PRESS RELEASE

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This announcement contains inside information.

SECURE TRUST BANK PLC

Audited Final Results for the year ended 31 December 2021

Focus on attractive specialist markets following simplification of the Group

Secure Trust Bank PLC ("STB", the "Bank" or the "Group") is pleased to announce its financial results for the year ended 31 December 2021, delivering strong growth with a Statutory Profit before Tax of £56.0 million (2020 restated: £19.1 million).

This is an excellent set of results as the Group successfully navigated the impact of the Covid-19 pandemic and returned to growth across its businesses. A return on average equity of 15.9% (2020: 5.9%) is at the top end of the Group's stated target range. New business performance is 42.1% higher year on year, which has contributed to a 11.6% increase in core lending balances. New business lending in Q4 2021 was a record for the Group. Following the sale of its remaining non-core portfolios during the year and the recent announcement that Debt Managers (Services) Limited ("DMS") is selling its full portfolio of loans in 2022, Secure Trust Bank is a more focused Group with significant growth opportunities across its four core specialist lending markets.

The Group's profits benefitted from the release of impairment provisions during the period as the economic outlook improved following the impact of the pandemic. Capital ratios improved, given the short duration of the Group's lending portfolios, and the liquidity position remains very healthy.

The Group will recommend a final dividend of 41.1 pence per share making a total 2021 dividend of 61.1 pence per share, reflecting the new dividend policy to pay 25% of earnings back to shareholders.

FINANCIAL HIGHLIGHTS

	Full Year 2021	Full Year Restated[1] 2020	Change[2] %
Statutory profit before tax	**£56.0m**	**£19.1m**	**193.2**
Basic earnings per share	244.7p	82.7p	195.9
Ordinary dividend per share	**61.1p**	**44.0p**	**38.9**
Return on average equity	15.9%	5.9%	10.0pp
Net interest margin	6.4%	6.3%	0.1pp
Cost of risk	0.1%	2.3%	(2.2)pp
Cost income ratio	63.2%	55.7%	7.5pp

[1] The restatement of 2020 reflects the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as a-Service arrangement. The profit before tax in 2020 is £1.0 million lower than previously reported.

[2] pp represents the percentage point movement

	31 Dec 2021	31 Dec 2020	Change[2] %
Loan Book	£2,531.9m	£2,358.9m	7.3
Loan Book - Core	£2,530.6m	£2,266.7m	11.6
Deposits	£2,103.2m	£1,992.5m	5.6
CET 1 capital ratio	**14.5%**	**14.0%**	**0.5pp**
Total capital ratio	**16.8%**	**16.3%**	**0.5pp**

OPERATIONAL HIGHLIGHTS

- Customer satisfaction scores, as measured by Feefo, remained high at 4.6 stars (2020:4.7 stars)
- Total new business lending volumes increased by 42.1% to £1,464.4 million (2020: £1,030.2 million)
- Total lending balances increased by 7.3% to £2,531.9 million (2020: £2,358.9 million)

- Core lending balances, excluding non-core portfolios, increased by 11.6% to £2,530.6 million (2020: £2,266.7 million)
- Total Business Finance core lending balances grew by 10.9% to £1,422.9 million (2020: £1,282.6 million), supported by the Greener Homes Scheme in Real Estate Finance and higher utilisation levels in Commercial Finance.
- Total Consumer Finance core lending balances grew by 12.6% to £1,107.7 million (2020: £984.1 million), with a growth in interest free products through strong retailer partnerships and new product launches for used car finance.
- Customer deposits grew to £2,103.2 million (2020: £1,992.5 million) with management of the mix of the savings book contributing to an improvement in cost of funds from 1.8% to 1.3%.
- Disposals of non-core Consumer Mortgages and Asset Finance portfolios completed in July 2021 and the disposal of the DMS full portfolio of loans and decision to exit the debt purchase market announced in March 2022.
- In November 2021, we announced the purchase of AppToPay Limited, subject to regulatory approval, which will allow us to offer digital Buy Now Pay Later products.
- Continued investment in Motor Transformation Programme and the start of the digitalisation of the Savings platform.

OUTLOOK AND STRATEGY

The Group has refined its strategy this year with a new vision to be the most trusted specialist lender in the UK. The new strategy and plans were presented at our Capital Markets Day in November 2021, where STB set out the significant opportunities it sees for growth across its four core businesses. The Group structure has been simplified with the sale of non-core portfolios allowing the Group to focus on the markets where we see the greatest potential. The Group will continue to invest in its digital platforms to improve its operational efficiency and invest in innovation with new products designed to meet the needs of our customers.

The UK economic outlook is positive despite ongoing economic headwinds and geopolitical tensions. Our specialist expertise in core markets is driving lending growth as the impact of the Covid-19 pandemic reduces and the Group's diversified business model and capital strength will support future growth.

We are providing the following medium-term performance targets for the Group, which have been updated to reflect the disposal of the DMS loan portfolio. The Net Interest Margin has been revised from >6% to >5.5% and the Cost income ratio from 50-55% to <50%.

	2021 Actual	**Medium Term**
Net Interest Margin	6.4%	>5.5%
Cost income ratio	63.2%	<50%
Return on Average Equity	15.9%	14% - 16%
CET 1	14.5%	>12.0%
Compound Annual Growth Rate[3]	11.6%	>15.0%

[3] CAGR is the annual growth rate calculated as the annualised compound growth in 'core' loans and advances to customers since 31 December 2020. In 2021, the actual result is the Annual Growth Rate for 2021

Lord Forsyth, Chairman, said:
"Looking forward, we have ambitious and achievable growth plans. We have emerged positively from both Brexit and the COVID-19 pandemic by improving the quality of our lending and effective risk management. The escalating cost of living crisis and the economic war with Russia are additional challenges but we are flexible, prudent, fleet of foot and well placed to grasp the opportunities ahead."

David McCreadie, Chief Executive, said:

"One year into the role, I am very optimistic about our ability to take advantage of the diverse opportunities within our specialised lending businesses, despite the potential for economic headwinds. My confidence is founded on our excellent performance in 2021, our simplified structure, and our clear plan to deliver further lending growth and attractive returns.

We are a specialist lender in diverse markets. We are agile with strong market expertise and partner relationships. We continue to leverage and invest further in our digital capabilities and all of our decisions are underpinned by rigorous credit discipline, prudence and effective risk management.

I am looking forward to the period ahead with confidence and excited to be working with my colleagues to help more customers as we progress on our journey to become the most trusted specialist lender in the UK."

Results presentation

This announcement together with the associated investors' presentation are available on: www.securetrustbank.com/results-reports/results-reports-presentations

Secure Trust Bank will host a webcast for analysts and investors today, 24 March 2021 at 10.00am, which can be accessed by registering at: https://webcasting.brrmedia.co.uk/broadcast/61fbe0e449f7751d18890d21

For those wishing to ask a question, please dial in to the event by conference call:

Dial +44 (0)330 336 9601
Confirmation code: 5171497

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The person responsible for the release of this information on behalf of STB is Mark Stevens, Company Secretary.

Forward looking statements

This announcement contains forward looking statements about the business, strategy and plans of STB and its current objectives, targets and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about STB'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. STB'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 STB's control, the COVID-19 pandemic, expected credit losses in certain scenarios involving forward looking data, any adverse experience in inherent operational risks, any unexpected developments in regulation or regulatory, and other factors. The forward looking statements contained in this announcement are made as of the date of this announcement, and (except as required by law or regulation) STB undertakes no obligation to update any of its forward looking statements.

Key Performance Indicators

The following key performance indicators are the primary measures used by management to assess the performance of the Group.

During the year the number of key performance indicators have been reduced and realigned to the Group's new vision and purpose.

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 Annual Report on page 173 and 174.

Further explanation of the financial key performance indicators are discussed in the narrative of the Financial review on pages 12 to 17, 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.

The Directors' Remuneration Report, starting on page 76, sets out how executive pay is linked to the assessment of key financial and non-financial performance indicators.

	2021	2020	2019
Grow			
Net interest margin (%)	6.4	6.3	6.5
Why we measure this: Shows the interest margin earned on the Group's lending balances, net of funding costs			
Loans and advances to customers[1] (£million)	2,531.9	2,358.9	2,450.1
Why we measure this: Shows the growth in the Group's lending balances, which generate income			
Annual growth rate[2] (%)	11.6	(1.8)	23.5
Why we measure this: Shows the rate of growth in the Group's lending balances			
Return on average equity (%)	15.9	5.9	12.0
Why we measure this: Measures the Group's ability to generate profit from the equity available to it			
Sustain			
Cost of risk[3] (%)	0.1	2.3	1.4
Why we measure this: Measures how effectively the Group manages the credit risk of its lending portfolios			
Common Equity Tier 1 (CET 1) ratio (%)	14.5	14.0	12.6
Why we measure this: The Common Equity Tier 1 ('CET 1') ratio demonstrates the Group's capital strength			
Cost to income ratio[4] (%)	63.2	55.7	58.5
Why we measure this: Measures how efficiently the Group utilises its cost base to produce income			
Care			
Customer Feefo ratings (Stars)	4.6	4.7	4.7
(mark out of 5 based on star rating from 937 reviews, 2020: 1,466, 2019: 1,754)			
Why we measure this: Indicator of customer satisfaction with the Group's products and services			
Employee survey trust index score (%)	80	82	79
(based on 2021 all employee survey)			
Why we measure this: Indicator of employee engagement and satisfaction			
Environmental intensity indicator	3.0	3.1	4.7
(tonnes of carbon dioxide equivalent per £1 million Group income)			
Why we measure this: Indicator of the Group's impact on the environment			

[1] 2021 includes Assets held for sale of £1.3 million.

[2] Core lending balances only. See Appendix on page 173 for further details.

[3] The reduction in the cost of risk in 2021 reflects an improving trend.

[4] The increase in the cost to income ratio in 2021 reflects a declining trend.

All page references throughout refer to the 2021 Annual Report and Accounts.

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 Note 1 to the financial statements on page 115.

Chairman's statement

I am delighted to report an excellent set of results with a profit before tax of £56.0 million (2020: £19.1 million). This has been achieved in the shadow of COVID-19 whilst we have continued to support our customers, kept our people safe and preserved our capital.

We have refined the Group's strategy with a new vision to be the most trusted specialist lender in the UK. We have a clear plan for achieving these goals which we outlined on our first Capital Markets Day in November 2021. This renewed confidence is reflected in our policy to return 25% of earnings to shareholders and the Board is proposing a final dividend for 2021 of 41.1 pence, bringing the total for the year to 61.1 pence.

We are determined to simplify the Group and focus on our key specialist markets. During the year, we closed the OneBill product and successfully disposed of the Asset Finance and Consumer Mortgages portfolios and in March 2022, we announced the sale of the Debt Managers (Services) Limited's loan portfolio. The remaining businesses recorded growth in lending balances in 2021.

The appointment of David McCreadie as Chief Executive Officer in January 2021 has proved to be transformational and he has instituted with the Board's support and encouragement a number of important changes to the Group's governance, operating model, reward structures and engagement with stakeholders. He has achieved a smooth transition in the executive leadership of the Group and strengthened the management team by bringing in talented and experienced people.

I would like to thank our employees for all their efforts in challenging circumstances. They have managed to navigate the pitfalls of the pandemic, delivering excellent service to our customers from the office or their homes. Their commitment has been a central contributing element to the Group's progress this year.

I would also like to thank the Board for the quality of their guidance, input and support. It has been a very busy year for everyone. It was a real pleasure to welcome Finlay Williamson in July 2021. He is an excellent colleague and brings important experience in banking and financial services to the Board.

Looking forward, we have ambitious and achievable growth plans. We have emerged positively from both Brexit and the COVID-19 pandemic by improving the quality of our lending and effective risk management. The escalating cost of living crisis and the economic war with Russia are additional challenges but we are flexible, prudent, fleet of foot and well placed to grasp the opportunities ahead.

Chief Executive's statement

I reflect on my first year with great pride and satisfaction despite the continuing impacts of COVID-19. We have delivered strong financial results, but as importantly, we have reset the Group with a new vision and core purpose and the Group is growing strongly again. We have brought fresh talent into the management team and our people are telling us that Secure Trust Bank is a great place to work.

By the end of 2021, core lending balances[1] had grown by 11.6% to £2,530.6 million compared to the December 2020 position of £2,266.7 million and net interest margin increased marginally to 6.4% (2020: 6.3%). Average core lending balances[2] were up 1.9% year on year, and we finished the year with strong new business growth in the final quarter.

Impairment charges have decreased significantly to £4.5 million (2020: £51.3 million). This primarily reflects the release of impairment provisions due to the improving macroeconomic forecasts, which will not reoccur in 2022, and lower default rates.

The investment in growth we have made has had an adverse impact on our cost to income ratio, which stands at 63.2% for 2021 (2020: 55.7%). With the anticipated future growth in lending and a renewed focus on cost control, we expect to improve the cost to income ratio in line with our medium-term target range of 50-55%.

As a result we have delivered an excellent financial performance with profit before tax of £56.0 million (2020: £19.1 million).

Capital ratios have remained healthy throughout the year and significantly ahead of regulatory minimums. At 31 December 2021, the Common Equity Tier 1 ratio was 14.5% (2020: 14.0%) and the total capital ratio was 0.5% higher at 16.8% than last year (2020: 16.3%).

The Group's funding comes primarily from personal customers' deposits. This year, we have changed the mix from higher cost fixed term bonds to ISAs and Notice accounts, which has resulted in a lower cost of funds of 1.3% (2020: 1.8%).

New vision and purpose

I outlined the Group's new vision and purpose at our first Capital Markets Day on 3 November 2021. As our markets change and the expectations and needs of our customers evolve, so the Bank needs to respond accordingly. By asking ourselves, "when are we at our best?", our new purpose became clear. We are here to help more consumers and businesses fulfil their ambitions and our new vision is to be the most trusted specialist lender in the UK. Across our diverse business units, we achieve this purpose in different ways, whether it be Real Estate Finance providing financial support for professional property developers and investors or Retail Finance providing instant credit for the purchase of goods online or in store.

Our refreshed strategy is set out on page 10 across the three themes of Grow, Sustain and Care. Our growth ambitions are reflected in a new medium-term target to deliver 15%+ compound annual growth rate in lending balances. We are continuing to invest in technology to help more customers and to enhance their experience. In 2021, the Group invested £1.7 million in transformational growth within Vehicle Finance and Savings.

Technology will also support innovative new products such as the Buy Now Pay Later ('BNPL') product offering within Retail Finance and Vehicle Finance's Prime Personal Contract Purchase ('PCP') solutions for used vehicles. All of this will be underpinned by our market expertise, rigorous credit discipline, prudence and effective risk management.

This renewed vision and purpose is consistent with focusing on our core[1] businesses where we see the largest growth potential. We completed the sale of the Asset Finance and Consumer Mortgages portfolios in July 2021, closed the OneBill product and in March 2022, we announced the sale of the Debt Managers (Services) Limited's loan portfolio. We will continue to invest in our remaining businesses across Business Finance and Consumer Finance and will take advantage of any M&A opportunities which complement our core markets.

On 25 November 2021, we announced the purchase of AppToPay Limited, subject to regulatory approval, which will allow us to offer digital BNPL products. We see it as a natural step for us, opening up attractive new opportunities for our existing customers and providing us with access to a new, fast-growing specialist lending market. We plan to launch this digital offering alongside our other Retail Finance products in 2022.

Lending performance

The impact of COVID-19 changed as we went through the year. During the first quarter, the UK was in lockdown and whilst restrictions eased gradually through the summer months, the policies of national governments varied. By the final quarter of 2021, the UK's nominal GDP output recovered back to 2019 levels. The success of the vaccination programmes and the UK Government's economic interventions have created more favourable economic conditions and enabled us to return to pre-pandemic lending criteria gradually through the year.

Our diversified portfolio continues to support our growth aspirations despite the drag in the first quarter from COVID-19. It is pleasing to see our strategy driving growth in core lending balances[1] of 11.6% in 2021.

Total core lending balances[1] in our Business Finance businesses have grown by 10.9% to £1,422.9 million (2020: £1,282.6 million). New lending has been partly driven by our Greener Homes Scheme supporting property developers and investors to meet the UK's clean growth strategy by 2035 and high client retention allied with higher utilisation of lending facilities in Commercial Finance. During the year we offered our existing customers access to the Government guaranteed Recovery Loan Scheme ('RLS'), which replaced the Coronavirus Business Interruption Loan ('CBIL') Scheme and Coronavirus Large Business Interruption Loan ('CLBIL') Scheme.

Total core lending balances[1] in our Consumer Finance businesses have grown by 12.6% to £1,107.7 million (2020: £984.1 million). Our offering of market leading software and strong retailer partnerships is driving retailer growth in interest free credit products. In March 2021, we launched the new Prime Hire Purchase lending product for used car finance and followed it up in November 2021 with a Prime PCP offering.

The current and longer-term impacts of climate change are an important consideration within our future plans. Whilst we have made good progress with understanding these impacts, we recognise we need to embed further the impact of climate change on the Group's strategy. This work will be progressed in 2022. Further information on our progress and plans for 2022 are presented on page 11.

Supporting our customers

As we have refined our strategy, our customers remain at the heart of what we do. Our enduring aim is to make Secure Trust Bank easy to deal with and the new technology will allow customers to transact with the Group when it is convenient for them.

I am pleased that our customer service scores continue to reflect the positive ways we supported them during the pandemic. The most recent ratings, measured through Feefo, achieved an average score of 4.6 stars out of 5 (2020: 4.7 stars out of 5). In addition we were recently awarded Customer Service Excellence for the ninth consecutive year.

Within the Consumer Finance businesses, customers have completed their COVID-19 payment holidays arrangements. One challenging area for our service delivery in the second half of the year has been the difficulty in recruiting contact centre staff due to the tightness in the UK labour market although we have been able to continue to support our customers.

Our People

I am pleased with the smooth transition within the executive management team during my first year in office. I was delighted to welcome Chris Harper as Chief Risk Officer, Katie Docherty as Chief Operating Officer and Charles Mayo as General Counsel to the team. Chris held the same role at RBS International; Katie previously held a similar role for HSBC, Retail Banking and Wealth Management, Australia and Charles joined us from Simmons & Simmons. These appointments complement and broaden the experience of the executive team.

I have enjoyed tremendous support from colleagues across the Group and would like to thank them for their ongoing commitment. For a second year running, they have coped admirably with the challenges of COVID-19 and the restrictions imposed on them. All the COVID-19 policies and procedures have been co-ordinated by a central team, composed of representatives from all our locations. They have changed and evolved based on the guidance available and regularly updated by the UK and Welsh Governments. The majority of colleagues have continued to work from home and we have closely managed the engagement, motivation and wellbeing of all employees through the year. In November 2021, 81% of colleagues said that Secure Trust Bank was a Great Place to Work©, maintaining a similar score to 2020, despite enduring a second year of restrictions.

We continue to take the issue of wellbeing and mental health extremely seriously. We have extended our offer of a 'wellbeing hour', where employees can take time to participate in activities which promote good mental health and

positivity, to being a monthly event. This is in addition to other initiatives, including our network of mental health first aiders across the organisation.

In the second half of the year, we moved to a hybrid working model where colleagues split their time between working from the office and from home. Our colleagues have supported these changes and we expect the hybrid model to continue after the impact of the COVID-19 pandemic has reduced.

