement %	31 December 2021 £million
Lending balance	**359.8**	239.4	120.4	50.3	313.3
Total revenue	**12.5**	7.6	4.9	64.5	17.4
Impairment charge/(credit)	**0.1**	–	0.1	–	(0.2)

H1 2022 performance

Commercial Finance has continued its strong 2021 performance into the first half of 2022. At 30 June 2022, lending balances have grown by 14.8% to £359.8 million over the last 6 months (31 December 2021: £313.3 million). In the first half of 2022, average lending balances have increased by 51.8% compared to H1 2021 and by 35.7% since December 2021. As a result, total revenues grew strongly by 64.5% to £12.5 million over the corresponding period last year (H1 2021: £7.6 million).

This performance was driven by healthy levels of new business, low client attrition and a growth in funds in use with clients. There was a small impairment charge of £0.1 million in 2021 (H1 2021: £nil million) reflecting our continued strong and effective credit risk practices and the strength of our lending security, notably our client's receivables.

The Group continues to administer UK Government Coronavirus Business Interruption Schemes and Recovery Loan Schemes ('RLS') and has been accredited by the British Business Bank to offer the forthcoming RLS Phase 3 product. At 30 June 2022, the outstanding lending balances under these schemes totalled £36.2 million (31 December 2021: £42.7 million). Commercial Finance took the conscious decision not to participate in the UK Government's Bounce Bank Loan Scheme, which closed in March 2021.

Our clients are experiencing economic headwinds through factors such as cost inflation, supply chain disruption and the availability of people in a tight labour market. In response, we have increased portfolio diligence and continued to focus our people on providing support to our clients.

Savings

The Group attracts funding primarily via retail savings, offering individuals competitive, simple products, applied for and serviced online and backed by the UK Financial Services Compensation Scheme.

	30 June 2022 £million	30 June 2021 £million	Movement £million	Movement %	31 December 2021 £million
Fixed term bonds	**1,182.4**	972.6	209.8	21.6	974.6
Notice accounts	**696.8**	684.1	12.7	1.9	771.9
ISAs	**310.8**	173.4	137.4	79.2	255.0
Access accounts	**100.9**	109.6	(8.7)	(7.9)	101.7
	2,290.9	1,939.7	351.2	18.1	2,103.2

H1 2022 performance

During the first half of the year, the Savings business has continued to generate and retain deposits by offering a competitive, diversified range of products backed by supportive customer service.

The cost of retail deposits rose during H1 2022, driven by successive increases in the Bank of England Base Rate and a more competitive savings market. We continue to support our customers and have passed through recent Base Rate changes on our managed rate products. Our diversified product range and pricing agility has positioned us well to respond to these changes, while continuing to support growth. Retail deposits have increased to £2.3 billion (31 December 2021: £2.1 billion).

We launched our first access account to new customers this year and expect continued growth of balances during H2 2022, mirroring customer interest in easy access products in the current economic and rising rate environment. In addition, we increased ISA deposits to £310.8 million (31 December 2021: £255.0 million) and target further growth during H2 2022 through new and existing customers.

Our variable savings rates for existing customers have been aligned to increases in market rates during the first half of 2022 and we continue to retain a significant proportion of maturing term balances through competitive products. This approach supports the retention of customers and deposits, providing a stable foundation to support the growth of our lending businesses.

We expect a continuation of the recent increases in cost of retail deposits during H2 2022. Our ability to raise deposits across our product range provides the flexibility to manage costs while meeting the needs of Savings customers in a changing economic environment.

We have continued to develop our capacity to support growth through increasing the flexibility of our savings operation. Our move towards wider use of digital channels saw account and interest statements move online during H1 2022. Hybrid working has been embedded into the operation and during H2 2022 we will continue to develop our ability to support deposits growth through the development of third-party administration and distribution channels.

Economic and regulatory environment

Economic review

Recent developments

As we move into the second half of 2022 the UK and global economy faces significant headwinds despite COVID-19 pandemic risks receding due to the widespread vaccination programme and Government economic intervention.

UK GDP has shown modest growth of circa 1% in the five months to May 2022 and 3.5% in the 12 months to May 2022 as the country continues its emergence from the COVID-19 pandemic. Employment levels are encouraging at 75.9%[1] but still below pre COVID-19 levels. Unemployment remains at a low level of 3.8%, and vacancies in the labour market remain at high levels of circa 1.3 million.

Downside risks to the economy are driven by high levels of inflation, with CPI reaching 9.1% in May 2022, and geopolitical uncertainty due to the ongoing war in Ukraine. Inflation is being largely driven by tradeable goods and global energy prices with service price inflation driven by wage growth as employers seek to recruit and retain staff having a lesser impact. Wage growth is not expected to keep pace with inflation putting extreme pressures on UK household incomes. The Bank of England has used its powers to control inflation by moving the Base Rate of interest to 1.25% with further rate rises expected in the second half of 2022.

The first rounds of Government measures to support the cost-of-living crisis have provided £37 billion so far this year to the most vulnerable households. However, there is clear conflict in Westminster over whether further Government intervention could only drive inflation up further. Tackling inflation will be the priority of the next UK Prime Minister following Boris Johnson’s decision to stand down as leader of the governing Conservative Party.

House prices have continued to rise as they did throughout the pandemic. However, house price growth is expected to soften as we enter 2023, due to higher costs of borrowing and household outgoings.

Outlook

In May 2022, the Monetary Policy Committee (‘MPC’) estimated inflation would peak at slightly over 10% in Q4 2022 before falling towards its 2% target in two years’ time as tightened monetary policy and energy price caps begin to take effect. The increased cost-of-living is expected to slow GDP growth in the second half off 2022 with annual growth of 3% to 3.6% (7.4%: GDP 2021) predicted by economists.

Rising inflation and the higher costs of living will stretch consumers’ incomes during the coming year increasing the risk of customer default.

1. Source: Office of National Statistics (‘ONS’), March to May 2022 UK employment rate age 16 to 64.

Government and regulatory

Recent developments

This has been another busy period for Government and regulatory announcements impacting the Group. The key announcements in the first half of the year are set out below:

The Group became subject to revised regulatory requirements from 1 January 2022, as set out in the policy statements PS21/21 'The UK Leverage Ratio Framework' and PS22/21 'Implementation of Basel Standards: Final Rules'. The policy statements broadly align with the EU's Capital Requirements Regulation II and impact the Group's regulatory requirements, including capital, large exposures, net stable funding and leverage. In addition, the new requirements will enable the Group to reduce the scope of Pillar 3 reporting requirements which is primarily due to its size and simple structure.

In May 2022, the Government issued the paper 'Audit Reporting and Governance Authority: proposals for a new regulatory audit regulator' giving more detail of the audit reforms announced in the Queen's speech. The proposals include the replacement of the Financial Reporting Council with a new stronger regulator, the Audit, Reporting and Governance Authority. The proposals also include a stronger sanctions regime for directors who breach their legal duties to be open with auditors and a requirement for FTSE 350 firms to conduct part of their audit using a challenger firm, in order to reduce the dominance of the 'Big Four' audit firms.

During 2021, the PRA consulted on proposals for a strong and simple prudential framework for non-systemic banks and building societies. The discussion paper set out several proposals for ways in which the regulatory regime could be simplified for smaller firms over the coming years. Subsequently, during April 2022, consultation paper CP5/22: 'The Strong and Simple Framework: a definition of a Simpler-regime Firm' was issued setting out the proposed eligibility requirements to qualify for reporting under the new regime. Further consultation papers are expected in 2023 and 2024 setting out the proposed reporting requirements for the new regime. The date upon which the new regime would come into force is still to be announced.

The MPC announced a 0.25% increase in the UK Base Rate to 0.5% on 3 February 2022 and a second increase of 0.25% to 0.75% on 17 March 2022, followed by further increases of 0.25% each on 5 May 2022 and 16 June 2022 taking the rate to 1.25% at the half year. The MPC's updated central projections in its May 2022 report are conditioned on a market implied path for the UK Base Rate that rises to 2.5% by the middle of 2023.

In December 2021, the Financial Policy Committee ('FPC') announced that the UK Countercyclical Capital Buffer ('CCyB') rate would be increased to 1% from 13 December 2022. having been reduced to 0% in March 2020 because of the pandemic. In July 2022, the FPC confirmed a further increase in the UK CCyB rate to 2% from 5 July 2023. The FPC stated that they would continue to monitor the rate due to the current uncertainty around the economic outlook.

The PRA plan to issue a consultation paper on the implementation of Basel 3.1 in the final quarter of 2022. The PRA intends to consult on a proposal that these changes will become effective on 1 January 2025, which is in line with other major jurisdictions.

The FCA has also published a number of papers. The FCA Business Plan was published in April 2022 which sets out the areas of focus for the FCA over the next 12 months and how they will measure progress. The Group has completed an impact assessment against the activities outlined within the business plan. It also finalised rules in April 2022, which require listed companies to report information against targets on the representation of women and ethnic minorities on their boards and executive management and additional disclosures in annual reports.

In June 2022 the FCA published a Dear CEO letter telling lenders to support consumers who are struggling with the rising cost-of-living and material on vulnerable customers and borrowers in financial difficulty alongside a number of industry wide speeches which highlight the current regulatory focus in this area. We are in the process of completing an impact assessment, however there are no new requirements or themes that we are not already aware of, and the Group already has established processes for supporting customers who are in financial difficulty.

Finally, in July 2022, the FCA issued their policy statement on the new Consumer Duty that will set higher expectations for the standard of care that firms provide to consumers. The implementation date for these changes is 31 July 2023.

We expect the high level of Government and regulatory change, which directly impacts the Group, to continue. Our horizon scanning processes should ensure that we are able to assess this change on a timely basis. We are well placed to deal with the impact of these changes.

Principal risks and uncertainties

Risk overview

The effective management of risk is a crucial component within the Group's strategy and one of its core values, supporting sustainable growth whilst keeping the Group and its customers safe and secure.

The Group operates an Enterprise-wide Risk Management Framework which governs the process for identifying and managing risk across its business. This framework provides a consistent taxonomy and overarching framework across all risk disciplines and is reviewed annually to ensure full coverage of new and emerging risks.

The key risks facing the Group, which it defines as principal risks, are detailed below, alongside an up-to-date assessment.

Further details of the Group's risk management frameworks, including risk appetite statements and governance can be found on the Group's website: www.securetrustbank.com.

Principal risk	Description
Credit risk	Credit risk is the risk that a counterparty will be unable to satisfy their debt servicing commitments when due.
Liquidity and Funding risk	The risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost.
Capital risk	Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support the business.
Market risk	The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates.
Operational risk	Operational risk is the risk that the Group may be exposed to direct or indirect loss arising from inadequate or failed internal processes, personnel and succession, technology or infrastructure, or from external factors.
Conduct risk	The risk that the Group's products and services, and the way they are delivered, result in poor outcomes for customers, or harm to the Group.
Regulatory risk	The risk that the Group fails to be compliant with all relevant regulatory requirements.
Financial Crime risk	The risk that the Group fails to prevent the facilitation of financial crime by not having effective systems and controls and does not meet regulatory requirements.
Climate Change risk	The risk of the potential 'physical' effects of climate change and the 'transitional' risks from the UK's adjustment towards a carbon neutral economy on the Group's strategy, performance and operational resilience.

Changes to the Group's risk profile since the position set out in the 2021 Annual Report and Accounts are set out below.

Credit risk

Consumer Finance credit risk: Stable

Overall credit performance across the Consumer Finance businesses has been robust in the first half of the year. The Retail Finance business has shown continued improvement in arrears and impairments as it has continued its move towards better credit performing sectors and products. The Vehicle Finance business has seen further growth in Prime Hire Purchase ('HP') and Personal Contract Purchase ('PCP'), the latter being subject to a carefully managed roll out. This has led to an overall improvement in business mix in the period. Higher than expected impairment charges were seen in Vehicle Finance due to increased new business volumes and arrears returning towards pre-pandemic levels after a relatively benign period. Significant management action has already been taken to tighten lending parameters.

Both Consumer Finance businesses have revised affordability calculations in the period to reflect higher inflation and increased cost-of-living. Notwithstanding this, a close continued monitoring is being maintained on both portfolios, with a view to continuing to support our customers during the second half of 2022.

Business Finance credit risk: Stable

The Business Finance credit portfolios have also seen robust performance in the first half of 2022, with both maintaining their selective approach to new business acquisition. Within the Real Estate Finance business, no material adverse trends or early warning triggers were evident in the period and new business was subject to enhanced stress testing against rising inflation affordability and interest rates. The Commercial Finance business continues to perform well, benefitting from close working relationships with customers and tailored lending facilities. It continues to be an accredited lender under the COVID-19 Government lending guarantee schemes ('CBILS'/'CLBILS'/'RLS'), with exposure under these schemes performing well with zero claims made on the underlying guarantees and almost half of initial lending balances repaid.

Liquidity and Funding risk: Stable

The Group has maintained its liquidity and funding ratios in excess of regulatory and internal risk appetite requirements throughout the first half of the year. The Group continues to hold significant levels of high-quality liquid assets and there is no material risk that liabilities cannot be met as they fall due.

As at 30 June 2022, the Group had drawn £390.0 million of borrowing under the Bank of England's Term Funding Scheme with additional incentives for SMEs. The Group continued to maintain an active presence in the retail deposits market throughout 2022 to generate funding for new lending primarily through a range of fixed term Bonds and ISA products.

Capital risk: Stable

The Group's balance sheet and total risk exposure has increased since the beginning of the year as the Group continues to grow its core businesses organically. The sale of Debt Manager (Services) Limited's ('DMS') loan portfolio resulted in a release of around £72 million of risk weighted assets, with the associated capital release being deployed to support the growth in the Group's remaining specialist lending businesses.

The Group continues to benefit from the capital relief that has been provided by the PRA in respect of IFRS 9 transitional provisions and the COVID-19 related 'quick-fix' that tapers off to 31 December 2024.

The recent announcement by the Bank of England to further increase the Countercyclical Capital Buffer ('CCyB') to 2% from July 2023, following its previous announcement to increase the CCyB to 1% from December 2022, will require the Group to hold increased levels of minimum regulatory capital. The Group manages its capital requirements on a forward-looking basis against minimum regulatory requirements and Board risk appetites. It assesses the adequacy of the quantum and quality of capital held under stress through the annual Internal Capital Adequacy Assessment Process ('ICAAP'). The Group will take opportunities to increase overall levels of capital and to optimise its capital stack as and when appropriate.

The Group continues to meet its capital ratio measures. Details of the Common Equity Tier 1 ratio, total capital ratio and leverage ratio are included in the Financial review on page 11.

Market risk: Stable

The Group where possible aims to match its asset and liability profiles and hedges any significant residual fixed rate positions using Sterling Overnight Index Average ('SONIA') interest rate derivatives. These derivatives are hedge accounted for through fair value or cash flow hedge relationships which are highly effective.

Interest Rate Risk in the Banking Book ('IRRBB') is monitored by a range of Board Risk Appetite measures including Earnings at Risk ('EAR'), Market Value Sensitivity ('MVS') and Economic Value of Equity ('EVE').

The Group has remained within these risk appetite thresholds throughout the year and continues to enhance its risk identification, measurement, and mitigation for IRRBB.

The Group has a small exposure to foreign exchange risk through its Commercial Finance lending, all exposures are appropriately hedged.

The Group does not operate a trading book.

Operational risk: Improving

The Group's operational risk processes and standards are defined in a formal Operational Risk Management Framework, which is aligned to the Basel Committee on Banking Supervision criteria for the sound management of operational risk.

The Group responded well to the COVID-19 pandemic, proving its resilience and ability to adapt to the external environment. The Group has developed and successfully implemented a hybrid working model, ensuring it remains agile in its operational capability whilst ensuring operational risk is effectively managed. Having met the 2022 regulatory deadline, the Group continues to enhance and further embed its approach to achieving Operational Resilience for all its Important Business Services

The Group has made strong progress in managing and monitoring its third-party suppliers and has invested in additional resource to strengthen supplier governance capabilities and develop an enhanced control framework. Significant progress has also been made in improving regulatory reporting, resulting in an overall 'improving' assessment.

No material operational losses were recorded in the period.

Conduct risk: Stable

The Group continued to operate within overall risk appetite.

There continues to be monthly review and challenge of Key Risk Indicators across the business, with the Group Executive Committee having oversight of the first line activities for assurance to senior management that the first line of defence is identifying conduct risks when they arise and taking appropriate actions to mitigate them, with escalation to the Risk Committee where appropriate.

A gap analysis was completed against the consultation paper for the Consumer Duty and the four outcomes. The policy statement on the Consumer Duty has now been published with the deadline for implementation of July 2023. The Group will review the gap analysis against the policy statement to validate its plans. It considers that implementation of the appropriate changes and enhanced processes necessary to evidence adherence to the Duty is achievable by the deadline.

Regulatory risk: Stable

In the period, engagement with the regulators related to the acquisition and change in control of AppToPay Limited and the sale of the DMS loan portfolio. Additionally, the Group responded to information requests and questions, received new SMF18 approvals and submitted notifications regarding material outsourcing.

The Group will continue to work on new regulations and legislation that will come into force over the next 18 months and beyond.

Financial Crime risk: Stable

The inherent risk to the Group has not materially changed over the period and investment continues to be made in enhancing controls. Economic Crime is a key focus for regulators and particularly so since the recent passing of the Economic Crime Bill. The Group continues to engage with industry bodies as it considers the impact of these changes for the Group.

Climate Change risk: Stable

The 2021 Annual Report and Accounts included a summary of the key risks the Group faces in relation to climate change, in line with the guidance from the 'Task Force on Climate-Related Financial Disclosures'. Since then, the Group has made good progress with developing stress test scenarios aligned to the Network for Greening the Financial System ('NGFS') Climate Change Pathways and an emissions reduction target for our scope 1 and 2 Greenhouse Gas emissions. The results of this work will be published in our next Annual Report and Accounts.

Whilst our overall current assessment is that the associated risks are not material, we recognise the significance of this area of risk and will continue to improve our responses in 2022 and beyond.

Condensed consolidated statement of comprehensive income

For the period ended	Note	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Continuing operations:				
Income statement				
Interest income and similar income	3	90.6	80.0	163.9
Interest expense and similar charges		(17.5)	(14.8)	(27.7)
Net interest income		**73.1**	**65.2**	**136.2**
Fee and commission income	3	8.1	6.1	13.3
Fee and commission expense		(0.2)	(0.3)	(0.6)
Net fee and commission income		**7.9**	**5.8**	**12.7**
Operating income		**81.0**	**71.0**	**148.9**
Net impairment (charge)/credit on loans and advances to customers	10	(17.9)	0.4	(5.0)
Gains on modification of financial assets	4	0.7	0.7	1.5
Losses from derivatives and hedge accounting		(0.5)	–	(0.1)
Operating expenses		(46.2)	(42.8)	(89.4)
Profit before income tax from continuing operations		**17.1**	**29.3**	**55.9**
Income tax expense	5	(4.2)	(4.5)	(10.4)
Profit for the period from continuing operations		**12.9**	**24.8**	**45.5**
Discontinued operations:				
Profit before income tax from discontinued operations	6	**7.6**	**1.4**	**0.1**
Income tax expense	6	(1.4)	(0.2)	–
Profit for the period from discontinued operations	6	**6.2**	**1.2**	**0.1**
Profit for the period		**19.1**	**26.0**	**45.6**
Other comprehensive income				
Items that will not be reclassified to the income statement				
Revaluation – fair value gain taken to reserves		0.1	–	0.5
Taxation		–	–	(0.1)
		0.1	**–**	**0.4**
Items that will be reclassified to the income statement				
Cash flow hedge – fair value loss taken to reserves		(0.5)	(0.1)	(0.4)
Taxation		–	–	0.1
		(0.5)	**(0.1)**	**(0.3)**
Other comprehensive income for the period, net of income tax		**(0.4)**	**(0.1)**	**0.1**
Total comprehensive income for the period		**18.7**	**25.9**	**45.7**
Profit attributable to:				
Equity holders of the Company		**19.1**	**26.0**	**45.6**
Total comprehensive income attributable to:				
Equity holders of the Company		**18.7**	**25.9**	**45.7**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)				
Basic earnings per ordinary share	7	**102.4**	**139.5**	**244.7**
Diluted earnings per ordinary share	7	**99.1**	**136.8**	**239.4**
Basic earnings per ordinary share – continuing operations		**69.1**	**133.1**	**244.1**
Diluted earnings per ordinary share – continuing operations		**67.0**	**130.5**	**238.9**

The condensed consolidated statement of comprehensive income has been represented to reflect the disclosure of discontinued operations in prior periods. See Note 6 for further details.

Condensed consolidated statement of financial position

As at the period ended	Note	Unaudited 30 June 2022 £million	Restated Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
ASSETS				
Cash and balances at central banks		253.0	138.4	235.7
Loans and advances to banks		54.2	43.3	50.3
Debt securities		34.9	15.0	25.0
Loans and advances to customers	9	2,751.2	2,327.5	2,530.6
Fair value adjustment for portfolio hedged risk		(17.0)	2.4	(3.5)
Derivative financial instruments		17.7	1.8	3.8
Assets held for sale	11	3.3	62.4	1.3
Investment property		1.4	4.3	4.7
Property, plant and equipment		9.0	9.4	9.3
Right-of-use assets		1.7	2.5	2.2
Intangible assets		6.9	7.0	6.9
Current tax assets		0.5	–	0.8
Deferred tax assets		5.9	7.2	6.9
Other assets		12.4	13.0	11.9
Total assets		**3,135.1**	**2,634.2**	**2,885.9**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	12	400.3	310.4	390.8
Deposits from customers	13	2,290.9	1,939.7	2,103.2
Fair value adjustment for portfolio hedged risk		(15.2)	0.6	(5.3)
Derivative financial instruments		17.3	4.0	6.2
Liabilities directly associated with assets held for sale		–	–	2.0
Current tax liabilities		–	2.5	–
Lease liabilities		2.5	3.6	3.1
Other liabilities		72.4	34.8	31.3
Provisions for liabilities and charges	14	1.5	2.0	1.3
Subordinated liabilities	15	51.0	50.8	50.9
Total liabilities		**2,820.7**	**2,348.4**	**2,583.5**
Equity attributable to owners of the parent				
Share capital		7.5	7.5	7.5
Share premium		82.2	82.2	82.2
Cash flow hedge reserve		(0.8)	(0.1)	(0.3)
Revaluation reserve		1.4	0.9	1.3
Retained earnings		224.1	195.3	211.7
Total equity		**314.4**	**285.8**	**302.4**
Total liabilities and equity		**3,135.1**	**2,634.2**	**2,885.9**

The condensed consolidated statement of financial position and condensed consolidated statement of cash flows have been restated to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. See Note 1.3.1 for further details.