Outlook

The outlook for the UK economy is uncertain in 2022 but unemployment rates are expected to be low and stable. There are a number of economic headwinds and the increasing geopolitical tensions as a result of Russia's invasion of Ukraine are likely to lower growth projections.

There is concern about the impact of rising inflation on customers' net disposable income and ability to repay debt. The Consumer Prices Index rose to 5.4% for the year to 31 December 2021 and is forecast to increase further in 2022. In response, the Bank of England has increased the Base Rate three times which now stands at 0.75%. GDP growth continues to be adversely affected by supply side constraints and the ongoing COVID-19 pandemic with growth projections for 2023 and 2024 being revised downwards.

Although, the degree of the uncertainty around the economic outlook is unusually high, on balance, we are positive about the outlook for Secure Trust Bank.

One year into the role, I am very optimistic about our ability to take advantage of the diverse opportunities within our specialised lending businesses, despite the potential for economic headwinds. My confidence is founded on our excellent performance in 2021, our simplified structure, and our clear plan to deliver further lending growth and attractive returns.

We are a specialist lender in diverse markets. We are agile with strong market expertise and partner relationships. We continue to leverage and invest further in our digital capabilities and all of our decisions are underpinned by rigorous credit discipline, prudence and effective risk management.

I am looking forward to the period ahead with confidence and excited to be working with my colleagues to help more customers as we progress on our journey to become the most trusted specialist lender in the UK.

[1] Excludes the Consumer Mortgages and Asset Finance loan books disposed of in July 2021. See Appendix on page 173 for further details.

Financial review

Income statement	**2021 £million**	Restated 2020 £million	Movement %
Interest income and similar income	180.0	192.5	(6.5)
Interest expense and similar charges	(29.2)	(41.6)	(29.8)
Net interest income	**150.8**	150.9	(0.1)
Fee and commission income	14.3	16.0	(10.6)
Fee and commission expense	(0.6)	(0.8)	(25.0)
Net fee and commission income	**13.7**	15.2	(9.9)
Operating income	**164.5**	166.1	(1.0)
Net impairment charge on loans and advances to customers	(4.5)	(51.3)	(91.2)
Gains/(losses) on modification of financial assets	1.5	(3.1)	(148.4)
Loss on disposal of loan books	(1.4)	–	–
Losses from derivatives and hedge accounting	(0.1)	–	–
Operating expenses	(104.0)	(92.6)	12.3
Profit before income tax	**56.0**	19.1	193.2
Income tax expense	(10.4)	(3.7)	181.1
Profit for the year	**45.6**	15.4	196.1
Basic earnings per share (pence)	244.7	82.7	195.9

Selected Key Performance Indicators and performance metrics			
Net interest margin	6.4%	6.3%	0.1pp
Cost of funds	1.3%	1.8%	(0.5)pp
Cost to income ratio	63.2%	55.7%	7.5pp
Cost of risk	0.1%	2.3%	(2.2)pp

Return on average equity	15.9%	5.9%	10.0pp
Common Equity Tier 1 ('CET 1') ratio	14.5%	14.0%	0.5pp
Total capital ratio	16.8%	16.3%	0.5pp

pp represents the percentage point movement

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 Annual Report on page 173. In the narrative of this financial review, key performance indicators are identified by being in bold font. 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 Note 1 to the financial statements on page 115.

The Directors' Remuneration Report, starting on page 76, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

Profit and earnings

The Group has achieved a strong set of financial results. Profit before tax was positively impacted by a significant reduction in impairment charges driven by a more favourable economic outlook than in 2020. Operating income was impacted by lower average lending balances year on year and higher costs reflect increased activity.

Statutory profit before tax increased by 193.2% to £56.0 million (2020: £19.1 million). Consequently, earnings per share increased from 82.7 pence per share to 244.7 pence per share and **return on average equity** increased from 5.9% to 15.9%. Detailed disclosures of earnings per ordinary share are shown in Note 11. The components of the Group's profit are analysed in more detail in the sections below.

Net interest income

Net interest income of £150.8 million was 0.1% lower than the prior year. Excluding the non-core portfolios sold in the year, net interest income was £149.2 million, 1.6% higher than the prior year. Loans and advances to customers excluding the non-core portfolios increased by 11.6% from £2,266.7 million to £2,530.6 million. Despite the balance sheet growth in the year, with total loans and advances to customers increasing by 7.3% from £2,358.9 million to £2,531.9 million (including assets held for sale of £1.3 million relating to a small leasing book), average lending balances over 2021 were 1.3% lower than the average over 2020 as a result of the lockdowns in the first quarter of 2021.

Interest income continued to be impacted by the change in the overall mix of lending brought about by the pandemic, and away from higher margin products. Vehicle Finance's average lending balances reduced from £292.1 million in 2020 to £245.8 million in 2021 driving a reduction in revenue of £6.2 million year on year.

The Group continued to manage down the levels of relatively high-cost fixed rate funding as it matured and was replaced with ISAs and Notice products. As a result of this interest expense was £29.2 million (2020: £41.6 million), a reduction of 29.8%. The **cost of funds** reduced to 1.3% (2020: 1.8%).

The Group's **net interest margin** improved to 6.4% (2020: 6.3%), with the impact of lower **cost of funding**, partly offset by the transition to lower yield interest free Retail Finance lending and the product mix shift from higher margin Vehicle Finance lending.

Net fee and commission income

Net fee and commission income fell by 9.9% to £13.7 million (2020: £15.2 million). This was driven predominately by the closure of the OneBill product in the year with the resulting reduction of £3.4 million of net fee and commission in the year. Both core Business and Consumer businesses returned to growth in the year with an increase of 17.3% in net fee and commission income, reflecting the increased activity.

Impairment charge

In 2021 the **cost of risk** reduced from 2.3% in 2020 to 0.1%. The impairment charge for the year was £4.5 million (2020: £51.3 million).

As in previous years, the majority of our impairment charge arises from the Consumer Finance businesses. The decrease in the impairment charge is predominantly driven by the IFRS 9 requirement to account for forward-looking factors rather than actual defaults experienced in the year. 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 forecast variables. The more positive macroeconomic assumptions as at 31 December 2021 reduced the 2021 impairment charge by £13.2 million.

The 2021 impairment charge includes an additional £5.1 million from the impact of applying additional expert credit judgements in the year, which has led to a total of £13.3 million of overlays being added to provision levels estimated using the Group's IFRS 9 models as at 31 December 2021. In response to the rising cost of living, a new expert credit judgement for customer affordability was introduced at £4.6 million (2020: £nil) offsetting the release of £3.1 million in COVID-19 related provisions.

Overall, the impairment provision as a proportion of the gross loans and advances to customers reduced from 3.4% as at 31 December 2020 to 2.6% as at 31 December 2021. This reflects the changes in the macroeconomic assumptions outlined above and improving credit quality of the book. A breakdown of the charge by product is shown in Note 3. Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 15, 17 and 38.

Disposal of loan books

During the year the Group disposed of the Asset Finance and Consumer Mortgage portfolios. The loss on disposal relates primarily to the sale of the Consumer Mortgage book (loss of £1.3 million), with the beneficial interest being assigned to the purchaser as at 31 December 2020. £1.3 million of interest income is recognised within net interest income, resulting in a 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.

Following a strategic review, the Board has decided to exit the debt purchase market and, on 11 March 2022 announced that it had agreed to sell Debt Managers (Services) Limited's portfolio of loans to Intrum UK Finance Limited. The value of the portfolio as at 30 September 2021 was £84.7 million and the value of the consideration for the portfolio as at 30 September 2021 was £94.0 million. The Group estimates that in 2022 the sale will (taking into account anticipated market exit costs) generate a net profit before tax benefit and the release of around £72 million of risk weighted assets on completion. Completion is subject to approvals from originators of the loans which is expected to complete by June 2022.

Operating expenses

2020 was a year of reduced activity due to the pandemic. In 2021 activity levels increased and as a result the Group's cost base has increased by 12.3% to £104.0 million (2020: £92.6 million). The main drivers of this increase are £5.2 million of higher employee costs, the one-off VAT reclaim of £3.3 million in 2020 not recurring and an uplift in activity level leading to higher legal collection costs. As a result, the Group's **cost to income ratio** increased from 55.7% in 2020 to 63.2%.

Taxation

The effective statutory tax rate has reduced to 18.6% (2020: 19.4%). The effective rate for 2021 has decreased below the Corporation Tax rate of 19% as the banking surcharge cost has been more than offset by the deferred tax credit arising from a reassessment of the rates at which the deferred tax asset would reverse out in future periods.

The previous rates had assumed the level of Corporation Tax would remain at 19% but legislation has been enacted during the period, so with effect from 1 April 2023 the Corporation Tax rate will increase to 25%. The revised rates continue 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 Government is legislating to reduce the banking surcharge to 3% on bank tax profits in excess of £100 million with effect from 1 April 2023, however the Finance Bill containing these changes was not substantively enacted until after 31 December 2021. The reduction in the closing deferred tax asset from applying the legislation is expected to be less than £0.9 million. Further information is provided in Note 10.

Distributions to shareholders

The Board recommend the payment of a final dividend for 2021 of 41.1 pence per share which, together with the interim dividend of 20.0 pence per share represents a total dividend for the year of 61.1 pence per share (2020: 44.0 pence per share).

Balance sheet

Summarised balance sheet	**2021 £million**	Restated 2020 £million
Assets		
Cash and balances at central banks	**235.7**	181.5
Loans and advances to banks	**50.3**	63.3
Debt securities	**25.0**	–
Loans and advances to customers[1]	**2,530.6**	2,358.9
Derivative financial instruments	**3.8**	4.8
Other assets	**40.5**	52.7
	2,885.9	2,661.2
Liabilities		
Due to banks	**390.8**	276.4
Deposits from customers	**2,103.2**	1,992.5
Tier 2 subordinated liabilities	**50.9**	50.8
Derivative financial instruments	**6.2**	6.1
Other liabilities	**32.4**	67.8

	2021	2020
	2,583.5	2,393.6

[1] Excludes Assets held for sale of £1.3 million (2020: nil), which is included within Other assets.

The assets of the Group increased by 8.4% to £2,885.9 million as at 31 December 2021 (2020: £2,661.2 million). The liabilities of the Group increased by 7.9% to £2,583.5 million (2020: £2,393.6 million).

Loans and advances to customers

Loans and advances to customers (which include secured and unsecured loans and finance lease receivables) increased by 7.3% to £2,531.9 million (including assets held for sale of £1.3 million) as at 31 December 2021 (2020: £2,358.9 million). Excluding non-core portfolios which were sold during the year the annual growth was stronger at 11.6%.

Loan originations in the year, being the total of new loans and advances to customers entered into during the year, increased by 42.1% to £1,464.4 million (2020: £1,030.2 million).

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 15, 16, 17 and 38.

Debt securities and Due to banks

Debt securities consist solely of sterling UK Government Treasury Bills ('T-Bills'). As at 31 December the Group held £25.0 million of T-Bills (2020: £nil) which was 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. During the year Term Funding Scheme ('TFS') funding was replaced with TFSME funding. Overall funding increased by £117.0 million, which supported lending.

Deposits from customers

Customer deposits include Fixed term bonds, ISAs, Notice and Access accounts. Customer deposits increased by 5.6% during the year and closed at £2,103.2 million (2020: £1,992.5 million). **Total funding ratio** increased to 112.4% (2020: 109.5%), in part to fund expected Commercial Finance drawdowns in the first quarter of 2022. As set out on page 17, the mix of the deposit book has continued to change, with a continuation of the shift from long-term Fixed term bonds into ISAs. This has brought about the improvement in cost of funds referred to on page 13.

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 32. 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
- The product mix of new business.

Capital resources

Capital resources increased over 2021 from £325.9 million to £350.6 million. This includes the proposed 2021 dividend of £7.7 million. The increase was wholly 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	**2021 £million**	Restated 2020 £million
CET 1 capital	**303.6**	280.8
Tier 2 capital	**47.0**	45.1
Total capital	**350.6**	325.9
Total risk exposure	**2,087.4**	1,999.7

Capital ratios	**2021 %**	Restated 2020

		%
CET 1 capital ratio	**14.5**	14.0
Total capital ratio	**16.8**	16.3
Leverage ratio	**10.3**	10.3

The Group has elected to adopt the IFRS 9 transitional rules. For 2021, this allows for 50% (2020: 70%) 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 100% (2020: 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 14.0% and 16.2% 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.

	2021 £million	Restated 2020 £million
Total Capital Requirement	**196.7**	191.4
Capital conservation buffer	**51.9**	50.0
Countercyclical buffer	**–**	–
Total	**248.6**	241.4

The increase in lending balances through the year resulted in an increase in risk weighted assets over 2021, bringing the total risk exposure up from £1,999.7 million to £2,087.4 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.

Liquidity

Liquidity resources

We continued to hold significant surplus liquidity over the minimum requirements throughout 2021, managing liquidity by holding High Quality Liquid Assets ('HQLA') and utilising predominantly retail funding balances from customer deposits over 2021. Some of the additional liquidity will be used to fund planned Commercial Finance drawdowns in 2022. Total liquid assets increased to £303.0 million as at 31 December 2021 (2020: £232.1 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	**2021**	2020
Aaa – Aa3	**259.0**	180.5
A1 – A3	**38.9**	46.5
Unrated	**5.1**	5.1
	303.0	232.1

We continue to attract customer deposits to support balance sheet growth. We continue to focus on attracting ISA account funding, with less emphasis on retaining more expensive fixed term bonds. The composition of customer deposits is shown in the table below.

Customer Deposits	**2021 %**	2020 %
Fixed term bonds	**46**	54

Notice accounts	**37**	35
ISA	**12**	7
Access accounts	**5**	4
	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 Annual 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, as at 31 December 2021, the LCR was 439.1%.

Business review

Consumer Finance

Retail Finance

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

	2021 £million	2020 £million	Movement £million	Movement %
Lending balance	**764.8**	658.4	106.4	16.2
Total revenue	**67.7**	70.7	(3.0)	(4.2)
Impairment charge	**5.0**	14.5	(9.5)	(65.5)

What we do

- We operate a market leading online e-commerce service to retailers, providing unsecured, prime lending products to the UK customers to facilitate the purchase of a wide range of consumer products including cycle, music, furniture, outdoor/leisure, electronics, dental, jewellery, home improvements and football season tickets. These markets include a large number of household names such as Watches of Switzerland, DFS, Sofology, Performance Cycles and Watchfinder.
- The finance products are either interest bearing or have promotional credit subsidised by retailers, allowing customers to spread the cost of purchases into more affordable monthly payments.
- The online processing system allows customers to digitally sign their credit agreements, thereby speeding up the pay-out process, and removing the need to handle sensitive personal documents.
- The business is supported by a highly experienced senior team and workforce.

2021 performance
Retail Finance reported strong lending growth and revenue performance in the second half of 2021. Overall, revenues in 2021 decreased by 4.2% or £3.0 million to £67.7 million (2020: £70.7 million) recovering from a 10.9% decline year on year for the first six months of 2021. Since our retailer partners re-opened their stores in mid-April after the national lockdown in response to COVID-19, new business levels have responded positively and total new lending in 2021 was £771.5 million, 26% higher year on year (2020: £614.5 million).

As a result, at 31 December 2021, lending balances reached £764.8 million (2020: £658.4 million), an increase of 16.2%, providing a strong platform for revenue growth for 2022. The mix of new business towards interest free lending, however, has reduced the overall gross yield. The growth in 2021 has come primarily from the furniture, jewellery and healthcare sub-markets.

Impairment charges reduced to £5.0 million (2020: £14.5 million), which is driven by a non-recurring release in provisions from more benign macroeconomic conditions and improved customer credit quality due to the increased mix of interest free lending. All the payment holiday arrangements introduced since the start of COVID-19 had concluded by 31 December 2021.

We anticipate further lending growth from our existing retail partners and our operational plans are focused on improving the customer journey for both our channel partners and customers. The planned launch of new Buy Now Pay Later products using the technology from the proposed acquisition of AppToPay will promote additional lending.

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.

	2021 £million	2020 £million	Movement £million	Movement %
Lending balance	**263.3**	243.9	19.4	8.0
Total revenue	**39.3**	45.5	(6.2)	(13.6)
Impairment charge	**0.1**	20.7	(20.6)	(99.5)

What we do

- We provide hire purchase lending products for used cars primarily to near-prime customers. In 2021 we launched a hire purchase lending and Personal Contract Purchase ('PCP') product into the consumer prime credit market, and in 2019 a Stock Funding product to allow dealers to finance vehicles on their forecourt as part exchanges, from auction partners or from other trade sources.
- Finance is provided via technology platforms allowing the business to receive applications online from its introducers; provide an automated decision; facilitate document production through to pay-out to dealer; and manage in-life loan accounts.
- All lending is secured against the vehicle being financed.

2021 performance

The number of used vehicles bought on consumer finance at point of sale increased by 10%[1] in 2021 over 2020, but remained 9% lower than in 2019. The amount advanced increased by significantly more year on year, up 19%, to £19.2 billion in 2021, reflecting the increase in used vehicle values.

In 2021, our Vehicle Finance business advanced £134.4 million of new business lending to consumers and £65.4 million in Stock Funding to used car dealers, both significantly ahead of the amount recorded in 2020 (Consumer: £65.9 million and Stock Funding: £12.7 million). The new Prime Hire Purchase offering, which launched in 2021, delivered £14.6 million of new lending. The new Prime PCP product was launched in November 2021.

New lending accelerated in the second half of the year whilst lending balances at 31 December 2021 reached £263.3 million, which is 8.0% higher year on year (2020: £243.9 million), average lending balances in 2021 were 15.9% lower than in 2020. As a result, revenues were 13.6% or £6.2 million lower at £39.3 million (2020: £45.5 million).

The impairment charge for 2021 was £0.1 million (2020: £20.7 million). This result was driven by a release in provisions arising from more benign macroeconomic conditions, which will not be repeated in 2022, and lower than expected defaults.

In 2021, we amended the credit policy to allow lending to acquire both electric and hybrid vehicles, which now amounts to 1% of the portfolio.

In 2022, we are looking to increase the lending growth from the new Prime Hire Purchase and PCP products launched in 2021. Furthermore, we will utilise 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 & Leasing Association.

Debt Management

Credit management services for the Group and external clients.

	2021 £million	2020 £million	Movement £million	Movement %
Lending balance	**79.6**	81.8	(2.2)	(2.7)
Total revenue	**14.6**	14.8	(0.2)	(1.4)
Impairment (credit)/charge	**(0.6)**	8.9	(9.5)	(106.7)

What we do

- Debt Managers (Services) Limited ('DMS') is a credit management services business and primarily invests in purchased debt portfolios from third parties and fellow Group undertakings. In addition, it collects debt on behalf of a range of clients.
- Debt purchase allows DMS to acquire paying and non paying accounts and recover amounts due over an extended period.
- All customer-facing staff receive training on how to effectively use industry recognised techniques to help identify signs of vulnerability. We aim to provide all customers with the best possible customer service by recognising every customer is different.
- Customers that need additional support are managed by a specialist Customer Care Team. We work closely with debt charities to ensure that customers receive an appropriate service for them.