Condensed consolidated statement of changes in equity

Unaudited	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2022	**7.5**	**82.2**	**(0.3)**	**1.3**	**211.7**	**302.4**
Total comprehensive income for the period						
Profit for the six months to 30 June 2022	–	–	–	–	19.1	19.1
Other comprehensive income, net of income tax						
Cash flow hedge losses	–	–	(0.5)	–	–	(0.5)
Revaluation gains	–	–	–	0.1	–	0.1
Total other comprehensive income	**–**	**–**	(0.5)	0.1	–	(0.4)
Total comprehensive income for the period	**–**	**–**	**(0.5)**	**0.1**	**19.1**	**18.7**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(7.7)	(7.7)
Share-based payments	–	–	–	–	1.0	1.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(6.7)**	**(6.7)**
Balance at 30 June 2022	**7.5**	**82.2**	**(0.8)**	**1.4**	**224.1**	**314.4**

Unaudited	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2021 (as previously stated)	**7.5**	**82.2**	**–**	**0.9**	**179.9**	**270.5**
Software-as-a-Service adjustment net of tax (see Note 1.3.1)	–	–	–	–	(2.9)	(2.9)
Balance at 1 January 2021 (restated)	**7.5**	**82.2**	**–**	**0.9**	**177.0**	**267.6**
Total comprehensive income for the period						
Profit for the six months to 30 June 2021	–	–	–	–	26.0	26.0
Other comprehensive income, net of income tax						
Cash flow hedge losses	–	–	(0.1)	–	–	(0.1)
Total other comprehensive income	–	–	(0.1)	–	–	(0.1)
Total comprehensive income for the period	–	–	(0.1)	–	26.0	25.9
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(8.2)	(8.2)
Share-based payments	–	–	–	–	0.5	0.5
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(7.7)**	**(7.7)**
Balance at 30 June 2021	**7.5**	**82.2**	**(0.1)**	**0.9**	**195.3**	**285.8**

Audited	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2021 (as previously stated)	**7.5**	**82.2**	**–**	**0.9**	**179.9**	**270.5**
Software-as-a-Service adjustment net of tax (see Note 1.3.1)	–	–	–	–	(2.9)	(2.9)
Balance at 1 January 2021 (restated)	**7.5**	**82.2**	**–**	**0.9**	**177.0**	**267.6**
Total comprehensive income for the period						
Profit for the year ended 31 December 2021	–	–	–	–	45.6	45.6
Other comprehensive income, net of income tax						
Cash flow hedge losses	–	–	(0.3)	–	–	(0.3)
Revaluation gains	–	–	–	0.4	–	0.4
Total other comprehensive income	**–**	**–**	**(0.3)**	**0.4**	**–**	**0.1**
Total comprehensive income for the period	**–**	**–**	**(0.3)**	**0.4**	**45.6**	**45.7**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(11.9)	(11.9)
Share-based payments	–	–	–	–	1.0	1.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(10.9)**	**(10.9)**
Balance at 31 December 2021	**7.5**	**82.2**	**(0.3)**	**1.3**	**211.7**	**302.4**

Condensed consolidated statement of cash flows

For the period ended	Note	Unaudited 30 June 2022 £million	Restated Unaudited 30 June 2021 £million	Unaudited 31 December 2021 £million
Cash flows from operating activities				
Profit for the year		19.1	26.0	45.6
Adjustments for:				
Income tax expense		5.6	4.7	10.4
Depreciation of property, plant and equipment		0.6	0.7	1.3
Depreciation of right-of-use assets		0.3	0.4	0.7
Amortisation of intangible assets		0.8	0.8	1.5
Impairment charge/(credit) on loans and advances to customers		18.6	(1.1)	4.5
Gains on modification of financial assets		(0.7)	(0.7)	(1.5)
Share-based compensation		1.0	0.5	1.0
Revaluation gain		–	–	(0.4)
(Gain)/loss on disposal of loan books		(8.1)	–	1.4
Other non-cash items included in profit before tax		1.0	0.2	0.4
Cash flows from operating profits before changes in operating assets and liabilities		38.2	31.5	64.9
Changes in operating assets and liabilities:				
– loans and advances to customers		(308.8)	(29.2)	(238.4)
– loans and advances to banks and balances at central banks		4.2	1.9	4.7
– other assets		(0.5)	2.9	6.0
– deposits from customers		187.7	(52.8)	110.7
– provisions for liabilities and charges		(0.3)	(0.1)	(0.7)
– other liabilities		38.9	(21.5)	(24.4)
Income tax paid		(4.3)	(3.8)	(12.6)
Net cash outflow from operating activities		**(44.9)**	**(71.1)**	**(89.8)**
Cash flows from investing activities				
Consideration on sale of loan books		81.9	–	60.4
Selling costs relating to the sale of loan books		(1.2)	–	–
Redemption of debt securities		45.0	20.0	90.0
Purchase of debt securities		(45.0)	(35.0)	(90.0)
Purchase of property, plant and equipment		(0.2)	(0.2)	(0.2)
Purchase of intangible assets		(0.8)	(0.4)	(1.1)
Net cash inflow/(outflow) from investing activities		**79.7**	**(15.6)**	**59.1**
Cash flows from financing activities				
Drawdown of amounts Due to banks		8.7	34.0	114.4
Dividends paid		(7.7)	(8.2)	(11.9)
Repayment of lease liabilities		(0.5)	(0.3)	(0.9)
Net cash inflow from financing activities		**0.5**	**25.5**	**101.6**
Net increase/(decrease) in cash and cash equivalents		35.3	(61.2)	70.9
Cash and cash equivalents at 1 January		303.0	232.1	232.1
Cash and cash equivalents at end of period	18	**338.3**	**170.9**	**303.0**

Notes to the financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1. Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as 'the Company') and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Shirley, Solihull, West Midlands B90 4LH. The Interim Report as at and for the period ended 30 June 2022 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

During the period the Group completed the acquisition of 100% of the issued share capital of AppToPay Limited for £1.0 million. AppToPay Limited is the owner of a proprietary technology platform, and the acquisition is complementary to the Group's existing retail finance proposition, which supports our planned entry into the Digital Buy Now Pay Later market. In addition to this, an earn-out of a maximum of £0.2 million is payable in 2023, subject to certain performance conditions.

The Group has elected to use the optional practical expedient within IFRS 3 Business Combinations which allows a simplified assessment that a purchase is accounted for as an asset purchase as opposed to a business combination if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset. AppToPay Limited's principal asset is a software development intangible asset. The resulting impact on the Group is an increase in intangible assets of £1.0 million.

1.2. Basis of presentation

The Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and has been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Financial Reporting Standards and IAS 34 Interim Financial Reporting.

A copy of the statutory accounts for the year ended 31 December 2021 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006. The results for the periods ending 30 June 2022 and 30 June 2021 are unaudited. The results for the year ending 31 December 2021 are audited.

The Interim Report has been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments, investment properties and land and buildings at fair value. The Interim Report is presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

The preparation of the Interim Report in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Interim Report are disclosed in Note 2.

1.2.1 Going concern

The Directors have assessed the Group's ability to continue to adopt the going concern basis of accounting, as required by accounting standards.

As disclosed in the 2021 Annual Report and Accounts (pages 36 and 37), the Group considers a number of factors in making this assessment. This includes reviewing current performance, past performance, changes in the economic and regulatory environment, the risk profile of the business, operational resilience and possible future events that will impact the business. The Group also undertakes stress testing to ensure the adequacy of capital and liquidity under a severe but plausible stress. The Board sets risk appetites to enable the Group to withstand stress and tail risk events.

Since the year-end the Group has reviewed its principal risks to ensure they remain appropriate and relevant (for further details see Principal Risks and uncertainties on pages 19 to 21). There has been no significant deterioration in the risk profile of the Group and no new principal risks have arisen in the six-month period.

In addition, the Group has reviewed its five-year profit and loss, net assets, and capital forecasts to reflect actual performance in the year to date, strategic changes in the business plan, and the impact of changes in the macroeconomic environment on its loan loss provisioning and business activities (the 'Reforecast'). The most notable change to the business plan was the disposal of Debt Manager (Services) Limited's ('DMS') loan portfolio. Macroeconomic inputs to the Reforecast reflect increases in Base Rates, which impact customer pricing and funding costs, and revised forecast economic variables which impact IFRS 9 loan loss provisioning. The Reforecast also reflected future changes in the Countercyclical Capital Buffer as announced and contemplated by the Bank of England. Under the Reforecast, the Board is satisfied that the Group can continue to operate within its capital and liquidity risk appetites.

The 2022 Internal Capital Adequacy Assessment Process ('ICAAP') is in progress and will be presented to the Board in Q3 2022. Details of the Group's 2021 ICAAP are included in the 2021 Annual Report and Accounts. The Group will be refreshing the scenarios used for stress testing in the 2022 ICAAP to reflect a post COVID-19 macroeconomic outlook and downside scenarios that reflect a more typical prolonged economic recession. This approach follows direction from the PRA who have not published a 2022 macro stress scenario for smaller banks to use in their ICAAP work.

The Board approved the Internal Liquidity Adequacy Assessment Process ('ILAAP') in June 2022. This provides assurance that the Group can maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. As part of the ILAAP, the Group reviews the liquidity risks to which it is exposed and assesses the quantum of liquid resources required to survive, and remain viable, under a severe but plausible combined idiosyncratic and whole of market 90 day stress. The Group maintained liquidity levels in excess of its liquidity risk appetite and regulatory requirements throughout the year and is forecast to continue to do so over the ILAAP planning horizon and going concern period.

Taking the updates noted above, the Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

1.3. Accounting policies

The accounting policies applied in preparing the unaudited Condensed Interim Financial Statements are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2021.

1.3.1 Software-as-a-Service agreements prior year adjustment

The Group's previous accounting policy was to treat all configuration and customisation work carried out by the Software-as-a-Service ('SaaS') provider, third parties and contractors as part of a SaaS contract as a prepayment, which was amortised over the underlying hosting contract.

However, during 2021, the IFRS Interpretations Committee published an agenda decision clarifying how arrangements in respect of SaaS cloud technology arrangements should be accounted for. Only configuration and customisation work carried out by the SaaS provider or a subcontractor (agent) of the SaaS provider, which is distinct from SaaS access, should be treated as a prepayment, with the prepayment being amortised over the underlying hosting contract. Configuration and customisation work carried out by third parties or employees or in-house contractors that do not meet the definition of an intangible asset should be expensed as incurred.

Therefore, the Group was required to change its accounting policy, to remove costs incurred by third parties and contractors from the SaaS prepayment and expense these amounts, and to adjust the amortisation charge accordingly.

Due to the change in accounting policy, the Group is required to restate its comparatives in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The prior year adjustment reduces opening retained earnings at 1 January 2021 by £2.9 million (being a £3.6 million restatement of prepayments less deferred tax of £0.7 million) and has no impact on the income statement for the six months ended 30 June 2021. This prior year adjustment has already been disclosed in the results for the year ended 31 December 2021 included in the 2021 Annual Report and Accounts.

A summary of the impact on the primary statements is as follows:

Statement of financial position	Note	As originally stated Unaudited 30 June 2021 £million	Prior year adjustment Unaudited 30 June 2021 £million	Restated Unaudited 30 June 2021 £million
Cloud software development prepayment		8.4	(3.6)	4.8
Deferred tax assets		6.5	0.7	7.2
Other assets		2,622.2	–	2,622.2
Total assets		**2,637.1**	**(2.9)**	**2,634.2**
Total liabilities		**2,348.4**	**–**	**2,348.4**
Total equity		**288.7**	**(2.9)**	**285.8**
Total liabilities and equity		**2,637.1**	**(2.9)**	**2,634.2**

1.3.2 Bank accounts with restriction on use

During the period, the International Financial Reporting Interpretations Committee concluded that restrictions on use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash. This will result in a prior year adjustment to cash and cash equivalents. This is effective immediately, but an entity is entitled to sufficient time to make that determination and implement any necessary accounting policy change. Accordingly, no adjustments will be made to the results for the period ended 30 June 2022, but will be implemented at 31 December 2022. The amount of this prior year adjustment has not yet been quantified, but it will only impact cash and cash equivalents, which has a resulting impact on the cash flow statement.

1.3.3 Taxation

Taxes on profits in interim periods are accrued using the tax rate that will be applicable to expected total annual profits.

1.3.4 Standards in issue but not yet effective

There are no new standards in issue but not yet effective that have a material effect on the Group.

2. Critical accounting judgements and key sources of estimation uncertainty

2.1 Judgements

No critical judgements have been identified.

2.2. Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty all relate to allowances for impairment of loans and advances and are therefore set out in Note 10.

3. Operating segments

The Group was organised into seven operating segments, which consisted of the different products available, as disclosed below.

The Asset Finance and Consumer Mortgages loan books were sold during 2021. Although Asset Finance and Consumer Mortgages were disclosed in continuing operations in the prior year, the Directors have reassessed this judgement and concluded that on the basis they have been previously presented as separate business segments, and discussed as part of the Strategic Report, it has been deemed appropriate to include these as discontinued operations, and as such comparatives have been re-presented on this basis.

During the current period, the Group disposed of the Debt Management operating segment. Accordingly, the results of all of the above businesses are now included in discontinued operations.

As a result, the Group is now organised into four operating segments: Real Estate Finance, Commercial Finance, Vehicle Finance and Retail Finance.

Business Finance

1) Real Estate Finance: lending on portfolios of residential property as well as the development of new build property.

2) Asset Finance: lending to small and medium sized enterprises to acquire commercial assets, which was sold during 2021.

3) Commercial Finance: lending is predominantly against receivables, typically releasing 90% of qualifying invoices under invoice discounting and factoring services. Unsecured lending to existing customers through the Government guaranteed Coronavirus Business Interruption Loan Scheme, Coronavirus Large Business Interruption Loan Scheme and Recovery Loan Scheme is also provided.

Consumer Finance

4) Vehicle Finance: hire purchase lending for used cars primarily to prime and near-prime customers and Personal Contract Purchase lending into the consumer prime credit market, both secured against the vehicle financed. In addition, a Stock Funding product is also offered to allow dealers to finance vehicles on their forecourt as part exchanges, from auction partners or from other trade sources.

5) Retail Finance: a market leading online service to retailers, providing unsecured prime lending products to the UK customers of its retail partners to facilitate the purchase of a wide range of consumer products.

6) Debt Management: a credit management services business which primarily invests in purchased debt portfolios from third parties, as well as fellow group undertakings. In addition, it collects debt on behalf of a range of clients. The Debt Management loan book was sold during 2022.

7) Consumer mortgages for the self-employed, contract workers, those with complex income and those with a recently restored credit history, sold via select mortgage intermediaries, which was sold during 2021.

Other

The 'Other' segment includes other products, which are individually below the quantitative threshold for separate disclosure and fulfil the requirement of IFRS 8.28 by reconciling operating segments to the amounts in the financial statements.

Other included principally OneBill (the Group's consumer bill management service), which was closed during 2021 and RentSmart (principally the funding and operation of finance leases through a disclosed agency agreement with RentSmart Limited). The RentSmart loan book was also sold during 2022. Assets and liabilities in respect of the RentSmart business were included in Assets and liabilities held for sale as at 31 December 2021 (see Note 11 for further details).

The Asset Finance, Debt Management and Consumer Mortgages segments all fell below the quantitative threshold for separate disclosure, but the Directors considered that they represented sufficiently distinct types of business to merit separate disclosure. All of these segments are included in discontinuing operations.

Management review these segments by looking at the income, size and growth rate of the loan books, impairments and customer numbers. Except for these items no costs or balance sheet items are allocated to the segments.

Unaudited 30 June 2022	**Interest income and similar income £million**	**Fee and commission income £million**	**Revenue from external customers £million**	**Net impairment (credit)/ charge on loans and advances to customers £million**	**Loans and advances to customers £million**
Real Estate Finance	26.9	0.1	27.0	(0.2)	1,142.6
Commercial Finance	7.1	5.4	12.5	0.1	359.8
Business Finance	34.0	5.5	39.5	(0.1)	1,502.4
Retail Finance	34.2	1.7	35.9	5.6	916.2
Vehicle Finance	21.6	0.7	22.3	12.4	332.6
Debt Management	5.3	1.1	6.4	0.7	–
Consumer Finance	61.1	3.5	64.6	18.7	1,248.8
Other	0.8	0.2	1.0	–	–
	95.9	**9.2**	**105.1**	**18.6**	**2,751.2**
Of which:					
Continuing	**90.6**	**8.1**	**98.7**	**17.9**	**N/A**
Discontinued	**5.3**	**1.1**	**6.4**	**0.7**	**N/A**

Unaudited 30 June 2021	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge/ (credit) on loans and advances to customers £million	Loans and advances to customers[1] £million
Real Estate Finance	27.2	0.3	27.5	1.1	1,056.6
Asset Finance	0.3	–	0.3	0.1	5.8
Commercial Finance	3.8	3.8	7.6	–	239.4
Business Finance	31.3	4.1	35.4	1.2	1,301.8
Retail Finance	31.5	1.2	32.7	2.4	694.3
Vehicle Finance	18.7	0.7	19.4	(3.4)	244.3
Debt Management	7.3	0.1	7.4	(0.8)	90.4
Consumer Mortgages	1.3	–	1.3	–	56.6
Consumer Finance	58.8	2.0	60.8	(1.8)	1,085.6
Other	(1.1)	0.9	(0.2)	(0.5)	2.5
	89.0	**7.0**	**96.0**	**(1.1)**	**2,389.9**
Of which:					
Continuing	**80.0**	**6.1**	**86.1**	**(0.4)**	**N/A**
Discontinued	**9.0**	**0.9**	**9.9**	**(0.7)**	**N/A**

1. Total loans and advances to customer includes assets held for sale of £62.4 million.

Audited 31 December 2021	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge/ (credit) on loans and advances to customers £million	Loans and advances to customers[1] £million
Real Estate Finance	54.5	0.3	54.8	0.1	1,109.6
Asset Finance	0.3	–	0.3	0.1	–
Commercial Finance	8.8	8.6	17.4	(0.2)	313.3
Business Finance	63.6	8.9	72.5	–	1,422.9
Retail Finance	65.0	2.7	67.7	5.0	764.8
Vehicle Finance	38.0	1.3	39.3	0.1	263.3
Debt Management	14.3	0.3	14.6	(0.6)	79.6
Consumer Mortgages	1.3	–	1.3	–	–
Consumer Finance	118.6	4.3	122.9	4.5	1,107.7
Other	(2.2)	1.1	(1.1)	–	1.3
	180.0	**14.3**	**194.3**	**4.5**	**2,531.9**
Of which:					
Continuing	**163.9**	**13.3**	**177.2**	**5.0**	**N/A**
Discontinued	**16.1**	**1.0**	**17.1**	**(0.5)**	**N/A**

1. Total loans and advances to customer includes assets held for sale of £1.3 million.

Interest expense and similar charges, fee and commission expense and operating expenses are not aligned to operating segments for day-to-day management of the business, so they cannot be allocated on a reliable basis. Accordingly, profit by operating segment has not been disclosed.

All of the Group's operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

4. Gains on modification of financial assets

Although not included as an option within customer contracts, following regulatory guidance the Group offered payment holidays to its Consumer Finance and Asset Finance customers during 2020 due to the COVID-19 pandemic, which were not considered to be substantial. This is considered under IFRS 9 as a modification to contractual cash flows, which requires the carrying value of these loans to be adjusted to the net present value of future cash flows.

A small number of payment holidays were granted during 2021, resulting in no further loan modification losses being recognised. The movement during the year in the net present value of the loans remaining to be unwound as a result of the modification was as follows:

Reduction in net present value	Vehicle Finance £million	Retail Finance £million	Total £million
At 1 January 2021	2.5	0.6	3.1
Credit to the income statement	(0.6)	(0.1)	(0.7)
Balance remaining to be unwound at 30 June 2021 (unaudited)	**1.9**	**0.5**	**2.4**
Credit to the income statement	(0.5)	(0.3)	(0.8)
Balance remaining to be unwound at 31 December 2021 (audited)	**1.4**	**0.2**	**1.6**
Credit to the income statement	(0.6)	(0.1)	(0.7)
Balance remaining to be unwound at 30 June 2022 (unaudited)	**0.8**	**0.1**	**0.9**

5. Income tax expense

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Current taxation			
Corporation tax charge – current year	4.6	5.5	11.2
Corporation tax credit – adjustments in respect of prior years	–	(0.2)	(0.5)
	4.6	5.3	10.7
Deferred taxation			
Deferred tax charge/(credit) – current year	1.0	(0.8)	(0.7)
Deferred tax charge – adjustments in respect of prior years	–	0.2	0.4
	1.0	(0.6)	(0.3)
Income tax expense	**5.6**	**4.7**	**10.4**
Of which:			
Continuing	4.2	4.5	10.4
Discontinued (Note 6)	1.4	0.2	–
Total	**5.6**	**4.7**	**10.4**

The tax for all the periods above has been calculated at the current effective rate, which is 19%.

The current period includes a deferred tax charge arising from a reassessment of the rates at which the deferred tax asset would reverse out in future periods, mainly arising from changes to the banking surcharge. The main component of the deferred tax asset is deferred tax on the IFRS 9 transition adjustment, which reverses on a straight-line basis over 10 years commencing in 2018.

The future tax rates used in 2021 had reflected the increase in Corporation Tax from 19% to 25% with effect from 1 April 2023 legislated in June 2021. The rates had continued to assume banking surcharge of 8% on any taxable profits of Secure Trust Bank PLC in excess of £25 million in an accounting period. The Finance Act 2022, enacted on 24 February 2022, included legislation to reduce the banking surcharge to 3% on bank tax profits in excess of £100 million with effect from 1 April 2023. The resulting reduction in the deferred tax asset is just less than £0.9 million.

6. Discontinued operations

Discontinued businesses include Debt Management, Consumer Mortgages and Asset Finance. The Asset Finance and Consumer Mortgages loan books were sold during 2021. Although Asset Finance and Consumer Mortgages were disclosed in continuing operations in the prior year, the directors have reassessed this judgement and concluded that on the basis they have been previously presented as separate business segments, and discussed as part of the Strategic Report, it has been deemed appropriate to include these as discontinued operations, and as such comparatives have been re-presented on this basis.