2021 progress
Revenues decreased marginally by £0.2 million to £14.6 million in the year to 31 December 2021 (2020: £14.8 million). Lending balances reduced by £2.2 million to £79.6 million at 31 December 2021 (2020: £81.8 million).

New portfolios acquired in 2021 from external parties were £23.3 million (2020: £20.5 million). This was lower than expected due to fewer portfolios available in the market, as selling organisations deferred debt sales into 2022.

The impairment credit for the year was £0.6 million (2020: £8.9 million) reflecting that, across the year, the actual collections performed in line with the forecast collections.

Following a strategic review, the Board decided to exit the debt purchase market. On 11 March 2022, it announced that it had agreed to sell the DMS's portfolio of loans to Intrum UK Finance Limited. Further information can be found in the Financial review on page 14.

Business Finance

Real Estate Finance

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

	2021 £million	2020 £million	Movement £million	Movement %
Lending balance	**1,109.6**	1,051.9	57.7	5.5
Total revenue	**54.8**	54.0	0.8	1.5
Impairment charge	**0.1**	5.2	(5.1)	(98.1)

What we do

- Real Estate Finance lends on portfolios of residential property and the development of new build property.
- Lending enables the development of new build property, commercial to residential conversions.
- Lending is sourced and supported both directly and via introducers and brokers and is typically provided over a term of up to five years with conservative loan-to-value criteria.
- We have an experienced, specialist team with many years of property expertise, who are nimble and responsive within the market. Through a difficult trading period, our partnerships with our brokers, introducers and customers have been key to a growth in lending balances in 2021. We maintain a strong risk management framework to existing and prospective customers, giving us a strong foundation.

2021 performance
Real Estate Finance experienced a slower first half of the year due to the COVID-19 restrictions and so it was pleasing to report a 5.5% growth in lending balances in 2021 to £1,109.6 million (2020: £1,051.9 million). New business lending doubled to £376.1 million (2020: £189.5 million). Revenues were 1.5% or £0.8 million higher at £54.8 million (2020: £54.0 million) as the mix in the book moved towards investment loans from higher margin development loans. The mix of investment loans increased from 74% to 87% in 2021, reflecting the maturity of a number of larger development loans.

The new Greener Homes Scheme supports property developers and investors to meet the UK Government's Clean Growth Strategy by 2035. The new product launched in June 2021 generated new loans of £136.9 million in the year.

The macroeconomic environment has been less adversely impacted than expected. There was a small impairment charge of £0.1 million in 2021 (2020: £5.2 million) reflecting the impact of more favourable macroeconomic assumptions applied during the year, a low number of loans in default, and continued strong portfolio management. None of our customers had payment holidays at the end of the year.

Commercial Finance

Provision of invoice discounting and factoring to SME businesses.

	2021 £million	2020 £million	Movement £million	Movement %
Lending balance	**313.3**	230.7	82.6	35.8
Total revenue	**17.4**	15.2	2.2	14.5
Impairment (credit)/charge	**(0.2)**	1.1	(1.3)	(118.2)

What we do

- Lending remains predominantly against receivables, typically releasing 90% of qualifying invoices under invoice discounting and factoring services. Other assets can also be funded either long or short-term and for a range of loan-to-value ratios alongside these facilities.

- Commercial Finance has also provided additional unsecured lending to existing customers through the Government guaranteed Coronavirus Business Interruption Loan ('CBIL') Scheme, Coronavirus Large Business Interruption Loan ('CLBIL') Scheme and Recovery Loan Scheme ('RLS').
- Commercial Finance business is sourced and supported both directly and via introducers.
- The Commercial Finance team has a strong reputation across the Asset Based Lending market. Its experienced specialist team works effectively with its partners across private equity and accountancy practices.

2021 performance

Commercial Finance maintained its strong first half performance into the second half of 2021. Lending balances increased by 35.8% to £313.3 million by the end of December 2021 (2020: £230.7 million). Average lending balances increased by 17.0% year on year whilst clients' undrawn availability ran at historically high levels with undrawn funds averaging £109.1 million through the year. As a result, revenues grew by 14.5% or £2.2 million to £17.4 million in 2021 (2020: £15.2 million).

This performance was driven by healthy levels of new business and low client attrition. There was a small impairment credit of £0.2 million in 2021 (2020: £1.1 million charge) reflecting our strong and effective credit risk practices and the strength of our lending security, notably our clients' receivables. The 2020 impairment charge reflected worsening macroeconomic forecasts not customer losses.

In the 2021 Interim Report, we reported that the British Business Bank had approved the Group's application to offer our clients support under the Recovery Loan Scheme ('RLS') where the UK Government guarantees up to 80% of each RLS facility. By the end of December 2021, five deals had been completed with facilities totalling £13.0 million. The Group will continue offering facilities under the amended RLS scheme where applications from 1 January will benefit from a revised 70% guarantee level.

Of the £52.9 million advanced under the previous UK Government CBILs and CLBILs which closed in March 2021, the balances at 31 December 2021 were £32.1 million. Commercial Finance took the conscious decision not to participate in the UK Government's Bounce Bank Loan Scheme.

Looking forward, Commercial Finance starts 2022 with a strong new business pipeline and a stable customer base.

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.

	2021 £million	2020 £million	Movement £million	Movement %
Fixed term bonds	**974.6**	1,076.4	(101.8)	(9.5)
Notice accounts	**771.9**	705.1	66.8	9.5
ISAs	**255.0**	129.6	125.4	96.8
Access accounts	**101.7**	81.4	20.3	24.9
	2,103.2	1,992.5	110.7	5.6

What we do

- We offer a range of savings accounts that are purposefully simple in design, with a choice of products from same day withdrawal to 180-day notice, and one to seven year fixed terms across both bonds and ISAs.
- Accounts are made available and priced in line with our ongoing funding needs, allowing each individual to hold a maximum balance of £1 million.
- Our range of savings products enables us to access the majority of the UK personal savings markets and compete for significant liquidity pools, achieving a lower marginal cost with the volume, mix and the rates offered optimised to the demand
  of our funding needs.

2021 performance

The Savings business has continued to raise deposits in an increasingly competitive market through our range of retail savings products. Over £1.0 billion of new deposits were generated in 2021, the majority of which came from external new funding (£661.4 million). This increased total savings balances to £2.1 billion by the end of 2021 (2020: 2.0 billion).

Our strategy to diversify our product range through our Fixed Rate ISA and Access products has enabled us to reduce our cost of retail deposits, despite acquisition rates across savings products increasing during the second half of the year.

ISA balances have almost doubled to £255.0 million (2020: £129.6 million), while variable rate deposits have similarly grown to £873.6 million (2020: £774.8 million), driven by customers' continued preference for shorter-dated deposit accounts. The operation has been further simplified during 2021 through the closure of our OneBill account and a small book of non-personal savings products.

Alignment of existing savings rates to market reductions during the first half of 2021 reduced the cost of retail deposits. We expect a continued rise in the cost of retail deposits in 2022 through further increases in the Base Rate and continued competition for new deposits. We will therefore continue our strategy to diversify our product range by launching our Access account to new and existing customers during the first quarter of 2022.

To support this our new digital proposition will be delivered during the year, creating a platform to enable the growth of retail deposits in a cost-effective way.

Principal risks and uncertainties

Risk management
A fundamental element of the Group's strategy is the effective management of risk, in order to protect the Group's depositors, borrowers and shareholders, to ensure that the Group maintains sufficient capital, liquidity and operational control at all times and acts in a reputable way. This is reflected in the Group's strategy and values, in particular the 'Sustain' strategy and 'Risk Aware' value, which demonstrate the Group's commitment to protect the reputation, integrity and sustainability of the Group.

The Group's Chief Risk Officer is responsible for leading the Group's Risk Function, which is independent from the Group's operational and commercial functions. The Risk Function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust, to ensure that key risks are identified, assessed, monitored and mitigated. The Chief Risk Officer is responsible for reporting to the Board that the Group's principal risks are appropriately managed and that it is operating within its risk appetite.

Risk appetite
The Group's Board approves the firm's risk appetite statements that confirm the risk parameters within which the strategic aims and vision of the Group are to be achieved. The Group has identified the risk drivers and major risk categories relevant to the business to enable it to produce a comprehensive suite of risk appetite statements and metrics which underpin the strategy of the Group.

Governance
The Group's risk management frameworks, policies and procedures are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's business. The Group's risk management frameworks support decision-making across the Group and are designed to ensure that each risk is managed, monitored and overseen through a dedicated risk-specific committee.

Effective risk committees are operating at Board, Group and individual business unit level to ensure there is clear accountability for risk management, a robust framework and risk identification and mitigation strategies are in place across the Group.

In 2021 a new Executive Risk Committee ('ERC'), chaired by the Chief Risk Officer was established to further embed and align the Group's risk management frameworks. The Committee reviews key risk management information from across the risk disciplines, with material escalated to the Executive Committee ('ExCo') and/or the Risk Committee of the Board ('BRC') as required.

The Group operates a 'Three Lines of Defence' model for the management of its risks. The Three Lines of Defence, when taken together, control and manage risks in line with the Group's risk appetite. The three lines are:

- First Line: the Business Line Managers who own and manage risk;
- Second Line: functions that oversee or specialise in risk management or compliance (Information Security, Operational Risk, Prudential Risk, Credit Risk, Financial Crime and Compliance Teams); and
- Third Line: Internal Audit.

Each line of defence effectively ensures a robust risk framework within the Group. The Group ensures that each line understands its respective responsibilities and those of the other lines and has the appropriate resource and expertise in order to fulfil its responsibilities.

The Group operates an Enterprise-Wide Risk Management Framework ('ERMF') , which supports the coordination of risk management disciplines across the Group. Underneath the ERMF sit individual risk discipline frameworks and policies which set standards on:

- Risk identification: activities are embedded through integration with key business processes to ensure the Group:
  - Considers how existing activities may impact the current and future risk profile
  - Considers the implications of new products
  - Has an awareness of how external influences may affect risk.
- Risk management: focuses on the application of tools, techniques and processes to quantify risks in order to effectively measure risk and its change over time.

- Risk monitoring: Board and senior management are provided with timely identification of the risk position, current emerging risks, material threats and opportunities to enable appropriate management actions.
- Risk reporting: The Board, Committees, and senior management are informed of any changes in the Group's risk profile or position and necessary actions via regular reporting. In addition, ad-hoc reporting to address any specific concerns affecting risk management or strategies must be available.

Further details of the Group's risk management framework, including risk appetite, governance arrangements and key committees, can be found on the Group's website:

www.securetrustbank.com/our-corporate-information/risk-management

Risk overview

Executive management performs ongoing monitoring and assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The following table shows the principal risks facing the Group, the movement indicates how the risk profile for each individual risk has shifted over the course of 2021. This year Financial Crime and Climate Change have been split out from Regulatory and Operational Risk respectively to provide further insight into the work currently being undertaken by the Group.

Principal risk	Change to the risk profile over 2021
Credit risk Credit risk is the risk that a counterparty will be unable to satisfy their debt servicing commitments when due.	Improving
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.	Stable
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.	Stable
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.	Stable
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.	Stable
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.	Stable
Regulatory risk The risk that the Group fails to be compliant with all relevant regulatory requirements.	Stable
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.	Stable
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.	Stable

Notes 38 to 41 to the financial statements provide further analysis of credit, liquidity, market and capital risks.

Further details of the principal risks, the changes in risk profile during the 2021 financial year and the Group's risk management framework are set out in the following section. There is also analysis of some of the key strategic and emerging risks which may
impact the Group.

Credit risk

Description

Credit risk is the risk that a counterparty will be unable to satisfy their debt servicing commitments when due. Counterparties include the consumers to whom the Group lends on a secured and unsecured basis and the small and medium size enterprises ('SME') to whom the Group lends on a secured basis as well as the market counterparties with whom the Group deals.

Mitigation

The Group manages credit risk through internal controls and through a three lines of defence model. The Consumer Credit Risk Committee and SME Credit Committees, which are the monitoring committees for credit risk, report to the Risk Committee. The ERC approves lending authorities in respect of SME lending. Each consumer lending product has a monthly portfolio review which reviews business performance. Policy and scorecard changes are approved at the Consumer Credit Risk Committee.

For Real Estate Finance and Commercial Finance, lending decisions are made by their respective Credit Committees, using expert judgement and assessment against criteria set out in the lending policies. Exposure to credit risk is also managed in part by obtaining security. Vehicle Finance loans are secured against motor vehicles. Real Estate Finance loans are secured against property. Commercial Finance advances are secured against a debtor book, inventory, plant and machinery or property if a commercial mortgage is provided.

Management monitors the credit ratings of the counterparties in relation to the Group's loans and advances to banks. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

Forbearance

The Group does not routinely reschedule contractual arrangements where customers default on their repayments. It may offer the customer the option to reduce or defer payments for a short period, in which cases the loan will retain the normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes.

Consumer Finance credit risk

Application, arrears and loss trends for the Retail Finance and Vehicle Finance portfolios are monitored monthly by the Credit Risk function. Since the end of lockdown Retail Finance business volumes have returned to pre-pandemic levels. Portfolio quality continues to improve driven by the proportion of new business in the lower risk furniture and jewellery sectors. Arrears cases remain below expectations as reflected by the higher quality business being written.

Vehicle Finance has seen volumes steadily increasing, particularly in the second half of the year, as credit policy has returned to pre-pandemic standards. The Prime Hire Purchase product is starting to see higher volumes as introducers are aware of our risk appetite, and the Prime PCP product was launched in December 2021. Impairments are performing well and are lower than expectation.

The increase in inflation in the second half of 2021 resulting in rising energy prices and the cost of living will impact customers that had low levels of disposable income, meaning that they will have to prioritise the debts that they pay. This is likely to result in increased impairments on the Consumer portfolios. The Group has implemented an Expert Credit Judgement overlay to account for the heightened risk of default from the highest risk, lowest income customers.

Business Finance credit risk

New business origination activities in Business Finance returned to business as usual as the UK exited lockdown during the year. New business in Real Estate Finance was driven in part by the launch of the Greener Home Scheme product, which against some large scheduled repayments saw the balances grow modestly throughout the year. In Real Estate Finance, the majority of customers impacted by the COVID-19 pandemic saw rental income recover and as a result there was no need to extend the forbearance measures previously agreed; with loans moved back to original terms.

In Commercial Finance the Government guaranteed loan schemes (CBILS, CLBILS, RLS) were deployed in response to COVID-19. The business has successfully provided circa £65.9 million of loans and has received circa 30% in repayments so far. Commercial Finance took the conscious decision not to participate in the UK Government's Bounce Back Loan Scheme. The overall Commercial Finance portfolio has grown through the year, despite significant unutilised headroom.

The Group has not relaxed any of its key risk appetite parameters during the year. Management continues to monitor each of the portfolios closely and regularly reviews the external events and changes to the wider environment that could have a material impact on any of them.

Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the well diversified nature of its lending operations, the Group does not consider there to be a material exposure arising from concentration risk.

Model risk and the impact of IFRS 9

The IFRS 9 models have been monitored closely throughout the year and found to be working effectively. A new Probability of Default model was implemented for the Real Estate Finance business in the second half of 2021 and has performed well. Minor enhancements have been made to the models where appropriate ahead of a routine full review, and where appropriate, redevelopment in 2022. The extreme economic conditions brought about by COVID-19 have required particular focus on the macroeconomic variables that drive the forward-looking elements of the IFRS 9 models (the Economic Response Model). Unemployment rate has the largest influence on the Economic Response Model element of IFRS 9, with House Price Index also playing an influence in the Real Estate Portfolio. Throughout the year the Bank has continued to stress the IFRS 9 models with a number of unemployment scenarios, to assist with business planning and forecasting. Payment holidays have kept the provision levels produced by the IFRS 9 models artificially low in the first half of 2021, so where necessary overlays were used to maintain provision cover at appropriate levels.

Change during the year – Improving

Given the positive response seen from the portfolios to the pandemic and the robust credit appetite controls that continue to be applied, the overall assessment of credit risk improved during the year. Despite the low numbers of defaults experienced throughout the year, however, difficult economic conditions are expected in 2022. Inflation is expected to rise and labour shortages and supply chain disruption are expected to continue.

Liquidity and Funding risk

Description

Liquidity and funding risk is the risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost. The Group maintains adequate liquidity resources and a prudent, stable funding profile at all times to cover liabilities as they fall due in normal and stressed conditions.

The Group manages its liquidity in line with internal and regulatory requirements, and at least annually assesses the robustness of the liquidity requirements as part of the Group's Internal Liquidity Adequacy Assessment Process ('ILAAP').

Mitigation

Risk tolerance and stress testing

The Board sets and approves the Group's liquidity and funding risk appetite. Liquidity and funding risk is managed by the Group's Treasury function and is overseen by the Assets & Liabilities Committee ('ALCO'). The Group's ALCO monitors compliance with the Group's policies and oversees the overall strategy, guidelines and limits so that the Group's future plans and strategy can be achieved within risk appetite.

The Liquidity Working Group ('LWG'), a working group of ALCO including representation from Business Unit Finance Directors, embeds the identification, monitoring, measurement and management of liquidity and funding risks in the day-to-day activities of the Group. The Risk Function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust to ensure that key risks are identified, assessed, monitored and mitigated.

Liquidity and funding metrics are monitored daily through daily liquidity reporting and on an ongoing basis through monthly ALCO meetings. Metrics are also included in the monthly information pack presented at the Group's ExCo, the BRC and the Board.

The aim is not to measure liquidity and funding with a single metric but rather a range of principles and metrics which, when taken together, helps ensure that the Group's liquidity and funding risk is maintained at an acceptable level. The primary measures used by management to assess the adequacy of liquidity is the Overall Liquidity Adequacy Rule ('OLAR') (which is the Board's own view of the Group's liquidity needs as set out in the Board-approved ILAAP), the Liquidity Coverage Ratio ('LCR'), and the Funding to Loan Ratio. The Group manages liquidity by working to ensure compliance with the most binding metric.

In line with the Prudential Regulation Authority's ('PRA') self-sufficiency rule (the OLAR) the Group seek at all times to 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 under stressed conditions. The Group defines liquidity adequacy as the:

- Ongoing ability to accommodate the refinancing of liabilities upon maturity and other means of withdrawal at acceptable cost;
- Ability to fund asset growth; and
- Capacity to otherwise meet contractual obligations through unconstrained access to funding at reasonable market rates.

To meets its liquidity requirements the Group maintains a buffer of unencumbered High Quality Liquid Assets ('HQLA').

The Group conducts regular and comprehensive liquidity stress testing to identify sources of potential liquidity strain and to ensure that the Group's liquidity position remains within the Board Risk Appetite and prudential regulatory requirements and limits. Stress testing covers idiosyncratic, market-wide, and combined stress scenarios, with additional stress scenarios including reverse stresses and combinations of sensitivity analysis across individual items.

Contingency funding plans

If for reasons which may be beyond the business' control, the Group was to encounter a significant and sustained outflow of deposits or other stress on liquidity resource, the Recovery Plan incorporates the Group's plans to ensure that it remains sufficiently liquid to remain a viable independent financial institution during a severe liquidity stress event. Recovery Plan Early Warning Indicators and Invocation Trigger Points are regularly monitored and reported against.