On 11 March 2022 the Group announced that it had agreed to sell Debt Managers (Services) Limited's ('DMS') portfolio of loans to Intrum UK Finance Limited. The sale completed on 30 May 2022. As the Group has exited this market, the results have presented this as a discontinued business. DMS will continue to service the loan book on behalf of Intrum UK Finance Limited until all loans are migrated to the purchaser, which is expected to complete by the end of 2022. As per the terms of the contract, the Group received £81.9 million, for the loan book of £71.8 million. Direct and indirect costs incurred in relation to the sale to 30 June 2022 amounted to £2.0 million. Further costs are expected to be incurred during the remainder of the year.

Income statement	**Unaudited 30 June 2022 £million**	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Interest income and similar income	5.3	9.0	16.1
Interest expense and similar charges	(0.8)	(0.7)	(1.5)
Net interest income	**4.5**	**8.3**	**14.6**
Fee and commission income	1.1	0.9	1.0
Net fee and commission income	**1.1**	**0.9**	**1.0**
Operating income	**5.6**	**9.2**	**15.6**
Net impairment (charge)/credit on loans and advances to customers	(0.7)	0.7	0.5
Profit/(loss) on disposal of loan book	8.9	–	(0.6)
Other closure costs	(0.8)	–	(0.8)
Operating expenses	(5.4)	(8.5)	(14.6)
Profit before income tax from discontinued operations	**7.6**	**1.4**	**0.1**
Income tax expense	(1.4)	(0.2)	–
Profit for the period from discontinued operations	**6.2**	**1.2**	**0.1**
Basic earnings per ordinary share – discontinued operations	**33.2**	**6.4**	**0.5**
Diluted earnings per ordinary share – discontinued operations	**32.2**	**6.3**	**0.5**

	Unaudited DMS 30 June 2022 £million	Audited Consumer Mortgages 31 December 2021 £million	Audited Asset Finance 31 December 2021 £million	Audited Total 31 December 2021 £million
Consideration received	81.9	54.6	5.8	60.4
Carrying value of loan books disposed	(71.8)	(54.5)	(5.8)	(60.3)
Selling costs	(1.2)	(0.6)	(0.1)	(0.7)
Profit/(loss) on disposal of loan book (including selling costs)	**8.9**	**(0.5)**	**(0.1)**	**(0.6)**
Other closure costs	(0.8)	(0.8)	–	(0.8)
Overall profit/(loss) on disposal of loan portfolio(s)	**8.1**	**(1.3)**	**(0.1)**	**(1.4)**

Net cash flows	**Unaudited 30 June 2022 £million**	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Operating	(81.2)	2.0	(58.3)
Investing	80.7	(0.2)	60.4
Financing	–	–	–
Net cash (outflow)/inflow	**(0.5)**	**1.8**	**2.1**

7. Earnings per ordinary share

7.1 Basic

Basic earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares as follows:

	Unaudited 30 June 2022	Unaudited 30 June 2021	Audited 31 December 2021
Profit attributable to equity holders of the parent (£million)	**19.1**	26.0	45.6
Weighted average number of ordinary shares (number)	**18,658,851**	18,634,320	18,637,444
Earnings per share (pence)	**102.4**	139.5	244.7

7.2 Diluted

Diluted earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year, as noted above, as well as the number of dilutive share options in issue during the year, as follows:

	Unaudited 30 June 2022	Unaudited 30 June 2021	Audited 31 December 2021
Weighted average number of ordinary shares	18,658,851	18,634,320	18,637,444
Number of dilutive shares in issue at the period-end	609,051	367,546	407,729
Fully diluted weighted average number of ordinary shares	**19,267,902**	**19,001,866**	**19,045,173**
Dilutive shares being based on:			
Number of options outstanding at the period-end	1,205,610	1,087,539	949,193
Weighted average exercise price (pence)	297	357	370
Average share price during the period (pence)	1,205	966	1,103
Diluted earnings per share (pence)	**99.1**	**136.8**	**239.4**

8. Dividends

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
2020 final dividend – 44.0 pence per share (paid May 2021)	–	8.2	8.2
2021 interim dividend – 20.0 pence per share (paid September 2021)	–	–	3.7
2021 final dividend – 41.1 pence per share (paid May 2022)	7.7	–	–
	7.7	**8.2**	**11.9**

The Directors recommend the payment of a interim dividend of 16.0 pence per share (2021: 20.0 pence per share). This will be paid on 26 September 2022 with an associated record date of 26 August 2022.

9. Loans and advances to customers

Unaudited 30 June 2022	**Loans and advances to customers £million**	**Assets held for sale £million**	**Total £million**
Gross loans and advances	2,818.2	–	2,818.2
Less: allowances for impairment of loans and advances	(67.0)	–	(67.0)
	2,751.2	**–**	**2,751.2**

Unaudited 30 June 2021	Loans and advances to customers £million	Assets held for sale £million	Total £million
Gross loans and advances	2,401.1	64.0	2,465.1
Less: allowances for impairment of loans and advances	(73.6)	(1.6)	(75.2)
	2,327.5	**62.4**	**2,389.9**

Audited **31 December 2021**	Loans and advances to customers £million	Assets held for sale £million	Total £million
Gross loans and advances	2,598.1	1.3	2,599.4
Less: allowances for impairment of loans and advances	(67.5)	–	(67.5)
	2,530.6	**1.3**	**2,531.9**

10. Allowances for impairment of loans and advances

Expected Credit Losses (ECL) by stage by business are disclosed below:

	Not credit-impaired		**Credit-impaired**			
Unaudited **30 June 2022**	**Stage 1: Subject to 12-month ECL £million**	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total provision £million**	**Gross loans and advance to customers £million**	**Provision cover %**
Business Finance:						
Real Estate Finance	0.1	0.1	2.0	2.2	1,144.8	0.2
Commercial Finance	0.7	0.1	0.4	1.2	361.0	0.3
Consumer Finance:						
Retail Finance	11.3	7.8	5.4	24.5	940.7	2.6
Vehicle Finance:						
Voluntary termination provision	4.9	–	–	4.9		
Other impairment	5.0	17.6	11.6	34.2		
	9.9	17.6	11.6	39.1	371.7	10.5
	22.0	**25.6**	**19.4**	**67.0**	**2,818.2**	**2.4**

	Not credit-impaired		Credit-impaired			
Unaudited **30 June 2021**	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision cover %
Business Finance:						
Real Estate Finance	0.5	1.8	3.7	6.0	1,062.6	0.6
Asset Finance	0.6	0.1	0.8	1.5	7.3	20.5
Commercial Finance	0.8	0.3	0.2	1.3	240.7	0.5
Consumer Finance:						
Retail Finance	13.1	5.8	3.9	22.8	717.1	3.2
Vehicle Finance:						
Voluntary termination provision	4.0	–	–	4.0		
Other impairment	5.7	10.5	17.0	33.2		
	9.7	10.5	17.0	37.2	281.5	13.2
Debt Management	–	–	6.3	6.3	96.7	6.5
Consumer Mortgages	0.1	–	–	0.1	56.7	0.2
Other	–	–	–	–	2.5	–
	24.8	**18.5**	**31.9**	**75.2**	**2,465.1**	**3.1**
Less: Assets held for sale	(0.7)	(0.1)	(0.8)	(1.6)	(64.0)	2.5
	24.1	**18.4**	**31.1**	**73.6**	**2,401.1**	**3.1**

Audited 31 December 2021	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision cover %
Business Finance:						
Real Estate Finance	0.1	0.4	2.7	3.2	1,112.8	0.3
Commercial Finance	0.5	0.1	0.5	1.1	314.4	0.3
Consumer Finance:						
Retail Finance	10.0	7.6	4.1	21.7	786.5	2.8
Vehicle Finance:						
Voluntary termination provision	4.2	–	–	4.2		
Other impairment	3.7	11.9	14.4	30.0		
	7.9	11.9	14.4	34.2	297.5	11.5
Debt Management	–	–	7.3	7.3	86.9	8.4
Other	–	–	–	–	1.3	–
	18.5	**20.0**	**29.0**	**67.5**	**2,599.4**	**2.6**
Less Assets held for sale	–	–	–	–	(1.3)	–
	18.5	**20.0**	**29.0**	**67.5**	**2,598.1**	**2.6**

The impairment charge/(credit) disclosed in the income statement can be analysed as follows:

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Expected credit losses: impairment charge	18.4	0.7	4.9
Charge in respect of off balance sheet loan commitments	0.2	0.2	(0.2)
Loans written off net of amounts utilised	–	(1.9)	–
Recoveries of loans written off	–	(0.1)	(0.2)
	18.6	**(1.1)**	**4.5**
Of which:			
Continuing	17.9	(0.4)	5.0
Discontinued (Note 6)	0.7	(0.7)	(0.5)
Total	**18.6**	**(1.1)**	**4.5**

Total provisions above include expert credit judgements (management overlays) as follows:

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	(1.7)	(6.9)	(0.4)
Management judgement in respect of:			
Consumer Finance affordability	5.3	–	4.6
Vehicle Finance used car valuations	1.6	1.4	1.5
Uncertainty over the future impact of COVID-19 impact	–	3.8	0.4
Adjustment of model over-extrapolation of observed defaults	(2.2)	–	–
POCI adjustment	–	6.0	7.3
Other	(1.0)	0.6	(0.1)
Expert credit judgements over the IFRS 9 model results	**2.0**	**4.9**	**13.3**

The specific overlays for Business Finance have been estimated on an individual basis by assessing the recoverability and condition of the secured asset, along with any other recoveries that may be made. For further details on Consumer Finance affordability and Vehicle Finance used car valuations, see Notes 10.1.2 and 10.1.5 respectively.

Reconciliations of the opening to closing allowance for impairment of loans and advances are presented below:

Unaudited	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Not credit-impaired Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2022	18.5	20.0	29.0	67.5
Increase due to change in credit risk				
– Transfer to stage 2	(3.3)	19.9	–	16.6
– Transfer to stage 3	(0.4)	(8.9)	13.1	3.8
– Transfer to stage 1	1.3	(2.4)	–	(1.1)
Passage of time	(2.2)	0.1	(4.1)	(6.2)
New loans originated	11.2	–	–	11.2
Matured and derecognised loans	(1.6)	(1.6)	–	(3.2)
Changes to credit risk parameters	(2.2)	(1.5)	–	(3.7)
Other adjustments	1.0	–	–	1.0
Charge to income statement	3.8	5.6	9.0	18.4
Allowance utilised in respect of write-offs	(0.3)	–	(18.6)	(18.9)
30 June 2022	**22.0**	**25.6**	**19.4**	**67.0**

Unaudited	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Not credit-impaired Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2021	27.1	27.3	28.3	82.7
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(2.6)	11.4	–	8.8
– Transfer to stage 3	–	(8.6)	10.8	2.2
– Transfer to stage 1	1.6	(2.8)	–	(1.2)
Passage of time	(6.3)	(6.3)	(0.2)	(12.8)
New loans originated	8.9	–	–	8.9
Matured and derecognised loans	(2.0)	(1.8)	–	(3.8)
Changes to model methodology	–	(0.4)	–	(0.4)
Changes to credit risk parameters	(1.2)	(0.3)	0.2	(1.3)
Other adjustments	0.3	–	–	0.3
Charge to income statement	(1.3)	(8.8)	10.8	0.7
Allowance utilised in respect of write-offs	(1.0)	–	(7.2)	(8.2)
30 June 2021	**24.8**	**18.5**	**31.9**	**75.2**

Audited	Not credit-impaired: Stage 1: Subject to 12-month ECL £million	Not credit-impaired: Stage 2: Subject to lifetime ECL £million	Credit-impaired: Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2021	27.1	27.3	28.3	82.7
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.3)	27.1	(0.2)	21.6
– Transfer to stage 3	(0.1)	(15.7)	20.6	4.8
– Transfer to stage 1	2.9	(5.3)	–	(2.4)
Passage of time	(10.9)	(6.7)	(3.0)	(20.6)
New loans originated	18.2	–	–	18.2
Matured and derecognised loans	(4.1)	(4.1)	–	(8.2)
Changes to model methodology	(0.1)	(0.2)	0.9	0.6
Changes to credit risk parameters	(8.0)	(2.3)	0.7	(9.6)
Other adjustments	0.5	–	–	0.5
Charge to income statement	(6.9)	(7.2)	19.0	4.9
Allowance utilised in respect of write-offs	(1.7)	(0.1)	(18.3)	(20.1)
31 December 2021	**18.5**	**20.0**	**29.0**	**67.5**

The tables above have been prepared based on monthly movements in the ECL.

Passage of time represents the impact of accounts maturing through their contractual life and the associated reduction in PDs. For stage 3 assets it represents the unwind of the discount applied in calculating the ECL.

Changes to model methodology represent movements that have occurred due to enhancements made to the models during the year.

Changes to credit risk parameters represent movements that have occurred due to the Group updating model inputs. This would include the impact of, for example, updating the macroeconomic scenarios applied to the models.

Other adjustments represent the movement in the Vehicle Finance voluntary termination provision.

Stage 1 write-offs arise on Vehicle Finance accounts where borrowers have exercised their right to voluntarily terminate their agreements.

10.1 Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty all relate to the impairment charge on loans and advances to customers and are therefore set out below.

The current macroeconomic environment (see the Regulatory section starting on page 17 for further details) has been considered in determining reasonably possible changes in key sources of estimation uncertainty which may occur in the next 12 months.

The impairment charge comprises of two principal elements:

- modelled ECLs, and
- expert credit judgements, which are overlaid onto the output from the models.

Modelled ECLs are calculated by multiplying three main components: the probability of default ('PD'), exposure at default and loss given default ('LGD'). These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information.

Exogenous, Maturity, Vintage modelling is used in the production of forward-looking lifetime PDs in the calculation of ECLs. As the Group's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model to incorporate the effects of recession.

The determination of both the PD and LGD require estimation which is discussed further below.

10.1.1 Estimation of PDs

Sensitivity to reasonably possible changes in PD could potentially result in material changes in the ECL allowance for Vehicle Finance and Retail Finance.

A 50% change in the PD for Vehicle Finance would immediately impact the ECL allowance by £7.2 million (30 June 2021:10% change impacted ECL allowance by £1.4 million, 31 December 2021: a 15% change impacted the ECL allowance by £2.3 million).

A 10% change in the PD for Retail Finance would immediately impact the ECL allowance by £1.3 million (30 June 2021: 20% change impacted ECL allowance by £3.8 million, 31 December 2021: a 30% change impacted the ECL allowance by £4.6 million).

During the period, there was a 47% (30 June 2021: 11%, 31 December 2021: 14%) change in PD for Vehicle Finance, and a 10% (30 June 2021: 14%, 31 December 2021: 27%) change in PD for Retail Finance.

Due to collateral protection on the Business Finance books, sensitivity to reasonably possible changes in PD are not considered material.

10.1.2. Consumer Finance customer affordability

A new PD judgement was applied at 31 December 2021 to reflect the heightened risk of lower customer affordability in the Consumer Finance businesses due to the increased cost-of-living. A 15% uplift was applied to the ECL on loans identified as most likely to be impacted by increases in cost-of-living, which impacted the ECL by £5.3 million (31 December 2021: £4.6 million). If the uplift factor was increased to 20%, the ECL would have been impacted by a further £1.1 million (31 December 2021: £0.9 million).

10.1.3. Vehicle Finance cure rates

Where loans are in stage 3 and return to less than 90 days past due, expected future cure rates are an element of the LGD calculation. Cure rates are currently above the assumption used in the model of 6.3%, but management are expecting that cure rates will return to their pre-COVID-19 pandemic levels. An increase in the cure rate to 12% would decrease the ECL by £1.6 million (31 December 2021: £2.0 million).

10.1.4. Vehicle Finance recovery rates

With the exception of the Vehicle Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. The Vehicle Finance portfolio is particularly sensitive to changes in LGD due to the range of outcomes which could crystallise depending on whether the Group is able to recover the vehicle as security. For the Vehicle Finance portfolio a 20% change in the LGD is considered reasonably possible due to delays in the vehicle collection process. A 20% reduction in the vehicle recovery rate assumption element of the LGD for Vehicle Finance would increase the ECL by £1.4 million (30 June 2021: £4.2 million, 31 December 2021 £2.0 million). During the year, there was a 0% (30 June 2021: 0%, 31 December 2021: 0%) change in the vehicle recovery rate assumption.

10.1.5 Vehicle Finance used car values

Since the onset of the COVID-19 pandemic, we have observed an increase in used car prices of 26%. This increase in used car prices has been incorporated into the modelled LGD reducing the ECL provision by £2.1 million (31 December 2021: £3.0 million), however, the Directors believe that only 14% of the increase in used car prices will be permanent and have applied an overlay for lower recoveries with an increased provision of £1.6 million (31 December 2021: £1.5 million).

10.1.6 LGD on Real Estate Finance loans in stage 3

The ECL on Real Estate Finance loans in stage 3 is calculated using a probability weighted expected outcome for each loan, with the scenarios ranging from best case to downside case(s) to worst case. If the base cases were removed, with a corresponding increase in downside case(s) and no movement in worst case, which management considers to be a reasonably possible outcome, the ECL would increase by £1.2 million (31 December 2021: £2.2 million). The average actual weighting given to the base cases at 30 June 2022 was 82.5% (31 December 2021: 62.5%).

10.1.7 Adjustment of model over-extrapolation of observed defaults

The Vehicle Finance ECL model was adjusted for an over-extrapolation of recent observed defaults, which resulted in a management overlay reducing the ECL by £2.2 million. The overlay was quantified as 50% of the reduction in ECL charge that would occur if using average Vehicle Finance PDs, which the Directors consider to be reasonable until further corroborative data is available. If defaults do continue to increase at the rate predicted by the ECL model, an additional £2.2 million charge would be recognised.

10.1.8 Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario.

The macroeconomic scenarios used were provided by external economic advisors, having previously being internally developed, which had regard to externally published scenarios. The scenarios and weightings applied are summarised below:

Unaudited 30 June 2022

		UK Unemployment Rate – Annual Average				UK HPI – movement from H1 2022			
Scenario	Weightings	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %
Upside	20%	3.6	3.6	3.6	3.6	4.2	5.5	8.4	7.3
Base	50%	3.8	3.8	3.7	3.8	1.3	0.3	1.0	2.0
Downside	25%	6.0	6.2	6.3	6.1	(6.9)	(17.1)	(23.0)	(15.0)
Severe	5%	6.3	6.5	6.6	6.4	(11.0)	(25.7)	(34.8)	(23.4)

Unaudited 30 June 2021

		UK Unemployment Rate – Annual Average				UK HPI – movement from H1 2021			
Scenario	Weightings	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %
Upside	20%	5.1	4.8	4.4	4.4	(0.5)	(0.2)	2.8	3.9
Base	50%	6.9	7.0	5.9	5.6	(2.4)	(3.0)	–	1.3
Downside	25%	7.5	7.7	6.6	6.1	(3.6)	(5.9)	(2.9)	(1.3)
Severe	5%	9.3	10.2	8.4	7.8	(13.0)	(22.4)	(19.4)	(16.3)

Audited 31 December 2021

		UK Unemployment Rate – Annual Average				UK HPI – movement from December 2021			
Scenario	Weightings	2022 %	2023 %	2024 %	5 Yr Average %	2022 %	2023 %	2024 %	5 Yr Average %
Upside	20%	4.1	4.0	4.0	4.0	0.8	3.9	8.1	8.3
Base	50%	4.9	4.4	4.2	4.3	1.0	1.9	3.9	4.9
Downside	25%	5.7	5.6	4.8	4.9	(3.0)	(1.9)	2.1	2.7
Severe	5%	6.8	8.3	6.8	6.3	(10.7)	(11.2)	(7.2)	(6.2)

The sensitivity of the ECL allowance to reasonably possible changes in macroeconomic scenario weighting is presented below:

	Increase in downside case weighting by 10% and reduction in upside case			Increase in severe stress case weighting by 5%and reduction in base case		
	Unaudited June 2022 £million	Unaudited June 2021 £million	Audited December 2021 £million	**Unaudited June 2022 £million**	Unaudited June 2021 £million	Audited December 2021 £million
Vehicle Finance	1.1	0.2	0.2	0.8	0.1	0.2
Retail Finance	1.6	0.3	0.3	1.2	0.2	0.2

The sensitivity is immaterial for other lending products.

The Group recognised an impairment charge of £18.6 million (30 June 2021: £1.1 million credit, December 2021: £4.5 million charge). Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the increase/(decrease) on ECL provisions would be as follows:

Unaudited 30 June 2022 Scenario	**Vehicle Finance £million**	**Retail Finance £million**	**Business Finance £million**	**Total Group £million**
Upside	(1.7)	(2.6)	(0.3)	(4.6)
Base	(1.2)	(1.8)	(0.2)	(3.2)
Downside	3.0	4.6	0.5	8.1
Severe	3.7	5.7	1.1	10.5

Unaudited 30 June 2021 Scenario	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(1.7)	(2.2)	(1.3)	(5.2)
Base	0.1	0.1	(0.4)	(0.2)
Downside	0.7	0.9	0.3	1.9
Severe	2.6	3.4	7.1	13.1

Audited 31 December 2021 Scenario	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(1.2)	(2.0)	(2.5)	(5.7)
Base	(0.4)	(0.4)	(1.9)	(2.7)
Downside	1.0	1.5	0.5	3.0
Severe	3.3	4.6	8.4	16.3

10.1.8 Climate-risk impact

The Group has considered the impact of climate-related risks on the financial statements, in particular the impact on impairment within the Vehicle Finance business. While the effects of climate change represent a source of uncertainty (in respect of potential transitional risks such as those that may arise from changes in future Government policy), the Group does not consider there to be a material impact on its judgements and estimates from the physical, transition and other climate-related risks in the short-term.

11. Assets and liabilities held for sale

Under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, assets and liabilities are required to be reclassified as 'Held for sale' on the face of the statement of financial position if they are expected to be sold within 12 months of the balance sheet date.

As at 30 June 2022, the Group's office property in Bourne End was available for immediate sale in its present condition and its sale was highly probable. Accordingly, it was reclassified in the June 2022 Condensed consolidated statement of financial position at its carrying amount of £3.3 million from Investment properties to Assets held for sale. During July 2022, the sale completed, and the property was sold for £3.4 million.

As at 30 June 2021, the Asset Finance and Consumer Mortgages loan books were both in advanced stages of a sales process. Accordingly, it was reclassified in the June 2021 Condensed consolidated statement of financial position at its carrying value of £62.4 million from Loans and advances to customers to Assets held for sale. The sale of both books completed during July 2021.

As at 31 December 2021, assets of £1.3 million relating to a loan book and a liability of £2.0 million relating to collateral held, were in the process of being sold to its partner, RentSmart Limited. The assets and liabilities were sold for their carrying amount on 31 January 2022. There is no provision held against the RentSmart loans, as the credit risk associated with those loans is retained by RentSmart Limited.