The Recovery Plan is applied consistently with the Group's ILAAP as part of the overall liquidity risk management framework dealing with contingent funding requirements as they arise. The Group also retains access to the Bank of England liquidity schemes, including the Discount Window Facility.

Change during the year – Stable

The Group has maintained its liquidity ratios in excess of regulatory requirements throughout the year and continues to hold significant levels of HQLA.

A number of enhancements were made to the liquidity and funding risk management in 2021. These included a further review of the quantum of liquidity the Group holds to support its franchise in business-as-usual and stressed conditions. A thorough review of the Group's regulatory liquidity reporting has also been completed. The stress tests performed as part of the ILAAP confirmed that the Group has sufficient funds to satisfy the OLAR requirement and there is no significant risk that liabilities cannot be met as they fall due. The Group's LCR as at 31 December 2021 was significantly higher than the regulatory requirement.

Capital risk

Description

Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support the business. The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP').

Mitigation

Capital Management is defined as the operational and governance processes by which capital requirements are established and capital resources maintained and allocated, such that regulatory requirements are met while maximising returns. These processes and associated roles and responsibilities are set out in the Group's Capital Management Policy, which is approved by the BRC. The Board regularly reviews the current and forecast capital position to ensure capital resources are sufficient to support planned levels of growth.

In accordance with the EU's Capital Requirements Directive V ('CRD V') and the required parameters set out in the EU's Capital Requirement Regulation, which have been prescribed into UK law following Brexit, the Group maintains an ICAAP which is updated at least annually.

The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted an approach to determine the level of capital we need to hold. This method takes the Pillar 1 capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequate to cover management's assessment of anticipated risks. Where it is considered that the Pillar 1 calculations do not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Total Capital Requirement issued by the PRA.

A complete assessment of the Group's capital requirement is contained in its Pillar 3 disclosures. Pillar 3 disclosures for the Group for the year ended 31

December 2021 are published as a separate document on our website.

Change during the year – Stable

As set out in the Financial review, the Group's capital position improved in 2021, reflecting the growth in profits. The Group continues to meet its capital ratio measures. Details of the CET 1, total capital ratio and leverage ratio are included in the Financial review on page 16.

The 2021 ICAAP showed that the Group continues to be able to meet its minimum capital requirements, even under extreme stress scenarios. In addition to the ICAAP, the Group performs regular budgeting and reforecasting exercises which consider a five-year time horizon. These forecasts are used to plan for future lending growth at a rate that both increases year-on-year profits and maintains a healthy capital surplus. They considered the impact of known and anticipated future regulatory changes including the estimated impact of the re-introduction of the countercyclical capital buffer ('CCyB') prior to its announcement in December 2021.

The PRA's proposed increases in CCyB explained on page 25 will not challenge the Group's minimum regulatory capital position. The Group will continue to monitor its future capital requirements as it grows its risk weighted assets over the reporting period.

The Group also models a number of stressed scenarios looking over a five-year time horizon, which consider a range of growth rates over those years as part of the viability and going concern assessments.

The 2020 pandemic demonstrated the benefit of the relatively short duration of the Group's lending portfolios. As the crisis took hold, the reduction in certain of our markets and our tightening of credit risk appetite led to a swift reduction in our balance sheet, thereby reducing pressure on capital levels. This feature of our balance sheet allows us to flex future growth rates in response to changing economic conditions.

The Group adopted transitional provisions in respect of the implementation of IFRS 9. These provisions allow the capital impact of the standard to be phased in over a five-year period. As a response to the pandemic, further capital relief was made available, and the Group's reported capital position takes account of this relief. Further details are provided in the Financial review on page 16.

Market risk

Description

The Group's market risk is primarily linked to interest rate risk. Interest rate risk refers to the exposure of the Group's financial position to adverse movements in interest rates.

When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Group's assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect the Group's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

The principal currency in which the Group operates is Sterling, although a small number of transactions are completed in US dollars, Euros and other currencies in the Commercial Finance business. The Group has no significant exposures to foreign currencies and hedges any residual currency risks to Sterling.

Mitigation

Risk tolerance and stress testing

Market risk is managed by the Group's Treasury function and is overseen by the ALCO. The Group does not take significant unmatched positions and does not operate a trading book.

The Group's risk management framework, policies and procedures are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's business.

The Group uses an interest rate sensitivity gap analysis which informs the Group of any significant mismatched interest rate risk positions that require hedging. The Group reports the interest rate mismatch on a monthly basis to ALCO, considering Market Value Sensitivity ('MVS') as a proportion of the overall capital position of the Group and Earnings at Risk as a proportion of forecast net interest income. These are mainly assessed against 200bps and 100bps parallel shifts in rates respectively. These measures also assess the Group's exposure to a potential negative interest rate environment.

The Group also monitors its exposure to the Economic Value of Equity ('EVE') as a proportion of own funds and CET 1 against a 200bps parallel shift in rates, as well as the six standardised shocks prescribed by the Basel Committee on Banking Supervision ('BCBS').

The Group also monitors its exposure to basis risk, optionality, and any residual non-GBP positions. Processes are also in place to review and react to movements to the Bank of England Base Rate.

All such exposures are maintained within the risk appetite set by the Board and are monitored by ALCO.

Change during the year – Stable

The Group's exposure to market risk continues to be primarily focused on interest rate risk, with only modest exposures to foreign exchange risk. Performance against risk appetite is closely tracked and reviewed to align with Group Strategy. The Group remained within risk appetite in respect of market risk throughout the year.

The Group has made further enhancements to market risk management in 2021 and regularly reviews the risk management framework.

Operational risk

Description

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/ infrastructure, or from external factors.

The scope of Operational risk is broad and includes business process, business continuity, third party, Financial Crime, Change, Human Resources,

Information Security and IT risk, including Cyber risk. The Group's customers, operations, processes, products and people are exposed to these inherent risks so it has made significant investments to carefully manage and mitigate these risks and ensure there is a robust and effective Operational Risk Framework in operation across all areas of its business.

Mitigation

The Group has an Operational Risk Framework designed in accordance with the 'Principles for the Sound Management of Operational Risk' issued by the Basel Committee on Banking Supervision. This Framework defines and facilitates the following activities:

- A Risk and Control Self-Assessment process to identify, assess and mitigate risks across all business units through improvements to the control environment
- The Governance arrangements for managing and reporting these risks
- Risk appetite statements and associated thresholds and metrics
- An incident management process that defines how incidents should be managed and associated remediation, reporting and root-cause analysis.

The design and effectiveness of the Group's Operational Risk Framework is regularly audited by the Group's Internal Audit function.

The Framework ensures appropriate governance is in place to provide adequate and effective oversight of the Group's operational risks. The governance framework includes the Group Operational Risk Committee, the ERC and the BRC.

The Group has a defined set of qualitative and quantitative operational risk appetite measures. These measures cover all categories of operational risk and are reported and monitored monthly.

In addition to the delivery of Framework requirements Operational Risk has also focused on these thematic areas in 2021:

- **COVID-19 (business disruption)** – The pandemic has increased the inherent risks faced by our business across a number of operational risk categories and has remained a key area of focus in 2021. As well as working to minimise the operational implications through changes to our operating practices, the Group has also been focusing on the safe return of colleagues to the offices over the second half of the year. The threat of new variants remains, and we continue to closely monitor the situation. The pandemic has increased the competitiveness of the UK job market with hybrid working allowing recruiters to look nationally for new talent. Inflationary pressures have also increased pressure on wages across the sector, further increasing the importance of succession planning and mitigating key person risk.
- **Supplier management** – The Group uses a number of third parties to support its IT and operational processes. The Group recognises that it is important to effectively manage these suppliers and has embedded a suite of standard controls for all its material suppliers to reduce the risk of operational impacts on these critical services. This has been particularly important during the COVID-19 pandemic, so we have remained in regular contact with our key suppliers and gained assurances over their ongoing ability to support our operations. Further tools have been developed, and are being rolled out, to help understand the quality of the resilience controls in operation at our critical suppliers. This will continue to be an area of focus for 2022.
- **Operational and IT resilience** – Many elements of the Operational Risk Framework support the ongoing resilience of the Group's operational and IT services, including business continuity management, disaster recovery, incident management, process management, and the cyber strategy. The Group has defined a formal plan to respond to the new requirements of the Consultation Papers issued on this subject by the Financial Conduct Authority ('FCA') and PRA. Compliance with these requirements and continuing to enhance the resilience of our services remains a key priority.
- **Information security and cyber risk** – The Group has paid considerable attention to ensuring the effective management of risks arising from a failure or breach of its information technology systems that could result in customer exposure, business disruption, financial losses, or reputational damage.
- **Change Management** – The effective delivery of Change Management programmes plays an important role in meeting the Group's regulatory requirements, improving services and delivering our strategic plans. Ineffective change management processes could lead to poor customer outcomes, business disruption, financial loss and regulatory breaches. Change Management processes and governance are defined and embedded across the Group.

Change during the year – Stable

The Group uses the 'The Standardised Approach' for assessing its operational risk capital, in recognition of the enhancements made to its framework and embedding this across the Group. The Group continues to invest in resource, expertise and systems to support the Operational Risk Framework and Policy. In 2021 the Group has continued to enhance these standards and has introduced a number of improvements to the control frameworks in place across our principal operational risks.

Whilst the pandemic increased the inherent operational risk across a number of key areas of our business, the Group continues to adapt successfully to the new working conditions and demonstrated its operational resilience. Overall, the assessment is that the level of risk has remained stable.

Conduct risk

Description

We define Conduct Risk as 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. This could be as a direct result of poor or inappropriate execution of the Group's business activities or staff behaviour.

Mitigation

The Group takes a principles-based approach and includes retail and commercial customers in our definition of 'customer', which covers all business units and both regulated and unregulated activities. Detailed policies are in place to address the fair treatment of customers, with the Conduct Risk Policy setting out the overarching approach to managing conduct risk.

Change during the year – Stable

The Group has continued to operate within overall risk appetite, remaining focused on delivering good customer outcomes.

As reported in the 2021 Interim Report, pressure has been seen on some conduct risk metrics. For example some contact centre service levels have been outside tolerance for some periods with resources not matching requirements. The number of affordability complaints received has also been

flagged for attention in Vehicle Finance - increased volumes have also been noted by other motor finance lenders according to the Finance & Leasing Association.

The Group anticipates that the drivers of conduct risk will continue to be the ongoing resourcing challenges (being experienced across the financial services industry as competition for recruitment increases) and related conduct considerations, and the long-term impact of the pandemic on the Group's customers.

Regulatory risk

Description

Regulatory Risk is the risk that the Group fails to be compliant with all relevant regulatory requirements. This could occur if the Group failed to interpret, implement and embed processes and systems to address regulatory requirements, emerging risks, key focus areas and initiatives or deal properly with new laws and regulations.

Mitigation

The Group seeks to manage regulatory risks through the ERMF. The Group Compliance and Regulatory Risk Committee, Group Financial Crime Committee and Prudential Horizon Scanning forum are responsible for reviewing and monitoring regulatory changes. The committees monitor operational incidents with a regulatory impact, and ensure that appropriate actions are taken. They also review and approve the relevant risk management framework.

Change during the year – Stable

In the year ended 31 December 2021, new and revised regulations and legislation that have come into force have been actioned. These changes included the introduction of Breathing Space through the Debt Respite Scheme, the FCA's guidance on vulnerability, the application of the FCA Directory requirements to other entities in the Group, changes to identification of Material Risk Takers, and the PRA's final rules for the implementation of Basel Standards.

The Group took part in a number of FCA reviews and surveys during the year, including car repossessions prior to the FCA COVID-19 guidance being changed, forbearance survey, credit broking survey, coronavirus financial resilience survey and the pilot diversity and inclusion survey.

Notifications were submitted to the regulators in the year relating to the sale of the asset finance, and mortgage portfolios; and material outsourcings.

Projects and initiatives are in place for changes in 2022 including outsourcing and third-party risk management, regulatory returns, operational resilience, UK GDPR data transfers.

The Group's horizon scanning activities track industry and regulatory developments including the PRA's work on a strong and simple prudential framework for non-systemic banks and building societies, the FCA's new Consumer Duty, the Government's national data strategy and the PRA and FCA's transformation agendas related to data.

Financial Crime risk

Description

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.

Mitigation

The inherent risk of the Group is assessed with the use of the recognised ERMF methodology. Investment continues to be made in enhancing skills, systems and controls and this is an area which is closely monitored by the ExCo. This remains an important area of focus for the Group and as such has now been reflected as a separate risk. The Group appointed a new Money Laundering Reporting Officer who was approved by the FCA in December 2020. The Group continues to have no appetite for establishing or maintaining customer relationships or executing transactions that facilitate financial crime and has no appetite for sanctions breaches. Horizon scanning is conducted to identify emerging trends and typologies as well as preparing for new legislation and regulation. This also involves participating in key industry forums (or associations) such as those hosted by UK Finance. Financial Crime policies and standards were updated in 2021 to ensure alignment with our regulatory obligations.

Change during the year – Stable

The Group continues to invest in recruitment for both the first and second Lines of defence and in colleagues' development to improve their capabilities through industry-recognised financial crime qualifications. The Group has built a system of controls designed to comply with the UK Bribery Act 2010 and the Criminal Finances Act 2017. To strengthen our financial crime controls there has been focus in areas such as further improving sanctions screening, assessing risks presented by products and appropriate transaction monitoring and reinforcing horizon scanning, policies and governance to adhere to our risk appetite and stay abreast of increasing regulatory expectations. The Financial Crime Risk team own our control framework with accountability for execution owned by our colleagues within the first line. In order to monitor the effectiveness of our control framework, key performance indicators are defined, reported against and escalated through our Governance Committee structure. To support cultural awareness an internal campaign under the banner of "Spot the signs, stop the crimes" has been initiated.

Climate Change risk

Description

Climate change, and society's response to it, present financial risks to the UK financial services sector. While these risks will crystallise in full over the coming years, they are already becoming apparent in the shorter term as consumers' preferences change and governments implement their strategic responses. The Group has now established processes to monitor our risk exposure in relation to both the potential 'Physical' effects of climate change and the 'Transitional' risks from the UK's adjustment towards a carbon neutral economy.

Change during the year – Stable

Overall, our assessment of the combined risk associated with Climate Change is 'Stable'. The Group has installed robust controls to manage the associated risks and will continue to develop our business plans in the future as the risks evolve and our customer, clients and businesses adapt to the changes required in our markets to meet the UK's target to bring all greenhouse gas emissions to net zero by 2050. Enhanced disclosures are made in this year's Annual Report and Accounts in line with the guidance from the 'Task Force on Climate-Related Financial Disclosures'. Specific detail on each of the key risks identified and mitigation are covered within the 'Strategy' section of our Climate-related financial disclosures on pages 49 to 55.

Strategic and emerging risks

In addition to the principal risks disclosed above, the Board and Executive considers strategic and emerging risks, including key factors, trends and uncertainties which can influence the results of the Group. These are reviewed monthly by the ERC and biannually by the ExCo. Below are some of key risks themes which have been areas of focus over the course of 2021:

Macroeconomic environment and market conditions

The Group operates exclusively within the UK and its performance is influenced by the domestic macroeconomic environment. The economy affects demand for the Group's products, margins that can be earned from our lending assets and the levels of impairment.

Economic uncertainty continued throughout 2021 due to combination of the global ramifications of COVID-19 and the UK markets adjusting to leaving the European Union. The start of 2021 saw continued use of lockdowns to curb the spread of COVID-19, suppressing economic activity.

The second half of 2021 saw a rebound in many sectors, with many asset prices increasing due to pent up demand and, in the case of vehicles, global supply chain difficulties. Inflationary pressures on the economy, raises the likelihood of future increases in interest rates, after a decade of historically low Base Rates.

The Group closely monitors the macroeconomic environment and performs regular stress testing to ensure that the implications of any economic shocks can be sustained and managed.

People

The pandemic has increased the competitiveness of the UK job market with hybrid working allowing recruiters to look nationally for new talent. Inflationary pressures have also increased pressure on wages across the sector.

In 2021 the Group introduced a new Hybrid Working Policy and continues to monitor the wider employment market and respond as required.

Inflation

There have been growing inflationary pressures on the UK economy in 2021 and this is forecast to stretch into 2022, with economists predicting higher Base Rates as markets price in Base Rate increases over the course of 2022. The outlook remains far from clear and is further complicated by COVID-19.

In response to increasing inflation rates in 2021, the Group introduced a £4.6 million provision to reflect the expected increase in delayed repayments and defaults if customers struggle to pay all their bills on a timely basis. The Group will continue to monitor customer affordability closely and will tighten lending parameters if required.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;

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

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

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

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	**2021 £million**	Restated 2020 £million
Income statement			
Interest income and similar income	4.1	180.0	192.5
Interest expense and similar charges	4.1	(29.2)	(41.6)
Net interest income	4.1	**150.8**	**150.9**
Fee and commission income	4.2	14.3	16.0
Fee and commission expense	4.2	(0.6)	(0.8)
Net fee and commission income	4.2	**13.7**	**15.2**
Operating income		**164.5**	**166.1**
Net impairment charge on loans and advances to customers	17	(4.5)	(51.3)
Gains/(losses) on modification of financial assets	5	1.5	(3.1)
Loss on disposal of loan books	6	(1.4)	–
Losses from derivatives and hedge accounting	7	(0.1)	–
Operating expenses	8	(104.0)	(92.6)
Profit before income tax		**56.0**	**19.1**
Income tax expense	10	(10.4)	(3.7)
Profit for the year		**45.6**	**15.4**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Revaluation reserve		0.5	(0.4)
Taxation		(0.1)	0.2
		0.4	**(0.2)**
Items that will be reclassified to the income statement			
Cash flow hedge reserve		(0.4)	–

Taxation		0.1	–
		(0.3)	–
Other comprehensive income for the year, net of income tax		**0.1**	**(0.2)**
Total comprehensive income for the year		**45.7**	**15.2**

Profit attributable to:			
Equity holders of the Company		**45.6**	**15.4**
Total comprehensive income attributable to:			
Equity holders of the Company		**45.7**	**15.2**

Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per ordinary share	11.1	**244.7**	**82.7**
Diluted earnings per ordinary share	11.2	**239.4**	**81.0**

All comprehensive income relates to continuing operations.

The primary statements 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 for further details.