Further information on the contribution of each business to the Group can be found in Note 3. Details of impairment allowances for each business can be found in Note 10.

12. Due to banks

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Amounts due under the Bank of England's liquidity support operations, Term Funding Scheme and Term Funding Scheme with additional incentives for SMEs	390.0	303.0	390.0
Amounts due to other credit institutions	9.4	7.3	0.7
Accrued interest	0.9	0.1	0.1
	400.3	**310.4**	**390.8**

Amounts due under the Bank of England's liquidity support operations Term Funding Scheme with additional incentives for SMEs are due for repayment between March 2025 and October 2025.

13. Deposits from customers

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Fixed term bonds	1,182.4	972.6	974.6
Notice accounts	696.8	684.1	771.9
ISAs	310.8	173.4	255.0
Access accounts	100.9	109.6	101.7
	2,290.9	**1,939.7**	**2,103.2**

14. Provisions for liabilities and charges

	ECL allowance on loan commitments £million	Other £million	Total £million
Balance at 1 January 2021	**1.1**	**0.8**	**1.9**
Charge to income statement	0.2	0.1	0.3
Utilised	–	(0.2)	(0.2)
Balance at 30 June 2021 (Unaudited)	**1.3**	**0.7**	**2.0**
(Release)/charge to income statement	(0.4)	0.2	(0.2)
Utilised	–	(0.5)	(0.5)
Balance at 31 December 2021 (Audited)	**0.9**	**0.4**	**1.3**
Charge to income statement	0.2	0.3	0.5
Utilised	–	(0.3)	(0.3)
Balance at 30 June 2022 (Unaudited)	**1.1**	**0.4**	**1.5**

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9 the Group holds an ECL allowance against loans it has committed to lend but have not yet been drawn. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 30 June 2022, 30 June 2021, 31 December 2021 no provision was held for losses in excess of drawn amounts.

Other

Other includes

- provision for fraud, which relates to cases where the Group has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately
- s75 Consumer Credit Act 1974 provision; and
- restructuring provision (June 2021 only).

The Directors expect all provisions to be fully utilised within the next 12 months.

15. Subordinated liabilities

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Notes at par value	50.0	50.0	50.0
Unamortised issue costs	(0.2)	(0.4)	(0.3)
Accrued interest	1.2	1.2	1.2
	51.0	**50.8**	**50.9**

16. Contingent liabilities and commitments

16.1 Contingent liabilities

As a financial services business, the Group must comply with numerous laws and regulations, which significantly affect the way it does business. Whilst the Group believes there are no material unidentified areas of failure to comply with these laws and regulations, there can be no guarantee that all issues have been identified.

16.2 Credit commitments

Commitments to extend credit to customers were as follows:

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Business Finance			
Real Estate Finance	77.3	56.3	68.9
Commercial Finance	152.6	120.7	120.9
Consumer Finance			
Retail Finance	100.8	91.1	83.6
Vehicle Finance	1.6	0.5	0.5
	332.3	**268.6**	**273.9**

17. Share-based payments

Movements in the share options outstanding during the period are set out below:

	Outstanding at 1 January 2022 Number	Granted Number	Exercised Number	Outstanding at 30 June 2022 Number
Long term incentive plan	401,800	230,789	(17,565)	615,024
Deferred bonus plan	19,686	38,344	(4,316)	53,714
Sharesave plan	542,446	–	(5,574)	536,872
	963,932	**269,133**	**(27,455)**	**1,205,610**

	Outstanding at 1 January 2021 Number	Granted Number	Exercised Number	Outstanding at 30 June 2021 Number
Long term incentive plan	473,096	243,550	(3,884)	712,762
Deferred bonus plan	51,319	1,702	(826)	52,195
Sharesave plan	572,464	–	–	572,464
	1,096,879	**245,252**	**(4,710)**	**1,337,421**

	Outstanding at 1 January 2021 Number	Granted Number	Forfeited, lapsed and cancelled Number	Exercised Number	Outstanding at 31 December 2021 Number
Long term incentive plan	473,096	243,550	(300,999)	(13,847)	401,800
Deferred bonus plan	51,319	13,023	(43,830)	(826)	19,686
Sharesave plan	572,464	57,645	(87,663)	–	542,446
	1,096,879	**314,218**	**(432,492)**	**(14,673)**	**963,932**

The weighted average of the original grant date valuation of the options granted in the period is £7.69. 12,779 of the options granted in the period will vest in April 2023, 12,779 will vest in 2024, with the remainder vesting in 2025.

18. Cash flow statement

18.1 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Cash and balances at central banks	253.0	138.4	235.7
Loans and advances to banks	54.2	43.3	50.3
Debt securities	34.9	–	25.0
Less restricted cash			
Included in cash and balances at central banks	(2.3)	(1.3)	(1.7)
Included in loans and advances to central banks	(1.5)	(9.5)	(6.3)
Total restricted cash	(3.8)	(10.8)	(8.0)
	338.3	**170.9**	**303.0**

18.2 Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £0.1 million (June 2021: £0.1 million, December 2021: £0.1 million) of lease liabilities interest expense, and £0.1 million (June 2021: £0.1 million, December 2021: £0.1 million) amortisation of issue costs on subordinated liabilities.

19. Related party transactions

There were no changes to the nature of the related party transactions during the period to June 2022 that would materially affect the position or performance of the Group. The nature and relative quantum of related party transactions has not changed in the six months ended 30 June 2022 in comparison to the year ended 31 December 2021. Details of the transactions for the year ended December 2021 can be found in the 2021 Annual Report and Accounts.

20. Management of credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Details of the management of credit risk can be found in the 2021 Annual Report and Accounts.

	Stage 1	Stage 2			Stage 3			Total
Unaudited 30 June 2022	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
Business Finance								
Real Estate Finance	969.7	143.7	–	143.7	31.4	–	31.4	1,144.8
Commercial Finance	344.5	14.5	–	14.5	2.0	–	2.0	361.0
Consumer Finance								
Retail Finance	827.2	105.0	2.7	107.7	5.8	–	5.8	940.7
Vehicle Finance	253.6	97.6	2.8	100.4	17.7	–	17.7	371.7
Total drawn exposure	**2,395.0**	**360.8**	**5.5**	**366.3**	**56.9**	**–**	**56.9**	**2,818.2**
Off balance sheet								
Loan commitments	332.3	–	–	–	–		–	332.3
Total gross exposure	**2,727.3**	**360.8**	**5.5**	**366.3**	**56.9**	**–**	**56.9**	**3,150.5**
Less:								
Impairment allowance	(22.0)	(21.7)	(3.9)	(25.6)	(19.4)	–	(19.4)	(67.0)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,704.2**	**339.1**	**1.6**	**340.7**	**37.5**	**–**	**37.5**	**3,082.4**

Unaudited 30 June 2021	Stage 1 £million	Stage 2 <= 30 days past due £million	Stage 2 > 30 days past due £million	Stage 2 Total £million	Stage 3 Excl. purchased credit-impaired £million	Stage 3 Purchased credit-impaired £million	Stage 3 Total £million	Total £million
Business Finance								
Real Estate Finance	780.8	231.3	4.1	235.4	46.4	–	46.4	1,062.6
Asset Finance	5.4	1.1	–	1.1	0.8	–	0.8	7.3
Commercial Finance	227.6	12.8	–	12.8	0.3	–	0.3	240.7
Consumer Finance								
Retail Finance	642.7	67.9	2.2	70.1	4.3	–	4.3	717.1
Vehicle Finance	177.3	79.3	1.1	80.4	23.8	–	23.8	281.5
Debt Management	–	–	–	–	11.0	85.7	96.7	96.7
Consumer Mortgages	53.1	–	2.1	2.1	1.5	–	1.5	56.7
Other	2.5	–	–	–	–	–	–	2.5
Total drawn exposure	**1,889.4**	**392.4**	**9.5**	**401.9**	**88.1**	**85.7**	**173.8**	**2,465.1**
Off balance sheet								
Loan commitments	268.6	–	–	–	–	–	–	268.6
Total gross exposure	**2,158.0**	**392.4**	**9.5**	**401.9**	**88.1**	**85.7**	**173.8**	**2,733.7**
Less:								
Impairment allowance	(24.8)	(16.2)	(2.3)	(18.5)	(25.9)	(6.0)	(31.9)	(75.2)
Provision for loan commitments	(1.3)	–	–	–	–	–	–	(1.3)
Total net exposure	**2,131.9**	**376.2**	**7.2**	**383.4**	**62.2**	**79.7**	**141.9**	**2,657.2**

Unaudited 31 December 2021	Stage 1 £million	Stage 2 <= 30 days past due £million	Stage 2 > 30 days past due £million	Stage 2 Total £million	Stage 3 Excl. purchased credit-impaired £million	Stage 3 Purchased credit-impaired £million	Stage 3 Total £million	Total £million
Business Finance								
Real Estate Finance	911.4	161.4	–	161.4	40.0	–	40.0	1,112.8
Commercial Finance	291.7	17.5	–	17.5	5.2	–	5.2	314.4
Consumer Finance								
Retail Finance	659.4	120.1	2.6	122.7	4.4	–	4.4	786.5
Vehicle Finance	207.0	68.9	2.2	71.1	19.4	–	19.4	297.5
Debt Management	–	–	–	–	10.8	76.1	86.9	86.9
Total drawn exposure	**2,069.5**	**367.9**	**4.8**	**372.7**	**79.8**	**76.1**	**155.9**	**2,598.1**
Off balance sheet								
Loan commitments	271.0	2.9	–	2.9	–	–	–	273.9
Total gross exposure	**2,340.5**	**370.8**	**4.8**	**375.6**	**79.8**	**76.1**	**155.9**	**2,872.0**
Less:								
Impairment allowance	(18.5)	(16.6)	(3.4)	(20.0)	(23.1)	(5.9)	(29.0)	(67.5)
Provision for loan commitments	(0.9)	–	–	–	–	–	–	(0.9)
Total net exposure	**2,321.1**	**354.2**	**1.4**	**355.6**	**56.7**	**70.2**	**126.9**	**2,803.6**

20.1 Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations the Directors consider the lending operations of the Group as a whole to be well diversified. Details of the Group's loans and advances to customers and loan commitments by product is provided in Notes 3 and 16.2.

The Group's Real Estate Finance loan book is secured against UK property only. The geographical concentration of these business loans and advances to customers, by location of the security is as follows:

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Audited 31 December 2021 £million
Central England	95.1	151.8	90.1
Greater London	696.7	650.1	619.7
Northern England	61.5	60.0	66.2
South East England (excl. Greater London)	225.7	145.3	258.7
South West England	22.2	28.1	30.7
Scotland, Wales and Northern Ireland	43.6	27.3	47.4
Gross loans and advances to customers	**1,144.8**	**1,062.6**	**1,112.8**
Allowance for impairment	(2.2)	(6.0)	(3.2)
Total	**1,142.6**	**1,056.6**	**1,109.6**
Loan-to-value	**57%**	**57%**	**56%**

Under its credit policy, the Real Estate Finance business lends to a maximum loan-to-value of 70% for investment loans and up to 65% for residential development loans and pre-let commercial development loans (based on gross development value).

21. Capital risk

The Group's capital management policy is focused on optimising shareholder value, in a safe and sustainable manner. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position.