Consolidated statement of financial position

As at 31 December

	Note	**2021 £million**	Restated 2020 £million	Restated 2019 £million
ASSETS				
Cash and balances at central banks		235.7	181.5	105.8
Loans and advances to banks	13	50.3	63.3	48.4
Debt securities	14	25.0	–	25.0
Loans and advances to customers	15	2,530.6	2,358.9	2,450.1
Fair value adjustment for portfolio hedged risk	18	(3.5)	5.7	(0.9)
Derivative financial instruments	18	3.8	4.8	0.9
Assets held for sale	19	1.3	–	–
Investment property	20	4.7	4.3	4.8
Property, plant and equipment	21	9.3	9.9	11.3
Right-of-use assets	22	2.2	2.9	3.6
Intangible assets	23	6.9	7.7	9.0
Current tax assets		0.8	–	–
Deferred tax assets	25	6.9	6.6	8.0
Other assets	26	11.9	15.6	14.7
Total assets		**2,885.9**	**2,661.2**	**2,680.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	27	390.8	276.4	308.5
Deposits from customers	28	2,103.2	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	18	(5.3)	4.7	(0.7)
Derivative financial instruments	18	6.2	6.1	0.6
Liabilities directly associated with assets held for sale	19	2.0	–	–
Current tax liabilities		–	1.0	3.3
Lease liabilities	29	3.1	3.9	4.5
Other liabilities	30	31.3	56.3	40.9

Provisions for liabilities and charges	31	1.3	1.9	0.7
Subordinated liabilities	32	50.9	50.8	50.6
Total liabilities		**2,583.5**	**2,393.6**	**2,428.7**
Equity attributable to owners of the parent				
Share capital	34	7.5	7.5	7.4
Share premium		82.2	82.2	81.2
Cash flow hedge reserve		(0.3)	–	–
Revaluation reserve		1.3	0.9	1.1
Retained earnings		211.7	177.0	162.3
Total equity		**302.4**	**267.6**	**252.0**
Total liabilities and equity		**2,885.9**	**2,661.2**	**2,680.7**

Company statement of financial position

As at 31 December

	Note	**2021 £million**	Restated 2020 £million	Restated 2019 £million
ASSETS				
Cash and balances at central banks		235.7	181.5	105.8
Loans and advances to banks	13	47.4	61.7	45.2
Debt securities	14	25.0	–	25.0
Loans and advances to customers	15	2,450.3	2,269.8	2,353.6
Fair value adjustment for portfolio hedged risk	18	(3.5)	5.7	(0.9)
Derivative financial instruments	18	3.8	4.8	0.9
Investment property	20	5.7	5.3	4.8
Property, plant and equipment	21	3.7	4.5	6.5
Right-of-use assets	22	1.5	2.0	2.5
Intangible assets	23	5.4	6.2	7.4
Investments in group undertakings	24	4.3	4.1	4.1
Current tax assets		1.5	–	–
Deferred tax assets	25	6.8	7.1	8.6
Other assets	26	99.8	104.4	101.2
Total assets		**2,887.4**	**2,657.1**	**2,664.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	27	390.8	276.4	308.5
Deposits from customers	28	2,103.2	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	18	(5.3)	4.7	(0.7)
Derivative financial instruments	18	6.2	6.1	0.6
Current tax liabilities		–	0.4	2.2
Lease liabilities	29	2.3	2.9	3.3
Other liabilities	30	43.8	61.8	42.0
Provisions for liabilities and charges	31	1.3	1.9	0.7
Subordinated liabilities	32	50.9	50.8	50.6
Total liabilities		**2,593.2**	**2,397.5**	**2,427.5**
Equity attributable to owners of the parent				
Share capital	34	7.5	7.5	7.4
Share premium		82.2	82.2	81.2
Cash flow hedge reserve		(0.3)	–	–

Revaluation reserve	0.7	0.7	0.7
Retained earnings	204.1	169.2	147.9
Total equity	**294.2**	**259.6**	**237.2**
Total liabilities and equity	**2,887.4**	**2,657.1**	**2,664.7**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement. The profit for the parent company for the year of £45.8 million is presented in the Company statement of changes in equity.

Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2020 (as previously stated)	**7.4**	**81.2**	**–**	**1.1**	**164.4**	**254.1**
Software-as-a-Service adjustment net of tax (see Note 1.3)	–	–	–	–	(2.1)	(2.1)
Balance at 1 January 2020 (as restated)	**7.4**	**81.2**	**–**	**1.1**	**162.3**	**252.0**
Total comprehensive income for the period						
Profit for 2020	–	–	–	–	15.4	15.4
Other comprehensive income, net of income tax						
Revaluation reserve	–	–	–	(0.4)	–	(0.4)
Tax on revaluation reserve	–	–	–	0.2	–	0.2
Total other comprehensive income	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**–**	**(0.2)**	**15.4**	**15.2**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	0.1	1.0	–	–	–	1.1
Share-based payments	–	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**–**	**(0.7)**	**0.4**
Balance at 31 December 2020	**7.5**	**82.2**	**–**	**0.9**	**177.0**	**267.6**
Total comprehensive income for the period						
Profit for 2021	–	–	–	–	45.6	45.6
Other comprehensive income, net of income tax						
Cash flow hedge reserve	–	–	(0.4)	–	–	(0.4)
Tax on cash flow hedge reserve	–	–	0.1	–	–	0.1
Revaluation reserve	–	–	–	0.5	–	0.5
Tax on revaluation reserve	–	–	–	(0.1)	–	(0.1)
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**

Company statement of changes in equity

	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2020 (as previously stated)	**7.4**	**81.2**	**–**	**0.7**	**150.0**	**239.3**
Software-as-a-Service adjustment net of tax (see Note 1.3)	–	–	–	–	(2.1)	(2.1)
Balance at 1 January 2020 (as restated)	**7.4**	**81.2**	**–**	**0.7**	**147.9**	**237.2**
Total comprehensive income for the period						
Profit for 2020	–	–	–	–	22.0	22.0
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	0.1	1.0	–	–	–	1.1
Share-based payments	–	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**–**	**(0.7)**	**0.4**
Balance at 31 December 2020	**7.5**	**82.2**	**–**	**0.7**	**169.2**	**259.6**
Total comprehensive income for the period						
Profit for 2021	–	–	–	–	45.8	45.8
Other comprehensive income, net of income tax						
Cash flow hedge reserve	–	–	(0.4)	–	–	(0.4)
Tax on cash flow hedge reserve	–	–	0.1	–	–	0.1
Total other comprehensive income	**–**	**–**	**(0.3)**	**–**	**–**	**(0.3)**
Total comprehensive income for the period	**–**	**–**	**(0.3)**	**–**	**45.8**	**45.5**
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)**	**0.7**	**204.1**	**294.2**

Consolidated statement of cash flows

For the year ended 31 December

	Note	**2021 £million**	Restated 2020 £million
Cash flows from operating activities			
Profit for the year		45.6	15.4
Adjustments for:			
Income tax expense	10	10.4	3.7
Depreciation of property, plant and equipment	21	1.3	1.4
Depreciation of right-of-use assets	22	0.7	0.7
Loss on disposal of intangible assets		–	0.5
Amortisation of intangible assets	23	1.5	2.0
Impairment charge on loans and advances to customers		4.5	51.3

(Gains)/losses on modification of financial assets	5	(1.5)	3.1
Share-based compensation	35	1.0	(0.3)
Revaluation (gain)/impairment	20,21,22	(0.4)	1.1
Loss on disposal of loan books	6	1.4	–
Other non-cash items included in profit before tax		0.4	1.5
Cash flows from operating profits before changes in operating assets and liabilities		64.9	80.4
Changes in operating assets and liabilities:			
– loans and advances to customers		(238.4)	37.5
– loans and advances to banks and balances at central banks		4.7	(3.5)
– other assets		6.0	(0.9)
– deposits from customers		110.7	(27.8)
– provisions for liabilities and charges		(0.7)	(0.7)
– other liabilities		(24.4)	15.4
Income tax paid		(12.6)	(4.8)
Net cash (outflow)/inflow from operating activities		**(89.8)**	**95.6**
Cash flows from investing activities			
Consideration on sale of loan books	6	60.4	–
Redemption of debt securities		90.0	130.0
Purchase of debt securities		(90.0)	(105.0)
Purchase of property, plant and equipment	21	(0.2)	(0.8)
Purchase of intangible assets	23	(1.1)	(1.1)
Net cash inflow from investing activities		**59.1**	**23.1**
Cash flows from financing activities			
Drawdown/(repayment) of amounts due to banks		114.4	(31.7)
Issue of ordinary shares		–	1.1
Dividends paid	12	(11.9)	–
Repayment of lease liabilities	29	(0.9)	(1.0)
Net cash inflow/(outflow) from financing activities		**101.6**	**(31.6)**
Net increase in cash and cash equivalents		**70.9**	**87.1**
Cash and cash equivalents at 1 January		232.1	145.0
Cash and cash equivalents at 31 December	36	**303.0**	**232.1**

Company statement of cash flows

For the year ended 31 December

	Note	**2021 £million**	Restated 2020 £million
Cash flows from operating activities			
Profit for the year		45.8	22.0
Adjustments for:			
Income tax expense	10	9.5	2.8
Depreciation of property, plant and equipment	21	0.8	1.0
Depreciation of right-of-use assets	22	0.5	0.5
Loss on disposal of intangible assets		–	0.5
Amortisation of intangible assets	23	1.2	1.6
Impairment charge on loans and advances to customers		2.7	41.0
(Gains)/losses on modification of financial assets	5	(1.5)	3.1
Share-based compensation	35	0.8	(0.3)

Revaluation (gain)/impairment	20,21.22	(0.4)	1.0
Investment income		(4.8)	–
Loss on disposal of loan books	6	1.4	–
Other non-cash items included in profit before tax		0.5	1.5
Cash flows from operating profits before changes in operating assets and liabilities		56.5	74.7
Changes in operating assets and liabilities:			
– loans and advances to customers		(244.1)	40.4
– loans and advances to banks and balances at central banks		4.7	(3.5)
– other assets		11.7	(3.2)
– deposits from customers		110.7	(27.8)
– provisions for liabilities and charges		(0.8)	(0.7)
– other liabilities		(19.4)	19.8
Income tax paid		(11.1)	(3.5)
Net cash (outflow)/inflow from operating activities		**(91.8)**	**96.2**
Cash flows from investing activities			
Consideration on sale of loan books	6	60.4	–
Redemption of debt securities		90.0	130.0
Purchase of debt securities		(90.0)	(105.0)
Purchase of property, plant and equipment	21	–	(0.3)
Purchase of intangible assets	23	(0.8)	(0.9)
Net cash inflow from investing activities		**59.6**	**23.8**
Cash flows from financing activities			
Drawdown/(repayment) of amounts due to banks		114.4	(31.7)
Issue of ordinary shares		–	1.1
Dividends paid	12	(11.9)	–
Repayment of lease liabilities	29	(0.7)	(0.7)
Net cash inflow/(outflow) from financing activities		**101.8**	**(31.3)**
Net increase in cash and cash equivalents		**69.6**	**88.7**
Cash and cash equivalents at 1 January		230.5	141.8
Cash and cash equivalents at 31 December	36	**300.1**	**230.5**

Notes to the preliminary results

1. Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below, and if applicable, directly under the relevant note. 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 consolidated financial statements of the Company as at and for the year ended 31 December 2021 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.

1.2. Basis of presentation

The figures shown for the year ended 31 December 2021 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2021 on which the auditors have given an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006 will be delivered to the Registrar of Companies after the Annual General Meeting. The figures shown for the year ended 31 December 2020 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company's auditors for release.

IFRS interest rate benchmark reform

During 2020, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 were published, which require transition away from the London InterBank Offered Rate ('LIBOR') to the Sterling OverNight Index Average ('SONIA'), phase 2 of which are effective for annual periods beginning on or after 1 January 2021. The Group has no material financial assets or liabilities which have LIBOR as a contractual term, and therefore these amendments had no impact on the Group.

There are no IFRS that are issued but not yet effective that will have a material impact on the Group.

The preparation of financial statements 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 consolidated financial statements are disclosed in Note 17.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts, as set out in the going concern and viability section of the Strategic Report starting on page 36.

The consolidated financial statements were authorised for issue by the Board of Directors on 23 March 2022.

1.3. 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 the year, 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 2020 by £2.1 million (being a £2.6 million restatement of prepayments less deferred tax of £0.5 million) and reduces profit after tax for the year ended 31 December 2020 by £0.8 million (being an increase in operating expenses of £1.0 million less £0.2 million deferred tax). Accordingly, the prior year adjustment to opening retained earnings at 1 January 2021 is £2.9 million.

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

Statement of financial position	As originally stated 2019 £million	Prior year adjustment 2019 £million	Restated 2019 £million
Cloud software development prepayment	6.4	(2.6)	3.8
Deferred tax assets	7.5	0.5	8.0
Other assets	2,668.9	–	2,668.9
Total assets	**2,682.8**	**(2.1)**	**2,680.7**
Total liabilities	**2,428.7**	**–**	**2,428.7**
Total equity	**254.1**	**(2.1)**	**252.0**
Total liabilities and equity	**2,682.8**	**(2.1)**	**2,680.7**

Income statement	As originally stated 2020 £million	Prior year adjustment 2020 £million	Restated 2020 £million
Operating income	**166.1**	**–**	**166.1**
Net impairment charge on loans and advances to customers	(51.3)	–	(51.3)
Losses on modification of financial assets	(3.1)	–	(3.1)
Operating expenses	(91.6)	(1.0)	(92.6)
Profit before income tax	**20.1**	**(1.0)**	**19.1**

Income tax expense	(3.9)	0.2	(3.7)
Profit for the year	**16.2**	**(0.8)**	**15.4**
Basic earnings per share	**87.0**	**4.3**	**82.7**

Statement of financial position	As originally stated 2020 £million	Prior year adjustment 2020 £million	Restated 2020 £million
Cloud software development prepayment	8.2	(3.6)	4.6
Deferred tax assets	5.9	0.7	6.6
Other assets	2,650.0	–	2,650.0
Total assets	**2,664.1**	**(2.9)**	**2,661.2**
Total liabilities	**2,393.6**	**–**	**2,393.6**
Total equity	**270.5**	**(2.9)**	**267.6**
Total liabilities and equity	**2,664.1**	**(2.9)**	**2,661.2**

The impact of the change on the income statement for the year ended December 2021 is an increase in profit before tax of approximately £0.2 million.

The impact of the prior year adjustment on the cash flow statement for the year ended 31 December 2020 is to reduce profit for the year by £0.8 million, reduce income tax expense by £0.2 million and increase the movement in other assets included in changes in operating assets and liabilities by £1.0 million. There is no change to the net increase/decrease in cash and equivalents.

The impact of the prior year adjustment on the primary statements of the Company is the same as above.

1.4. Consolidation

Subsidiaries

Subsidiaries are all investees controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition, excluding directly attributable costs, over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The parent company's investments in subsidiaries are recorded at cost less, where appropriate, provision for impairment. The fair value of the underlying business of the Company's only material investment was significantly higher than carrying value, and therefore no impairment was required.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Discontinued operations

Subsidiaries are de-consolidated from the date that control ceases. Discontinued operations are a component of an entity that has been disposed of, and represents a major line of business and is part of a single co-ordinated disposal plan.

1.5. Financial assets and financial liabilities accounting policy

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all of the risks and rewards of ownership or in the event of a substantial modification. There have not been any instances where assets have only been partially derecognised. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market for a financial instrument is not active the Group establishes a fair value by using an appropriate valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

Financial assets (with the exception of derivative financial instruments) accounting policy

The Group classifies its financial assets at inception into three measurement categories; 'amortised cost', 'fair value through other comprehensive income' ('FVOCI') and 'fair value through profit and loss' ('FVTPL'). A financial asset is measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount.

The Group's current business model for all financial assets, with the exception of derivative financial instruments, is to hold to collect contractual cash flows and all assets held give rise to cash flows on specified dates that represent solely payments of principal and interest on the outstanding principal amount. All the Group's financial assets are therefore currently classified as amortised cost, except for derivative financial instruments. Loans are recognised when funds are advanced to customers and are carried at amortised cost using the effective interest rate method.

A debt instrument would be measured at FVOCI only if both the below conditions are met and it has not been designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting its contractual cash flows and selling the financial asset; and
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount.

The Group currently has no financial instruments classified as FVOCI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election would be made on an investment by investment basis. The Group currently holds no such investments.

All other assets are classified as FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group has not reclassified any financial assets during the reporting period.

Financial liabilities (with the exception of derivative financial instruments)

The Group classifies its financial liabilities as measured at amortised cost. Such financial liabilities are recognised when cash is received from depositors and carried at amortised cost using the effective interest rate method.

1.6. Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the Company's functional currency at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

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 17.

3. Operating segments

The Group is organised into seven operating segments, which consist of the different products available, disclosed below:

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 Stocking 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.
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 includes 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). Assets and liabilities in respect of the RentSmart business are included in Assets and liabilities held for sale (see Note 19 for further details).

The Asset Finance, Debt Management and Consumer Mortgages segments all fall below the quantitative threshold for separate disclosure, but the Directors consider that they represent sufficiently distinct types of business to merit separate disclosure.

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.

	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 £million**
31 December 2021					
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)	–	–
	180.0	**14.3**	**194.3**	**4.5**	**2,530.6**

	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 £million

31 December 2020

Real Estate Finance	54.0	–	54.0	5.2	1,051.9
Asset Finance	1.5	–	1.5	0.9	10.4
Commercial Finance	7.3	7.9	15.2	1.1	230.7
Business Finance	62.8	7.9	70.7	7.2	1,293.0
Retail Finance	68.5	2.2	70.7	14.5	658.4
Vehicle Finance	44.6	0.9	45.5	20.7	243.9
Debt Management	14.2	0.6	14.8	8.9	81.8
Consumer Mortgages	3.3	0.1	3.4	(0.1)	77.7
Consumer Finance	130.6	3.8	134.4	44.0	1,061.8
Other	(0.9)	4.3	3.4	0.1	4.1
	192.5	**16.0**	**208.5**	**51.3**	**2,358.9**

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. Operating income

All items below arise from financial instruments measured at amortised cost unless otherwise stated.

4.1 Net interest income

	2021 £million	2020 £million
Loans and advances to customers	182.0	193.8
Cash and balances at central banks	0.2	0.4
Debt securities	–	0.1
	182.2	194.3
Expense on financial instruments hedging assets	(2.2)	(1.8)
Interest income and similar income	**180.0**	**192.5**
Deposits from customers	(27.3)	(39.4)
Due to banks	(0.3)	(0.7)
Subordinated liabilities	(3.4)	(3.4)
	(31.0)	(43.5)
Income on financial instruments hedging liabilities	1.8	1.9
Interest expense and similar charges	**(29.2)**	**(41.6)**
Net interest income	**150.8**	**150.9**

Interest income and expense accounting policy

For all financial instruments measured at amortised cost, the effective interest rate method is used to measure the carrying value and allocate interest income or expense. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating the effective interest rate for financial instruments, other than assets that were credit-impaired on initial recognition, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges and broker commissions) and anticipated customer behaviour, but does not consider future credit losses. For financial assets that were

impaired on initial recognition (also referred to as purchased or originated credit-impaired assets – 'POCI'), a credit adjusted effective interest rate is calculated using estimated future cash flows, including expected credit losses.

The calculation of the effective interest rate includes all fees received and paid that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

For financial assets that are not considered to be credit-impaired ('stage 1' and 'stage 2' assets), interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. For financial assets that become credit-impaired subsequent to initial recognition ('stage 3' assets), from the next reporting period onwards interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. The credit risk of financial assets that become credit-impaired are not expected to improve such that they are no longer considered credit-impaired, however, if this were to occur the calculation of interest income would revert back to the gross basis. The Group's definition of stage 1, stage 2 and stage 3 assets is set out in Note 17.

For financial assets that were credit-impaired on initial recognition ('POCI' assets), income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. Collection activity costs are not included in the amortised cost of the assets, but are included in operating expenses in the income statement, and are recognised as incurred, in common with other businesses in the sector. For such financial assets the calculation of interest income will never revert to a gross basis, even if the credit risk of the asset improves.