The following table shows the regulatory capital resources as managed by the Group:

	Unaudited 30 June 2022 £million	Unaudited 30 June 2021 £million	Unaudited 31 December 2021 £million
Tier 1			
Share capital	7.5	7.5	7.5
Share premium	82.2	82.2	82.2
Retained earnings	224.1	198.2	211.7
Revaluation reserve	1.4	0.9	1.3
IFRS 9 transition adjustment	8.5	13.9	13.9
Goodwill	(1.0)	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(5.9)	(4.3)	(4.3)
Common Equity Tier 1 ('CET 1') capital before foreseeable dividend	**316.8**	**297.4**	**311.3**
Foreseeable dividend	(3.0)	(3.7)	(7.7)
CET 1 capital	**313.8**	**293.7**	**303.6**
Tier 2			
Subordinated liabilities	49.8	50.8	50.9
Less ineligible portion	–	(4.3)	(3.9)
Total Tier 2 capital	**49.8**	**46.5**	**47.0**
Total own funds/Total capital	**363.6**	**340.2**	**350.6**
Reconciliation to total equity:			
IFRS 9 transition adjustment	(8.5)	(13.9)	(13.9)
Eligible subordinated liabilities	(49.8)	(46.5)	(47.0)
Cash flow hedge reserve	(0.8)	(0.1)	(0.3)
Goodwill and other intangible assets net of attributable deferred tax	6.9	5.3	5.3
Foreseeable dividend	3.0	3.7	7.7
Total equity	**314.4**	**288.7**	**302.4**

The Group is subject to capital requirements imposed by the PRA on all financial services firms. During the periods, the Group complied with these requirements.

22. Fair value of loans and advances to customers and deposits from customers

The fair value of loans and advances to customers and deposits from customers is set out below:

	Unaudited Carrying amount 30 June 2022 £million	**Unaudited Fair value 30 June 2022 £million**	Unaudited Carrying amount 30 June 2021 £million	Unaudited Fair value 30 June 2021 £million	Audited Carrying amount 31 December 2021 £million	Audited Fair value 31 December 2021 £million
Total loans and advances to customers	**2,751.2**	**2,771.7**	2,389.9	2,419.0	2,531.9	2,569.9
Deposits from customers	**2,290.9**	**2,297.3**	1,939.7	1,957.7	2,103.2	2,106.9

Freehold land and buildings, investment properties and derivatives are carried at fair value. All other assets and liabilities are carried at amortised cost.

Appendix to the Interim Report (unaudited)

Key performance indicators and other alternative performance measures

(i) Net interest margin ratio

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over seven or 13 months. The resulting ratios for June 2022 and June 2021 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

Total	June 2022 £million	June 2021 £million	December 2021 £million
Interest income and similar income (continuing and discontinued)	95.9	89.0	180.0
Interest expense and similar charges (continuing and discontinued)	(18.3)	(15.5)	(29.2)
Net interest income (continuing and discontinued)	77.6	73.5	150.8
Opening loan book (including loans included in assets held for sale of: £1.3 million as at 1 January 2022).	2,531.9	2,358.9	2,358.9
Closing loan book (including loans included in assets held for sale of (30: June 2021: £62.4 million, 31 December 2021: £1.3 million).	2,751.2	2,389.9	2,531.9
Average loan book	2,639.7	2,346.3	2,374.0
Total net interest margin	**5.9%**	**6.3%**	**6.4%**

Core	June 2022 £million	June 2021 £million	December 2021 £million
Interest income and similar income (continuing)	90.6	80.0	163.9
Interest expense and similar charges (continuing)	(17.5)	(14.8)	(27.7)
Net interest income (continuing)	73.1	65.2	136.2
Core opening loan book	2,451.0	2,184.9	2,184.9
Core closing loan book	2,751.2	2,234.6	2,451.0
Core average loan book	2,584.2	2,174.2	2,240.5
Core net interest margin	**5.7%**	**6.0%**	**6.1%**

The net interest margin ratio measures the yield net of funding costs of the loan book.

A reconciliation of total loan book to core loan book is set out below:

	June 2022 £million	June 2021 £million	December 2021 £million	December 2020 £million
Loan and advances to customers	2,751.2	2327.5	2,530.6	2,358.9
Assets held for sale – loan portfolios	–	62.4	1.3	-
Total loan book	**2,751.2**	**2,389.9**	**2,531.9**	**2,358.9**
Less non-core loan portfolios:				
Asset Finance (sold during 2021)	–	(5.8)	–	(10.4)
DMS (sold during 2022)	–	(90.4)	(79.6)	(81.8)
Consumer Mortgages (sold during 2021)	–	(56.6)	–	(77.7)
Other	–	(2.5)	(1.3)	(4.1)
Total non-core portfolios	–	(155.3)	(80.9)	(174.0)
Core loans and advances to customers/loan book	**2,751.2**	**2,234.6**	**2,451.0**	**2,184.9**

(ii) Core loans and advances to customers and compound annual growth rate

Annual growth rate is calculated as the annualised growth in 'core' loans and advances to customers based on the number of days in the period since 31 December 2020:

	June 2022 £million	June 2021 £million	December 2021 £million
Core loans and advances to customers	2,751.2	2,234.6	2,451.0
Compound annual growth rate (since 31 December 2020)	**16.7%**	**4.6%**	**12.2%**

(iii) Return on average equity

Average equity is calculated as the average of the monthly equity balances over seven or 13 months as appropriate for the financial period and average required equity is calculated as the average of the monthly balances of total required equity over seven or 13 months as appropriate for the financial period. The resulting ratios for June 2022 and June 2021 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

Total	June 2022 £million	June 2021 £million	December 2021 £million
Profit for the period/Profit after tax	19.1	26.0	45.6
Opening equity	302.4	267.6	267.6
Closing equity	314.4	285.8	302.4
Average equity	308.2	276.3	287.0
Total return on average equity	**12.5%**	**19.0%**	**15.9%**

Return on average equity is a measure of the Group's ability to generate profit from the equity available to it.

(iv) Cost to income ratio

Cost to income ratio is calculated as operating expenses for the financial period as a percentage of operating income for the financial period.

Total	June 2022 £million	June 2021 £million	December 2021 £million
Operating expenses (continuing and discontinued)	51.6	51.3	104.0
Operating income (continuing and discontinued)	86.6	80.2	164.5
Total cost to income ratio	**59.6%**	**64.0%**	**63.2%**

Core	June 2022 £million	June 2021 £million	December 2021 £million
Operating expenses (continuing)	46.2	42.8	89.4
Operating income (continuing)	81.0	71.0	148.9
Core cost to income ratio	**57.0%**	**60.3%**	**60.0%**

The cost to income ratio measures how efficiently the Group is utilising its cost base in producing income.

(v) Cost of risk

Cost of risk is calculated as the total of the net impairment charge on loans and advances to customers and gains and losses on modification of financial assets for the financial period as a percentage of the average loan book. The resulting ratios for June 2022 and June 2021 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

Total	June 2022 £million	June 2021 £million	December 2021 £million
Net impairment charge/(credit) on loans and advances to customers (continuing and discontinued)	18.6	(1.1)	4.5
Gains on modification of financial assets (continuing and discontinued)	(0.7)	(0.7)	(1.5)
Total	17.9	(1.8)	3.0
Average loan book	2,639.7	2,346.3	2,374.0
Total cost of risk	**1.4%**	**(0.2)%**	**0.1%**

Core	June 2022 £million	June 2021 £million	December 2021 £million
Net impairment charge/(credit) on loans and advances to customers (continuing)	17.9	(0.4)	5.0
Gains on modification of financial assets (continuing)	(0.7)	(0.7)	(1.5)
Total	17.2	(1.1)	3.5
Core average loan book	2,584.2	2,174.2	2,240.5
Core cost of risk	**1.3%**	**(0.1)%**	**0.2%**

The cost of risk measures how effective the Group has been in managing its credit losses.

(vi) Cost of funds

Cost of funds is calculated as the interest expense for the financial period expressed as a percentage of average loan book. The resulting ratios for June 2022 and June 2021 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

Total	**June 2022 £million**	June 2021 £million	December 2021 £million
Interest expense and similar charges (continuing and discontinued)	18.3	15.5	29.2
Average loan book	2,639.7	2,346.3	2,374.0
Total cost of funds	**1.4%**	**1.3%**	**1.2%**

Core	**June 2022 £million**	June 2021 £million	December 2021 £million
Interest expense and similar charges (continuing)	17.5	14.8	27.7
Core average loan book	2,584.2	2,174.2	2,240.5
Core cost of funds	**1.4%**	**1.4%**	**1.2%**

The cost of funds measures the cost of money being lent to customers.

(vii) Funding ratio

The funding ratio is calculated as the total funding at the year-end, being the sum of deposits from customers, borrowings under the Bank of England's liquidity support operations, Term Funding Scheme and the Term Funding Scheme with additional incentives for SMEs, Tier 2 capital and equity, divided by the loan book at the year-end:

Total	**June 2022 £million**	June 2021 £million	December 2021 £million
Deposits from customers	2,290.9	1,939.7	2,103.2
Borrowings under the Bank of England's liquidity support operations, Term Funding Scheme and the Term Funding Scheme with additional incentives for SMEs (including accrued interest)	390.9	303.1	390.1
Tier 2 capital (including accrued interest)	51.0	50.8	50.9
Equity	314.4	285.8	302.4
Total funding	3,047.2	2,579.4	2,846.6
Total loan book	2,751.2	2,389.9	2,531.9
Funding ratio	**110.8%**	**107.9%**	**112.4%**

The funding ratio measure the Group's liquidity.

(vii) Core profit before tax pre impairments

Core profit before tax pre impairments is profit before tax, excluding impairment charges/(credits) and gains on modification of financial assets.

Core	**June 2022 £million**	June 2021 £million	December 2021 £million
Profit before income tax from continuing operations	17.1	29.3	55.9
Exclude:			
Net impairment charge/(credit) on loans and advances to customers	17.9	(0.4)	5.0
Gains on modification of financial assets	(0.7)	(0.7)	(1.5)
Core profit before tax pre impairments	**34.3**	**28.2**	**59.4**

Directors’ responsibility statement

The Directors confirm that, to the best of their knowledge:

- the Interim Financial Statements have been prepared in accordance with United Kingdom adopted International Accounting Standard 34 – ‘Interim Financial Reporting’, issued by the IASB and give a true and fair view of the assets, liabilities, financial position and profit of the undertakings included in the consolidation as a whole;
- the Interim Business Report includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the Interim Business Report includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so).

Approved by the Board of Directors and signed on behalf of the Board.

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

3 August 2022

Independent review report to Secure Trust Bank PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the Interim Financial Statements for the six months ended 30 June 2022 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related Notes 1 to 22.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Statements for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in Note 1.2, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this Interim Financial Statements has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the Directors have inappropriately adopted the going concern basis of accounting or that the Directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The Directors are responsible for preparing the Interim Financial Statements in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the Interim Financial Statements, the Directors are responsible for assessing the Group'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the Interim Financial Statements, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the Interim Financial Statements. Our conclusion, including our Conclusions Relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor
Birmingham

3 August 2022

Board of Directors

The Rt Hon Lord Forsyth of Drumlean PC, Kt

Non-Executive Chairman

Ann Berresford ACA

Independent Non-Executive Director (Senior Independent Director)

Rachel Lawrence

Chief Financial Officer

David McCreadie FCBI

Chief Executive Officer

Paul Myers ACIB

Independent Non-Executive Director

Baroness Lucy Neville-Rolfe DBE CMG

Independent Non-Executive Director

Victoria Stewart

Independent Non-Executive Director

Finlay Williamson

Independent Non-Executive Director

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