Further details regarding when an asset becomes credit-impaired subsequent to initial recognition is provided within Note 17.

4.2 Net fee and commission income

	2021 £million	2020 £million
Fee and disbursement income	12.5	14.1
Commission income	1.2	1.3
Other income	0.6	0.6
Fee and commission income	**14.3**	**16.0**
Other expenses	(0.6)	(0.8)
Fee and commission expense	**(0.6)**	**(0.8)**
Net fee and commission income	**13.7**	**15.2**

Fees and commission income is all recognised under IFRS 15 Revenue from contracts to customers and consists principally of the following:

- Commercial Finance - discounting, service and arrangement fees.
- Retail Finance - principally comprises of account management fees received from customers and referral fees received from third parties.
- Vehicle Finance - primarily relates to vehicle collection charges made to customers and loan administration fees charged to dealers in respect of the Stocking Funding product.
- OneBill - weekly and monthly fees. The OneBill product is now closed.

Fee and commission expenses consist primarily of vehicle recovery fees payable recognised as incurred in respect of Vehicle Finance.

Net fee and commission income accounting policy

Fees and commission income that is not considered an integral part of the effective interest rate of a financial instrument are recognised under IFRS 15 when the Group satisfies performance obligations by transferring promised services to customers and presented in the income statement as fee and commission income.

Fees and commission income and expenses that are an integral part of the effective interest rate of a financial instrument are included in the effective interest rate and presented in the income statement as interest income or expense.

No significant judgements are made in evaluating when a customer obtains control of promised goods or services.

5. Gains/(losses) 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:

	2021 Vehicle Finance £million	**2021 Retail Finance £million**	**2021 Total £million**	2020 Vehicle finance £million	2020 Retail Finance £million	2020 Total £million
Reduction in net present value						
At 1 January	2.5	0.6	3.1	–	–	–
(Credit)/charge to the income statement	(1.1)	(0.4)	(1.5)	2.5	0.6	3.1
Balance remaining to be unwound at 31 December	**1.4**	**0.2**	**1.6**	**2.5**	**0.6**	**3.1**

Of the loan modification loss remaining, £0.9 million (2020: £1.1 million) relates to financial assets with a loss allowance based on lifetime ECL.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	**2021 £million**	2020 £million
Gross loans and advances before modification	–	527.2
Less: allowances for impairments on loans and advances	–	(55.6)
	–	471.6
Loan modification loss	–	(0.9)
Net amortised cost after modification	–	470.7

Modification of loans accounting policy

A customer's account may be modified to assist customers who are in or have recently overcome financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. Substantial loan modifications result in the derecognition of the existing loan, and the recognition of a new loan at the new origination effective interest rate based on the expected future cash flows at origination. Determination of the origination probability of default ('PD') for the new loan is required, based on the PD as at the date of the modification, which is used for the calculation of the impairment provision against the new loan. Any deferred fees or deferred interest, and any difference between the fair value of the derecognised loan and the new loan, is written off to the income statement on recognition of the new loan.

Where the modification is not considered to be substantial, neither the origination effective interest rate nor the origination probability of default for the modified loan changes. The net present value of changes to the future contractual cash flows adjusts the carrying amount of the original asset with the difference immediately being recognised in profit or loss. The adjusted carrying amount is then amortised over the remaining term of the modified loan using the original effective interest rate.

6. Loss on disposal of loan books

Both the Consumer Mortgages and Asset Finance loan books were sold in July 2021. The breakdown of the loss on disposal recognised in the income statement for the year is set out below.

	Consumer Mortgages £million	**Asset Finance £million**	**Total £million**
Consideration received	54.4	5.8	60.4
Carrying value of loan books disposed	(54.5)	(5.8)	(62.4)
Income less disposal costs	(1.2)	(0.1)	0.6
Loss on disposal of loan books	**(1.3)**	**(0.1)**	**(1.4)**

7. Losses on derivatives and hedge accounting

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. For further information on the Group's risk management strategy for market risk refer to the Principal risks and uncertainties section of the Group's Strategic Report starting on page 26.

Hedge accounting is employed by the Group to minimise the accounting volatility associated with the change in fair value of derivative financial instruments. This volatility does not reflect the economic reality of the Group's hedging strategy, the Group only uses derivatives for the hedging of risks.

Hedge ineffectiveness recognised in losses from derivatives and hedge accounting in the income statement is set out below:

	2021 £million	2020 £million
Fair value hedges		
Fair value movement in period - Interest rate swaps	0.9	1.2
Fair value movement in period - Hedged item	(0.8)	(1.2)
	0.1	**–**

The gain recognised in other comprehensive income in the period is as follows:

	2021 £million	2020 £million
Cash flow hedges		
Fair value movement in period - Interest rate swaps	0.4	–
Interest reclassified to the income statement in the period	–	–
	0.4	**–**

Although the Group uses derivatives exclusively to hedge interest rate risk exposures, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. Where such volatility arises it will trend back to zero over time. All derivatives held by the Group have been highly effective in the period resulting in minimal hedge accounting ineffectiveness recognised in the income statement. Future ineffectiveness may arise as a result of:

- differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- hedging derivatives with a non-zero fair value at the date of initial designation; or
- differences in the timing of cash flows for the hedged item and the hedging instrument.

How fair value and cash flow hedge accounting affect the financial statements and the main sources of the residual hedge ineffectiveness remaining in the income statement are set out below. Further information on the current derivative portfolio and the allocation to hedge accounting types is included in Note 18.

Derivative financial instruments accounting policy

The Group enters into derivatives to manage exposures to fluctuations in interest rates. Derivatives are not used for speculative purposes. Derivatives are carried at fair value with movements in fair value recognised in the income statement. Derivatives are valued by discounted cash flow models using yield curves based on overnight indexed swap ('OIS') rates. All derivatives are carried as assets where fair value is positive and as liabilities when fair value is negative. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset.

The Group does not hold contracts containing embedded derivatives.

Where cash collateral is received, to mitigate the risk inherent in the amounts due to the Group, it is included as a liability within the due to banks line within the statement of financial position. Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in the loans and advances to banks line within the statement of financial position.

Hedge accounting

Following transition to IFRS 9, the Group has elected to apply IAS 39 for all of its hedge accounting requirements. When transactions meet specified criteria the Group can apply two types of hedge accounting:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges).
- Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Group does not have hedges of net investments.

At inception of a hedge, the Group formally documents the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items (i.e. the fair value offset between the hedged item and hedging instrument is within the 80% – 125% range).

When the European Union adopted IAS 39 in 2004, it removed certain hedge accounting requirements, commonly referred to as the EU carve-out. The relaxed requirements under the carve-out allow the Group to apply the 'bottom up' method when calculating macro-hedge ineffectiveness. This option is not allowed under full IFRS. The Group has applied the EU carve-out accordingly.

Fair value hedge accounting

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the hedged risk, thereby offsetting the effect of the related movement in the fair value of the derivative. Changes in the fair value of derivatives and hedged items that are designated and qualify as fair value hedges are recorded in the income statement.

In a one-to-one hedging relationship in which a single derivative hedges a single hedged item, the carrying value of the underlying asset or liability (the hedged item) is adjusted for the hedged risk to offset the fair value movement of the related derivative. In the case of a portfolio hedge, an adjustment is included in the fair value adjustments for portfolio hedged risk line in the statement of financial position to offset the fair value movements in the related derivative. The Group currently only designates portfolio hedges.

If the hedge no longer meets the criteria for hedge accounting, expires or is terminated, the cumulative fair value adjustment to the carrying amount of a hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship and recorded as net interest income. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the cash flow hedge reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement. Amounts recognised in the cash flow hedge reserve are subsequently reclassified to the income statement when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised, and are recorded in the same income statement line in which the income or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects the income statement. When a forecast transaction is no longer expected to occur (for example, the recognised hedged item is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment). As at 31 December 2020, the reserve balance was insignificant, and therefore is not disclosed in the statement of financial position.

8. Operating expenses

	2021 £million	Restated 2020 £million
Employee costs, including those of Directors:		
Wages and salaries	47.4	44.9
Social security costs	5.8	5.0
Pension costs	2.0	1.9
Share-based payment transactions	0.9	–
Depreciation of property, plant and equipment (Note 21)	1.3	1.4
Depreciation of lease right-of-use assets (Note 22)	0.7	0.7
Amortisation of intangible assets (Note 23)	1.5	2.0
Operating lease rentals	0.6	0.5
Other administrative expenses	43.8	36.2
Total operating expenses	**104.0**	**92.6**

As described in Note 3, 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.

Post-retirement obligations accounting policy

The Group contributes to defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. There are no post-retirement benefits other than pensions.

Remuneration of the auditor and its associates, excluding VAT, was as follows:

	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	639	443
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	50	40
Other assurance services	110	58
	799	**541**

Other assurance services related to the Term Funding Scheme with additional incentives for SMEs audit, Interim independent review report and profit certification (2020: Interim independent review report and profit certification).

9. Average number of employees

	2021 Number	2020 Number
Directors	8	8
Management	279	254
Other	686	759
	973	**1,021**

10. Income tax expense

	2021 £million	Restated 2020 £million
Current taxation		
Corporation tax charge – current year	11.2	3.0
Corporation tax charge – adjustments in respect of prior years	(0.5)	(0.5)
	10.7	2.5
Deferred taxation		
Deferred tax charge – current year	(0.7)	0.7
Deferred tax charge – adjustments in respect of prior years	0.4	0.5
	(0.3)	1.2
Income tax expense	**10.4**	**3.7**

Tax reconciliation		
Profit before tax	56.0	19.1
Tax at 19.00% (2020: 19.00%)	10.6	3.6
Banking surcharge	1.4	–
Rate change on deferred tax assets	(1.5)	(0.1)
Prior period adjustments	(0.1)	–
Other	–	0.2
Income tax expense for the year	**10.4**	**3.7**

The 2020 tax charge has been restated for the SaaS prior year adjustment. See Note 1.3 for further details.

The Government legislated on 10 June 2021 to increase the main Corporation Tax rate to 25% from 1 April 2023. The Group is also subject to an 8% surcharge on the profits of banking companies in excess of £25 million. The Government is proposing to reduce the banking surcharge to 3% on bank tax profits in excess of £100 million with effect from 1 April 2023. The Finance Bill containing these changes was substantively enacted on 2 February 2022.

Deferred tax is based on the combined effect of Corporation Tax and banking surcharge as enacted at the balance sheet date and therefore the proposed banking surcharge change has not been reflected in the revised forecast tax rates used in the financial statements. 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 reduction in the closing deferred tax asset from applying the draft legislation is not expected to be material.

Income taxation accounting policy

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

11. Earnings per ordinary share

11.1 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:

	2021	Restated 2020
Profit attributable to equity holders of the parent (£million)	45.6	15.4
Weighted average number of ordinary shares (number)	18,637,444	18,615,480
Earnings per share (pence)	**244.7**	**82.7**

11.2 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:

	2021	Restated 2020
Weighted average number of ordinary shares	18,637,444	18,615,480
Number of dilutive shares in issue at the year-end	407,729	399,713
Fully diluted weighted average number of ordinary shares	**19,045,173**	**19,015,193**
Dilutive shares being based on:		
Number of options outstanding at the year-end	949,193	789,854
Weighted average exercise price (pence)	370	477
Average share price during the period (pence)	1,103	1,238
Diluted earnings per share (pence)	**239.4**	**81.0**

12. Dividends

	2021 £'000	2020 £'000
2020 final dividend – 44.0 pence per share (paid May 2021)	8.2	–
2021 interim dividend – 20.0 pence per share (paid September 2021)	3.7	–
	11.9	**–**

The Directors recommend the payment of a final dividend of 41.1 pence per share (2020: 44.0 pence per share). The final dividend, if approved by members at the Annual General Meeting, will be paid on 19 May 2022 with an associated record date of 22 April 2022.

Dividends accounting policy

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Interim dividends on ordinary shares are recognised in equity in the period in which they are paid.

13. Loans and advances to banks

Moody's long-term ratings are as follows:

	Group 2021 £million	Group 2020 £million	Company 2021 £million	Company 2020 £million
A1 - A3	45.2	58.2	42.3	56.6
Arbuthnot Latham & Co. Limited – No rating	5.1	5.1	5.1	5.1
	50.3	**63.3**	**47.4**	**61.7**

None of the loans and advances to banks are either past due or impaired.

Loans and advances to banks includes restricted cash of £6.3 million (2020: £11.7 million). See Note 36.1 for a reconciliation to cash and cash equivalents.

14. Debt securities

Group and Company

Debt securities of £25.0 million (2020: £nil) consist solely of sterling UK Government Treasury Bills ('T-Bills'). The Group's intention is to hold the asset to collect its contractual cash flows of principal and interest and, therefore, they are stated in

the statement of financial position at amortised cost. The number of T-Bills held increased to £25.0 million over the year, from £nil as at 31 December 2020 which was temporarily required to be utilised as collateral against the Term Funding Scheme with additional incentives for SMEs.

All of the debt securities had a rating agency designation, based on Moody's long-term ratings of Aa3 (2020: Aa2). None of the debt securities were either past due or impaired.

The accounting policy for debt securities is included in Note 1.5 Financial assets and financial liabilities accounting policy.

15. Loans and advances to customers

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
Gross loans and advances	2,598.1	2,441.6	2,511.2	2,349.7
Less: allowances for impairment of loans and advances (Note 17)	(67.5)	(82.7)	(60.9)	(79.9)
	2,530.6	**2,358.9**	**2,450.3**	**2,269.8**

The fair value of loans and advances to customers is shown in Note 42.

Group and Company

At 31 December 2021 Retail Finance loans included in loans and advances to customers of £579.9 million (2020: £498.4 million) were pre-positioned under the Bank of England's liquidity support operations and Term Funding Scheme with additional incentives for SMEs, and were available for use as collateral within the schemes.

The following loans are secured upon real estate:

	2021 Loan balance £million	**2021 Loan-to-value %**	2020 Loan balance £million	2020 Loan-to-value %
Real Estate Finance	1,109.6	56%	1,051.9	56%
Consumer Mortgages	–	–	77.7	51%
	1,109.6		**1,129.6**	

Under its credit policy, the Real Estate Finance business lends to a maximum loan-to-value of 70% for investment loans and 60% for residential development loans and up to 65% for pre-let commercial development loans (based on gross development value).

All property valuations at loan inception, and the majority of development stage valuations, are performed by independent Chartered Surveyors, who perform their work in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards.

Group

£3.5 million of cash collateral has been received as at 31 December 2021 in respect of certain loans and advances (2020: £3.7 million).

The accounting policy for loans and advances to customers is included in Note 1.5 Financial assets and financial liabilities accounting policy.

16. Finance lease receivables

Loans and advances to customers include finance lease receivables as follows:

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
Gross investment in finance lease receivables:				
– Not more than one year	137.1	143.9	135.9	141.5
– Later than one year and no later than five years	253.2	239.0	252.9	237.6
	390.3	382.9	388.8	379.1
Unearned future finance income on finance leases	(105.7)	(103.3)	(105.5)	(102.6)
Net investment in finance leases	**284.6**	**279.6**	**283.3**	**276.5**
The net investment in finance leases may be analysed as follows:				
– Not more than one year	87.5	93.2	86.5	91.3
– Later than one year and no later than five years	197.1	186.4	196.8	185.2
	284.6	**279.6**	**283.3**	**276.5**

Finance lease receivables include Vehicle Finance to consumers, Asset Finance and the RentSmart loan book.

Lessor accounting policy

The present value of the lease payments on assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

17. Allowances for impairment of loans and advances

Group

	Not credit-impaired		**Credit-impaired**			
	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 receivables £million**	**Provision cover %**
31 December 2021						
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%
	18.5	**20.0**	**29.0**	**67.5**	**2,598.1**	**2.6%**

	Not credit-impaired		Credit-impaired			
	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 receivables £million	Provision cover %
31 December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%
Consumer Finance:						
Retail Finance	13.2	7.9	3.5	24.6	683.0	3.6%
Vehicle Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.2	16.0	15.2	37.4		
	11.0	16.0	15.2	42.2	286.1	14.8%
Debt Management	–	–	7.0	7.0	88.8	7.9%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	4.1	0.0%
	27.1	**27.2**	**28.4**	**82.7**	**2,441.6**	**3.4%**

The impairment charge disclosed in the income statement can be analysed as follows:

	2021 £million	2020 £million
Expected credit losses: impairment charge	4.9	50.3
Charge in respect of off balance sheet loan commitments	(0.2)	0.7
Loans written off, net of amounts utilised	–	0.6

Recoveries of loans written off	(0.2)	(0.3)
	4.5	**51.3**

Total provisions above include expert credit judgements as follows:

	2021 £million	2020 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	(0.4)	(3.4)
Management judgement in respect of:		
Consumer Finance affordability	4.6	–
Vehicle Finance used car valuations	1.5	0.7
Uncertainty over the future impact of the COVID-19 pandemic	0.4	3.5
POCI adjustment (see below)	7.3	6.7
Other	(0.1)	0.7
Expert credit judgements over the IFRS 9 model results	**13.3**	**8.2**

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 17.1.2. and 17.1.5 respectively.

POCI adjustment

The Group's debt management business purchases credit-impaired loans from the Company and other unrelated third parties. Under IFRS 9, these are classified as Purchased and Originated Credit-Impaired ('POCI') loans. As a practical expedient, income on POCI loans is initially recognised by applying the original credit-adjusted EIR to the expected future cash flows arising from the POCI assets. The Group's accounting policy is to recognise POCI income by applying the original credit-adjusted EIR to the amortised cost of the assets. Expected changes in cash flows since the date of purchase are recognised as an impairment gain or loss in the income statement. At the year end, reductions in credit quality resulted in a £7.3 million (2020: £6.7 million) impairment provision.

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

	Not credit-impaired		**Credit-impaired**	
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**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**

During the year, £1.6 million was utilised in respect of the Asset Finance and Consumer Mortgage book sales.

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2020	21.6	24.1	14.9	60.6

(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.4)	33.8	–	28.4
– Transfer to stage 3	–	(20.7)	28.3	7.6
– Transfer to stage 1	3.1	(6.6)	–	(3.5)
Passage of time	(10.9)	(10.5)	3.7	(17.7)
New loans originated	11.9	–	–	11.9
Matured and derecognised loans	(2.5)	(2.9)	–	(5.4)
Changes to credit risk parameters	11.4	10.1	7.4	28.9
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.7	3.2	39.4	50.3
Allowance utilised in respect of write-offs	(2.2)	–	(26.0)	(28.2)
31 December 2020	**27.1**	**27.3**	**28.3**	**82.7**

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.

A breakdown of the gross receivable by internal credit risk rating is shown below:

				2021		2020		
	Stage 1 £million	**Stage 2 £million**	**Stage 3 £million**	**Total £million**	Stage 1 £million	Stage 2 £million	Stage 3 £million	Total £million
Business Finance:								
Strong	107.6	–	–	107.6	521.8	26.9	10.4	559.1
Good	915.8	26.6	–	942.4	156.2	138.3	–	294.5
Satisfactory	179.7	138.2	5.2	323.1	391.0	14.4	0.1	405.5
Weak	–	14.1	40.0	54.1	4.5	22.8	15.3	42.6
	1,203.1	**178.9**	**45.2**	**1,427.2**	**1,073.5**	**202.4**	**25.8**	**1,301.7**
Consumer Finance:								
Good	360.3	95.7	5.3	461.3	288.2	76.8	5.5	370.5
Satisfactory	338.5	63.3	7.1	408.9	302.0	55.4	7.4	364.8
Weak	167.6	34.8	11.4	213.8	172.6	47.7	13.5	233.8
Consumer Mortgages	–	–	–	–	77.9	–	–	77.9
Debt Management	–	–	86.9	86.9	–	–	88.8	88.8
	866.4	**193.8**	**110.7**	**1,170.9**	**840.7**	**179.9**	**115.2**	**1,135.8**

Internal credit risk rating is based on the most recent credit risk score of a customer.

During 2021 the credit rating methodology for Real Estate Finance was updated. As a result the year on year change is not directly comparable.

Company

	Not credit-impaired		**Credit-impaired**			
	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 receivables £million**	**Provision cover %**
31 December 2021						

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	10.1	7.7	4.1	21.9	786.5	2.8%
Vehicle Finance:						
Voluntary termination provision	4.2	–	–	4.2		
Other impairment	3.7	12.1	14.7	30.5		
	7.9	12.1	14.7	34.7	297.5	11.7%
	18.6	**20.3**	**22.0**	**60.9**	**2,511.2**	**2.4%**

	Not credit-impaired		Credit-impaired			
	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 receivables £million	Provision cover %
31 December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%
Consumer Finance:						
Retail Finance	13.8	8.2	3.6	25.6	683.0	3.7%
Vehicle Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.6	17.4	16.6	40.6		
	11.4	17.4	16.6	45.4	286.6	15.8%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	0.5	0.0%
	28.1	**28.9**	**22.9**	**79.9**	**2,349.7**	**3.4%**

Total provisions above include expert credit judgements of £6.0 million (2020: £1.2 million), being the same as Group but excluding the POCI adjustment.

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

	Not credit-impaired		**Credit-impaired**	
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total £million**
At 1 January 2021	28.2	29.0	22.7	79.9
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.6)	28.6	(0.2)	22.8
– Transfer to stage 3	(0.1)	(16.5)	21.5	4.9
– Transfer to stage 1	3.1	(5.6)	–	(2.5)
Passage of time	(12.5)	(8.2)	(4.7)	(25.4)
New loans originated	19.1	–	–	19.1
Mature and derecognised loans	(4.3)	(4.4)	–	(8.7)
Changes to model methodology	(0.1)	(0.2)	0.9	0.6
Changes to credit risk parameters	(8.0)	(2.3)	0.4	(9.9)
Other adjustments	0.5	–	(0.1)	0.4
Charge to income statement	(7.9)	(8.6)	17.8	1.3

Allowance utilised in respect of write-offs	(1.7)	(0.1)	(18.5)	(20.3)
31 December 2021	**18.6**	**20.3**	**22.0**	**60.9**

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2020	22.8	26.9	19.0	68.7
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.7)	36.2	–	30.5
– Transfer to stage 3	–	(22.5)	30.5	8.0
– Transfer to stage 1	3.2	(6.5)	–	(3.3)
Passage of time	(11.3)	(12.0)	1.2	(22.1)
New loans originated	12.6	–	–	12.6
Matured and derecognised loans	(2.7)	(3.2)	–	(5.9)
Changes to model methodology	–	–	–	–
Changes to credit risk parameters	11.4	10.1	(1.7)	19.8
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.6	2.1	30.0	39.7
Allowance utilised in respect of write-offs	(2.2)	–	(26.3)	(28.5)
31 December 2020	**28.2**	**29.0**	**22.7**	**79.9**

The tables above have been prepared based on monthly movements in the ECL. Stage 1 write-offs arise on Vehicle Finance accounts that have exercised their right to voluntarily terminate their agreements.

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 that have exercised their right to voluntarily terminate their agreements.

Impairment of financial assets and loan commitments accounting policy

The Group recognises loss allowances for Expected Credit Losses ('ECL') on all financial assets carried at amortised cost, including lease receivables and loan commitments.

Stage 1 assets

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12-month ECL:

- Financial assets determined to have low credit risk at the reporting date.
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition.
- Financial assets which have experienced a significant increase in credit risk since their initial recognition but have subsequently met the Group's cure policy, as set out below.

A low credit risk asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of 'investment grade' assets. The Group has assessed all its debt securities, which represents UK Treasury bills, and loans held in STB Leasing Limited, for which credit risk is retained by its partner RentSmart, to be low credit risk.

Stage 2 assets

Assets which have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Group's cure policy are classified as stage 2 assets and are reclassified from stage 1, for which loss allowances are measured at an amount equal to 12-month ECL, to stage 2, for which ECL is measured as lifetime ECL.

The Group's definitions of a significant increase in credit risk and default are set out below.

For Consumer Finance, the credit risk of a financial asset is considered to have experienced a significant increase in credit risk since initial recognition where there has been a significant increase in the remaining lifetime probability of default of the asset. The Group may also use its expert credit judgement and where possible relevant historical and current performance data, including bureau data, to determine that an exposure has undergone a significant increase in credit risk.

For Business Finance, the credit risk of a financial asset is considered to have experienced a significant increase in credit risk where certain early warning indicators apply. These indicators may include notification of county court judgements or, specifically for the Real Estate Finance portfolio, cost over-runs and timing delays experienced by borrowers.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for all portfolios.

Stage 3 assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired or defaulted (stage 3). A financial asset is considered to be credit-impaired when an event or events that have a detrimental impact on estimated future cash flows have occurred, or have other specific unlikeliness to pay indicators. Evidence that a financial asset is credit-impaired includes the following observable data:

- Initiation of bankruptcy proceedings.
- Notification of bereavement.
- Identification of loan meeting debt sale criteria.
- Initiation of repossession proceedings.
- A material covenant breach that has remained unremedied for more than 90 days.

In addition, a loan that is 90 days or more past due is considered credit-impaired for all portfolios. The credit risk of financial assets that become credit-impaired are not expected to improve so they remain credit-impaired.

For Commercial Finance facilities that do not have a fixed term or repayment structure, evidence that a financial asset is credit-impaired includes:

- the client ceasing to trade; or
- unpaid debtor balances that are dated at least six months past their normal recourse period.

Cure policy

The credit risk of a financial asset may improve such that it is no longer considered to have experienced a significant increase in credit risk if it meets the Group's cure policy. The Group's cure policy for all portfolios requires sufficient payments to be made to bring an account back within less than 30 days past due and for such payments to be maintained for six consecutive months.

The Group has determined stage 3 to be an absorbing state. Once a loan is in default it is not therefore expected to cure back to stage 1 or 2.

Calculation of expected credit loss

ECL are probability weighted estimates of credit losses which are measured as the present value of all cash shortfalls. Specifically, this is the difference between the contractual cash flows due and the cash flows expected to be received, discounted at the original effective interest rate or, for portfolios purchased outside of the Group by Debt Managers (Services) Limited, the credit adjusted effective interest rate. For undrawn loan commitments ECL is measured as the difference between the contractual cash flows due if the commitment is drawn and the cash flows expected to be received.

Lifetime ECL is the ECL that results from all possible default events over the expected life of a financial asset.

12-month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within 12 months after the reporting date.

ECL are calculated by multiplying three main components: the probability of default ('PD'), exposure at default and loss given default ('LGD') discounted at the original effective interest rate of an asset. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information and are discussed in turn further below. Management adjustments are made to modelled output to account for situations where known or expected risk factors have not been considered in the modelling process.

Probability of default ('PD') and credit risk grades

Credit risk grades are a primary input into the determination of the PD for exposures. The Group allocates each exposure to a credit risk grade at origination and at each reporting period to predict the risk of default. Credit risk grades are determined using qualitative and quantitative factors that are indicative of the risk of default e.g. arrears status and loan applications scores. These factors vary for each loan portfolio. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. In monitoring exposures information such as payment records, request for forbearance strategies and forecast changes in economic conditions are considered for Consumer Finance. Additionally, for Business Finance portfolios information obtained during periodic client

reviews, for example audited financial statements, management accounts, budgets and projections are considered, with particular focus on key ratios, compliance with covenants and changes in senior management teams.

Exogenous, Maturity, Vintage modelling is used in the production of forward-looking lifetime PDs. This method entails modelling the effects of external (exogenous) factors against cohorts of lending and their time on the books creating a clean relationship to best demonstrate the movement in default rates as macroeconomic variables are changed. These models are extrapolated to provide PD estimates for the future, based on forecasted economic scenarios.

Exposure at default ('EAD')

EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure and potential changes to the current amount allowed under the terms of the contract, including amortisation overpayments and early terminations. The EAD of a financial asset is its gross carrying amount. For loan commitments the EAD includes the amount drawn as well as potential future amounts that may be drawn under the terms of the contract, estimated based on historical observations and forward-looking forecasts.

For Commercial Finance facilities that have no specific term, an assumption is made that accounts close 36 months after the reporting date for the purposes of measuring lifetime ECL. This assumption is based on industry experience of average client life. These facilities do not have a fixed term or repayment structure but are revolving and increase or decrease to reflect the value of the collateral i.e. receivables or inventory. The Group can cancel the facilities with immediate effect, although this contractual right is not enforced in the normal day-to-day management of the facility. Typically, demand would only be made on the failure of a client business or in the event of a material event of default, such as a fraud. In the normal course of events, the Group's exposure is recovered through receipt of remittances from the client's debtors rather than from the client itself.

The ECL for such facilities is estimated taking into account the credit risk management actions that the Group expects to take to mitigate against losses. These include a reduction in advance rate and facility limits or application of reserves against a facility to improve the likelihood of full recovery of exposure from the debtors.

Alternative recovery routes mitigating ECL would include refinancing by another funding provider, taking security over other asset classes or secured personal guarantees from the client's principals.

Loss given default ('LGD')

LGD is the magnitude of the likely loss in the event of default. This takes into account recoveries either through curing or, where applicable, through auction sale of repossessed collateral and debt sale of the residual shortfall amount. For loans secured by retail property, loan-to-value ratios are key parameters in determining LGD. LGDs are calculated on a discounted cash flow basis using the financial instrument's origination effective interest rate as the discount factor.

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. This is achieved by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. To ensure material non-linear relationships between economic factors and credit losses are reflected in the calculation of ECL, a severe stress scenario is used as one of these scenarios. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. The four scenarios adopted and probability weighting applied are set out below.

The Group has considered which economic variables impact credit risk and credit losses. The key drivers of credit risk and credit losses included in the macroeconomic scenarios for all portfolios, with the exception of Real Estate Finance, have been identified as annual unemployment rate growth and annual house price index growth. For the Real Estate Finance portfolio the key drivers have been identified as unemployment rate growth and the annual house price index growth. Base case assumptions applied for each of these variables have been sourced from external consensus or Bank of England forecasts. Further details of the assumptions applied to other scenarios are presented below.

Expert credit judgements

Where the ECL model output does not reflect the level of credit risk, judgement is used to calculate expert credit judgements.

Presentation of loss allowance

Loss allowances for ECL are presented in the statement of financial position as follows with the loss recognised in the income statement:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- Other loan commitments: generally, as a provision.

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.

When a loan is uncollectible, it is written off against the related ECL allowance. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined.

Vehicle Finance voluntary termination provision

In addition to recognising allowances for ECLs, the Group holds a provision for voluntary terminations ('VT') for all Vehicle Finance financial assets. VT is a legal right provided to customers who take out hire purchase agreements. The provision is calculated by multiplying the probability of VT of an asset by the expected shortfall on VT discounted back at the original effective interest rate of the asset. VT allowances are not held against loans in default (stage 3 loans).

The VT provision is presented in the statement of financial position as a deduction from the gross carrying amount of Vehicle Finance assets with the loss recognised in the income statement.

Write off

Loans and advances to customers are written off partially or in full when the Group has exhausted all viable recovery options. The majority of write-offs arise from Debt Relief Orders, insolvencies, IVAs, deceased customers where there is no estate and vulnerable customers in certain circumstances. Amounts subsequently recovered on assets previously written off are recognised in the impairment charge in the income statement.

Intercompany receivables

The parent company's expected credit loss on amounts due from related companies, calculated by applying probability of default and loss given default to the amount outstanding at the year-end, was not material at 31 December 2021 or 31 December 2020.

17.1. 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 continuing potential impact of COVID-19 on the macroeconomic environment 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 expect credit losses ('ECLs'), and
- expert credit judgements, which are overlaid onto the output from the models.

As discussed above 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 Group's policy for the determination of LGD is outlined above.

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

17.1.1. 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 15% change in the PD for Vehicle Finance would immediately impact the ECL allowance by £2.3 million (2020: a 10% change impacted the ECL allowance by £2.2 million).

A 30% change in the PD for Retail Finance would immediately impact the ECL allowance by £4.6 million (2020: a 20% change impacted the ECL allowance by £5.0 million).

During the year, there was a 14% (2020: 3%) change in PD for Vehicle Finance, and a 27% (2020: 20%) change in PD for Retail Finance.

Due to the relatively low levels of provisions on the Business Finance books, sensitivity to reasonably possible changes in PD are not considered material.

17.1.2. Consumer Finance customer affordability

A new PD judgement has also been applied at the year end to reflect the heightened risk of lower customer affordability in the Consumer businesses due to the increased cost of living. A 15% uplift has been applied to the ECL on loans identified as most likely to be impacted by increases in cost of living, which impacts the ECL by £4.6 million. If the uplift factor was increased to 20%, the ECL would be impacted by a further £0.9 million.

17.1.3. 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 PD 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 £2.0 million.

17.1.4. 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 £2.0 million (2020: £1.9 million). During the year, there was an 0% (2020: 16%) change in the vehicle recovery rate assumption.

17.1.5. Vehicle Finance used car values

Since the onset of the COVID-19 pandemic, we have observed an increase in used car prices of 32%. This increase in used car prices has been incorporated into the modelled LGD reducing the ECL provision by £3.0m (2020: £0.7 million), however, the Directors believe that only 12% of the increase in used car prices will be permanent and have applied an overlay for lower recoveries with an increased provision of £1.5 million for the year ended 31 December 2021 (2020: £0.7 million).

17.1.6. 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 £2.2 million. The average actual weighting given to the base cases at December 2021 was 62.5%.

17.1.7. 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. Further detail on this process is provided above.

The macroeconomic scenarios used were internally developed, having regard to externally published scenarios. The scenarios and weightings applied are summarised below:

		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 %**
December 2021									
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)

		UK Unemployment Rate – Annual Average				UK HPI – movement from December 2020			
Scenario	Weightings	2021 %	2022 %	2023 %	5 Yr Average %	2021 %	2022 %	2023 %	5 Yr Average %
December 2020									
Upside	20%	5.9	5.9	5.2	5.1	(2.2)	(2.9)	1.9	3.7
Base	45%	7.5	8.2	7.0	6.6	(4.1)	(7.4)	(2.8)	(0.3)
Downside	25%	7.7	8.4	7.2	6.7	(4.4)	(7.0)	(2.2)	(0.0)
Severe	10%	8.4	10.1	8.3	7.5	(16.4)	(24.4)	(20.4)	(16.3)

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	
	2021 £million	2020 £million	**2021 £million**	2020 £million
Vehicle Finance	0.2	0.4	0.2	0.2
Retail Finance	0.3	0.5	0.2	0.2

The sensitivity is immaterial for other lending products.

The Group recognised an impairment charge of £4.5 million (2020: £51.3 million). 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:

Scenario	**Vehicle Finance 2021 £million**	**Retail Finance 2021 £million**	**Business Finance 2021 £million**	**Total Group 2021 £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

Scenario	Vehicle Finance 2020 £million	Retail Finance 2020 £million	Business Finance 2020 £million	Total Group 2020 £million
Upside	(3.0)	(3.8)	(2.1)	(8.9)
Base	0.1	0.1	0.4	0.6
Downside	1.0	1.2	–	2.2
Severe	3.2	4.1	8.4	15.7

17.1.8. Debt Management forecast collections on POCI debt

A +/-8.0% change in Debt Management forecast collections, which the Directors consider to be a reasonable possible change, would increase or decrease loans and advances to customers by £6.4 million (2020: £6.5 million) respectively, resulting in a corresponding £6.4 million (2020: £6.5 million) increase or decrease in profit or loss.

17.1.9. 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.

18. Derivative financial instruments

Group and Company

Interest rate swaps are held for risk mitigation purposes. The table below provides an analysis of the notional amount and fair value of derivatives by hedge accounting relationship. The amount of ineffectiveness recognised for each hedge type is shown in Note 7. Notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

	Notional 2021 £million	**Assets 2021 £million**	**Liabilities 2021 £million**	Notional 2020 £million	Assests 2020 £million	Liabilities 2020 £million
Interest rate swaps designated in fair value hedges						
In less than one year	382.1	0.3	(0.7)	228.4	0.4	(0.6)
More than one year but less than three years	564.6	2.9	(3.0)	599.7	2.3	(3.1)
More than three years but less than five years	194.3	0.4	(2.2)	263.6	2.0	(2.4)
More than five years	–	–	–	1.8	0.1	–
	1,141.0	**3.6**	**(5.9)**	**1,093.5**	**4.8**	**(6.1)**
Interest rate swaps designated in cash flow hedges						
In less than one year				–	–	–
More than one year but less than three years	4.7	–	(0.1)	–	–	–
More than three years but less than five years	9.4	–	(0.2)	4.7	–	–
	14.1	**–**	**(0.3)**	**4.7**	**–**	**–**
Foreign exchange swaps						
In less than one year	15.3	0.2	–	13.0	–	–

	1,170.4	**3.8**	**(6.2)**	**1,111.2**	**4.8**	**(6.1)**

In order to manage interest rate risk arising from fixed rate financial instruments, the Group reviews interest rate swaps requirements on a monthly basis. The exposure from the portfolio frequently changes due to the origination of new instruments, contractual repayments and early prepayments made in each period. As a result, the Group adopts a dynamic hedging strategy (sometimes referred to as 'macro' or 'portfolio' hedge) to hedge its exposure profile by closing and entering into new swap agreements on a monthly basis. The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged.

The following table sets out details of the hedged exposures covered by the Group's hedging strategies:

	Carry amount of hedged item Asset/(liability) 2021 £million	**Accumulated amount of fair value adjustments in the hedged items Asset/(liability) 2021 £million**	Carry amount of hedged item Asset/(liability) 2020 £million	Accumulated amount of fair value adjustments in the hedged items Asset/(liability) 2020 £million
ASSETS				
Interest rate fair value hedges				
Loans and advances to customers				
Fixed rate Real Estate Finance loans	354.9	(2.1)	300.0	4.3
Fixed rate Vehicle Finance loans	86.3	(0.4)	97.2	0.7
Fixed rate Retail Finance loans	160.4	(1.0)	116.2	0.5
Fixed rate Consumer Mortgages Loans	–	–	9.9	0.2
	601.6	**(3.5)**	**523.3**	**5.7**
Interest rate fair value hedges				
Cash and balances at Central banks				
Bank of England reserve	14.1	N/A	4.7	N/A
	615.7	**(3.5)**	**528.0**	**5.7**
LIABILITIES				
Interest rate fair value hedges				
Deposits from customers				
Fixed rate customer deposits	(539.5)	5.3	(570.2)	(4.7)
	(539.5)	**5.3**	**(570.2)**	**(4.7)**

The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is £nil (2020: £nil).

The following table shows the impact of financial assets and financial liabilities relating to transactions where:

- there is an enforceable master netting agreement in place but the offset criteria are not otherwise satisfied, and
- financial collateral is paid and received.

	Gross amount reported on balance sheet £million	**Master netting arrangements £million**	**Financial collateral £million**	**Net amounts after offsetting £million**
31 December 2021				
Derivative financial assets				
Interest rate swaps	3.6	(3.6)	–	–
Foreign exchange swaps	0.2	–	–	0.2
	3.8	**(3.6)**	**–**	**0.2**
Derivative financial liabilities				
Interest rate swaps	**(6.2)**	**3.6**	**2.7**	**0.1**

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million
31 December 2020				
Interest rate swaps				
Derivative financial assets	**4.8**	**(4.8)**	**–**	**–**

Derivative financial liabilities	**(6.1)**	**4.8**	**1.3**	**–**

Master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because the arrangement creates an agreement for a right of set-off of recognised amounts which is enforceable only following an event of default, insolvency or bankruptcy of the Group or counterparties. Furthermore, the Group and its counterparties do not intend to settle on a net basis or realise the assets and settle the liabilities simultaneously.

Financial collateral consists of cash settled, typically daily or weekly, to mitigate the credit risk on the fair value of derivatives.

19. Assets and liabilities held for sale

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, both in STB Leasing Limited, were in the process of being sold to its partner, RentSmart Limited. Under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, these are required to be reclassified as 'Held for sale' on the face of the statement of financial position as they are expected to be sold within 12 months of the balance sheet date. The assets and liabilities were sold for their carrying amount on 31 January 2022.

The business is not significant enough to be classified as discontinued operations, or to be disclosed as a separate operating segment in Note 3. There is no provision held against the RentSmart loans, as the credit risk associated with those loans is retained by RentSmart Limited. No impairment losses have been recognised on the classification of these operations as held for sale.

20. Investment property

	Group £million	Company £million
Fair value		
At 1 January 2020	4.8	4.8
Transfer from property, plant and equipment	–	1.1
Revaluation	(0.5)	(0.6)
At 31 December 2020	**4.3**	**5.3**
Revaluation	0.4	0.4
At 31 December 2021	**4.7**	**5.7**

The Group's investment properties, which are let to third party occupiers, comprise:

- Secure Trust House, Boston Drive, Bourne End, SL8 5YS.
- 50% of Yorke House, Arleston Way, Shirley, Solihull, B90 4LH, excluding land.

The Company's investment properties includes the two properties above and 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ, which is occupied by one of the Company's subsidiaries.

Investment properties are stated at fair value as at 31 December 2021 based on external valuations performed by professionally qualified valuers Knight Frank LLP. These valuations have been undertaken in accordance with the current editions of RICS Valuation - Global Standards, which incorporate the International Valuations Standards, and the RICS UK National Supplement. The valuations were carried out using the comparative and investment methods, and were arrived at by reference to market evidence of the transaction prices paid for similar properties, together with evidence of demand within the vicinity of the subject properties. In estimating the fair value of the properties, the valuers consider the highest and best use of the properties. Knight Frank LLP were paid a fixed fee for the valuations. Knight Frank LLP also undertakes some professional work in respect of the Group's Real Estate Finance business, although this is limited in relation to the activities of the Group as a whole. An increase in the fair value of investment property has been recognised and its carrying value has been adjusted accordingly. Movements in the fair value of investment property are recognised operating expenses in the income statement.

Investment property accounting policy

Investment property, which is property held to earn rentals and for capital appreciation, is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. External valuations are performed on a triennial basis. Gains or losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the property is derecognised.

21. Property, plant and equipment

Group

	Freehold land and buildings £million	Leasehold property £million	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2020	7.4	0.1	8.4	15.9
Additions	–	–	0.7	0.7
Revaluation	(0.8)	–	–	(0.8)
At 31 December 2020	**6.6**	**0.1**	**9.1**	**15.8**
Additions	–	–	0.2	0.2
Revaluation	0.3	–	–	0.3
At 31 December 2021	**6.9**	**0.1**	**9.3**	**16.3**
Accumulated depreciation				
At 1 January 2020	–	–	(4.6)	(4.6)
Depreciation charge	(0.1)	–	(1.3)	(1.4)
Revaluation	0.1	–	–	0.1
At 31 December 2020	**–**	**–**	**(5.9)**	**(5.9)**
Depreciation charge	(0.2)	–	(1.1)	(1.3)
Revaluation	0.2	–	–	0.2
At 31 December 2021	**–**	**–**	**(7.0)**	**(7.0)**
Net book amount				
At 31 December 2020	**6.6**	**0.1**	**3.2**	**9.9**
At 31 December 2021	**6.9**	**0.1**	**2.3**	**9.3**

The Group's freehold properties, which are occupied by the Group, comprise:

- the Registered Office of the Company.
- 50% of Yorke House, Arleston Way, Shirley B90 4LH, plus the value of the land.
- 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ

Company

	Freehold property £million	Computer and other equipment £million	Total £million
Cost or valuation			
At 1 January 2020	3.5	6.1	9.6
Additions	–	0.3	0.3
Transfer to investment properties	(1.1)	–	(1.1)
Revaluation	(0.3)	–	(0.3)
At 31 December 2020 and 31 December 2021	**2.1**	**6.4**	**8.5**
Accumulated depreciation			
At 1 January 2020	–	(3.1)	(3.1)
Depreciation charge	(0.1)	(0.9)	(1.0)
Revaluation	0.1	–	0.1
At 31 December 2020	**–**	**(4.0)**	**(4.0)**
Depreciation charge	–	(0.8)	(0.8)
At 31 December 2021	**–**	**(4.8)**	**(4.8)**

Net book amount			
At 31 December 2020	**2.1**	**2.4**	**4.5**
At 31 December 2021	**2.1**	**1.6**	**3.7**

The Company's freehold properties are the same as Group, but exclude 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ, which is not occupied by the Company.

Freehold properties are stated at fair value as at 31 December 2021 based on external valuations performed by professionally qualified valuers Knight Frank LLP, which is performed on the same basis as investment properties (see Note 20). A increase in the fair value of freehold property has been recognised and its carrying value has been adjusted accordingly. Movements in the fair value of freehold property are recognized in other comprehensive income, to the extent that any reductions do not exceed the initial increase, which resulted in the following revaluation movements:

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
Revaluation surplus/(deficit) recognised in other comprehensive income	0.5	(0.4)	–	–
Revaluation deficit recognised in the income statement	–	(0.3)	–	(0.2)

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.3 million (2020: £1.3 million).

The historical cost of freehold property included at fair value is as follows:

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
Cost	5.4	5.4	1.6	1.6
Depreciation	(1.7)	(1.6)	–	–
Net book value	**3.7**	**3.8**	**1.6**	**1.6**

Property, plant and equipment accounting policy

Property is held at its revalued amount, being its fair value at the date of valuation less any subsequent accumulated depreciation. Revaluations are carried out annually at the reporting date, and movements are recognised in Other Comprehensive Income, net of any applicable deferred tax. External valuations are performed on a triennial basis.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Pre-installed computer software licences are capitalised as part of the computer hardware it is installed on. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which are subject to regular review:

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or seven years
Computer equipment	three to five years
Other equipment	five to ten years

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

The Group applies IAS 36 to determine whether property, plant and equipment is impaired.

22. Right-of-use assets

	Group			Company		
	Leasehold property £million	Leased motor vehicles £million	Total £million	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost						
At 1 January 2020	4.2	0.3	4.5	2.9	0.2	3.1
Additions	0.2	0.1	0.3	0.2	–	0.2
At 31 December 2020	**4.4**	**0.4**	**4.8**	**3.1**	**0.2**	**3.3**
Disposals	–	(0.1)	(0.1)	–	–	–
At 31 December 2021	**4.4**	**0.3**	**4.7**	**3.1**	**0.2**	**3.3**

Accumulated depreciation						
At 1 January 2020	(0.7)	(0.2)	(0.9)	(0.5)	(0.1)	(0.6)
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.4)	(0.1)	(0.5)
Impairment	(0.3)	–	(0.3)	(0.2)	–	(0.2)
At 31 December 2020	**(1.6)**	**(0.3)**	**(1.9)**	**(1.1)**	**(0.2)**	**(1.3)**
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.5)	–	(0.5)
Disposals	–	0.1	0.1	–	–	–
At 31 December 2021	**(2.2)**	**(0.3)**	**(2.5)**	**(1.6)**	**(0.2)**	**(1.8)**

Net book amount						
At 31 December 2020	**2.8**	**0.1**	**2.9**	**2.0**	**–**	**2.0**
At 31 December 2021	**2.2**	**–**	**2.2**	**1.5**	**–**	**1.5**

Lessee accounting policy

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the future lease payments, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. It is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made, and is presented as a separate line in the consolidated statement of financial position.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment charges and are depreciated over the shorter of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Rentals made under operating leases for less than 12 months in duration, and operating leases on low value items, are recognised in the income statement on a straight-line basis over the term of the lease.

23. Intangible assets

Group

	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2020	1.0	16.7	2.2	19.9
Additions	–	1.1	–	1.1
Transfers from property, plant and equipment	–	0.1	–	0.1
Disposals	–	(1.3)	–	(1.3)
At 31 December 2020	**1.0**	**16.6**	**2.2**	**19.8**
Additions	–	1.1	–	1.1
Transfers to cloud software development prepayments	–	(0.4)	–	(0.4)
At 31 December 2021	**1.0**	**17.3**	**2.2**	**20.5**

Accumulated amortisation				
At 1 January 2020	–	(9.3)	(1.6)	(10.9)
Amortisation charge	–	(1.8)	(0.2)	(2.0)

Disposals	–	0.8	–	0.8
At 31 December 2020	**–**	**(10.3)**	**(1.8)**	**(12.1)**
Amortisation charge	–	(1.3)	(0.2)	(1.5)
At 31 December 2021	**–**	**(11.6)**	**(2.0)**	**(13.6)**

Net book amount				
At 31 December 2020	**1.0**	**6.3**	**0.4**	**7.7**
At 31 December 2021	**1.0**	**5.7**	**0.2**	**6.9**

Goodwill above relates to the following cash generating units, which are part of the Retail Finance operating segment:

	2021 £million	2020 £million
Music business	0.3	0.3
V12	0.7	0.7
Total	**1.0**	**1.0**

The recoverable amount of these cash generating units are determined on a value in use calculation which uses cash flow projections based on financial forecasts covering a three-year period, and a discount rate of 11.97% (2020: 8%). Cash flow projections during the forecast period are based on the expected rate of new business. A zero growth based scenario is also considered. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

Other intangible assets were recognised as part of the V12 Finance Group acquisition. These were recorded at fair value, and are being amortised on a straight-line basis as follows:

	Years
Distribution channel	10

Company

	Goodwill £million	Computer software £million	Total £million
Cost or valuation			
At 1 January 2020	0.3	12.4	12.7
Additions	–	0.9	0.9
Disposals	–	(1.3)	(1.3)
At 31 December 2020	**0.3**	**12.0**	**12.3**
Additions	–	0.8	0.8
Transfers to cloud software development prepayments	–	(0.4)	(0.4)
At 31 December 2021	**0.3**	**12.4**	**12.7**
Accumulated amortisation			
At 1 January 2020	–	(5.3)	(5.3)
Amortisation charge	–	(1.6)	(1.6)
Disposals	–	0.8	0.8
At 31 December 2020	**–**	**(6.1)**	**(6.1)**
Amortisation charge	–	(1.2)	(1.2)
At 31 December 2021	**–**	**(7.3)**	**(7.3)**
Net book amount			
At 31 December 2020	**0.3**	**5.9**	**6.2**
At 31 December 2021	**0.3**	**5.1**	**5.4**

Goodwill above relates to the music business cash generating unit, which is part of the Retail Finance operating segment. The recoverable amount is determined on the same basis as for the Group.

Intangible assets accounting policy

(a) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill is held at cost less accumulated impairment charge and is deemed to have an infinite life.

The Group reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. An impairment charge is recognised in the income statement if the carrying amount exceeds the recoverable amounts.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred unless the technical feasibility of the development has been demonstrated, and it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance, in which case they are capitalised.

These costs are amortised on a straight-line basis over their expected useful lives, which are between three to ten years.

(c) Other intangibles

The acquisition of subsidiaries has been accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it was necessary to recognise certain intangible assets which are separately identifiable and which are not included on the acquiree's balance sheet, which are amortised over their expected useful lives, as set out above.

The Group applies IAS 36 to determine whether an intangible asset is impaired.

24. Investments in group undertakings

Company

	£million
Cost and net book value	
At 1 January 2020 and December 2020	4.1
Equity contributions to subsidiaries in respect of share options	0.2
At 31 December 2021	**4.3**

Shares in subsidiary undertakings of Secure Trust Bank PLC are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. All are 100% owned by the Company. The subsidiary undertakings were all incorporated in the UK and wholly owned via ordinary shares. All subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

Details are as follows:

	Principal activity
Owned directly	
Debt Managers (Services) Limited	Debt management
Secure Homes Services Limited	Property rental
STB Leasing Limited	Leasing
V12 Finance Group Limited	Holding company
Owned indirectly via an intermediate holding company	
V12 Personal Finance Limited	Dormant
V12 Retail Finance Limited	Sourcing and servicing of unsecured loans

The registered office of the Company, and all subsidiary undertakings, is One Arleston Way, Shirley, Solihull, West Midlands B90 4LH.

Secure Homes Services Limited, STB Leasing Limited and V12 Personal Finance Limited are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of s479A, and the Company has given guarantees accordingly under s479C in respect of the years ended 31 December 2021 and 31 December 2020, or period ended 30 June 2020 in the case of STB Leasing Limited.

25. Deferred taxation

	Group 2021 £million	Restated Group 2020	**Company 2021 £million**	Restated Company 2020

		£million		£million
Deferred tax assets:				
Other short-term timing differences	6.9	6.6	6.8	7.1
At 31 December	**6.9**	**6.6**	**6.8**	**7.1**

Deferred tax assets:				
Prior period closing (as previously stated)	6.6	7.5	7.1	8.1
Deferred tax on Software-as-a-Service adjustment	–	0.5	–	0.5
Prior period closing (as restated)	6.6	8.0	7.1	8.6
Income statement	0.3	(1.2)	(0.4)	(1.1)
Other comprehensive income	–	(0.2)	0.1	(0.4)
At 31 December	**6.9**	**6.6**	**6.8**	**7.1**

Prior year deferred tax has been restated. See Note 1.3 for further details.

Deferred tax accounting policy

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

26. Other assets

	Group 2021 £million	Restated Group 2020 £million	**Company 2021 £million**	Restated Company 2020 £million
Other receivables	0.4	3.3	0.3	2.3
Amounts due from related companies	–	–	89.3	90.9
Cloud software development prepayment	4.8	4.6	4.8	4.6
Other prepayments and accrued income	6.7	7.7	5.4	6.6
	11.9	**15.6**	**99.8**	**104.4**

Cloud software development costs, principally relating to the Group's Motor Transformation Programme, do not meet the intangible asset recognition criteria and are therefore classified as a prepayment, which is expensed to the income statement over the useful economic life of the software. The prior year cloud software development prepayment figure has been restated. See Note 1.3 for further details.

27. Due to banks

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £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	273.0	390.0	273.0
Amounts due to other credit institutions	0.7	3.3	0.7	3.3
Accrued interest	0.1	0.1	0.1	0.1
	390.8	**276.4**	**390.8**	**276.4**

The accounting policy for amounts due to banks is included in Note 1.5 Financial assets and financial liabilities accounting policy.

28. Deposits from customers

Group and Company

	2021 £million	2020 £million
Access accounts	101.7	81.4
Fixed term bonds	974.6	1,076.4
Notice accounts	771.9	705.1

ISAs	255.0	129.6
	2,103.2	**1,992.5**

The accounting policy for deposits from customers is included in Note 1.5 Financial assets and financial liabilities accounting policy.

29. Lease liabilities

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
At 1 January	3.9	4.5	2.9	3.3
New leases	–	0.3	–	0.2
Payments	(0.9)	(1.0)	(0.7)	(0.7)
Interest expense	0.1	0.1	0.1	0.1
At 31 December	**3.1**	**3.9**	**2.3**	**2.9**
Lease liabilities – Gross				
– No later than one year	0.9	0.9	0.7	0.7
– Later than one year and no later than five years	2.3	3.0	1.7	2.4
– More than five years	0.1	0.3	–	–
	3.3	4.2	2.4	3.1
Less: Future finance expense	(0.2)	(0.3)	(0.1)	(0.2)
Lease liabilities – Net	**3.1**	**3.9**	**2.3**	**2.9**
Lease liabilities – Gross				
– No later than one year	0.8	0.9	0.7	0.6
– Later than one year and no later than five years	2.2	2.7	1.6	2.3
– More than five years	0.1	0.3	–	–
	3.1	**3.9**	**2.3**	**2.9**

The accounting policy for lease liabilities is included in Note 22 Lessee accounting policy.

30. Other liabilities

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
Other payables	18.3	46.2	14.9	41.1
Amounts due to related companies	–	–	17.9	12.6
Accruals and deferred income	13.0	10.1	11.0	8.1
	31.3	**56.3**	**43.8**	**61.8**

31. Provisions for liabilities and charges

Group and Company

	Customer redress £million	ECL allowance on loan commitments £million	Other £million	Total £million
Balance at 1 January 2020	0.2	0.4	0.1	0.7
(Release)/charge to income statement	(0.2)	0.7	1.4	1.9
Utilised	–	–	(0.7)	(0.7)
Balance at 31 December 2020	**–**	**1.1**	**0.8**	**1.9**
(Release)/charge to income statement	–	(0.2)	0.3	0.1
Utilised	–	–	(0.7)	(0.7)

Balance at 31 December 2021	–	0.9	0.4	1.3

Customer redress provision
The Group provided for its best estimate of redress payable in respect of outstanding claims relating to historical sales of accident, sickness and unemployment insurance, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience.

The Financial Conduct Authority announced a deadline for making these customer redress claims, which gave consumers until 29 August 2019 to make a claim, so no further claims were accepted after this date. At 31 December 2021, all such claims had been settled and therefore no further customer redress provision was required.

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 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
- restructuring provision; and
- s75 Consumer Credit Act 1974 provision.

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

Provisions for liabilities and charges accounting policy

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated.

32. Subordinated liabilities

Group and Company

	2021 £million	2020 £million
Notes at par value	50.0	50.0
Unamortised issue costs	(0.3)	(0.4)
Accrued interest	1.2	1.2
	50.9	**50.8**

Subordinated liabilities comprises two tranches of 6.75% Fixed Rate Reset Callable Subordinated Notes due 2028 (‘the Notes’) issued in 2018. The Notes mature in 2028 but the issuer may at its discretion redeem the Notes in 2023. The Notes are listed on the Global Exchange Market of the Irish Stock Exchange plc trading as Euronext Dublin.

- The Notes are redeemable for cash at their principal amount on a fixed date.
- The Company has a call option to redeem the securities early in the event of a ‘tax event’ or a ‘capital disqualification event’,
  which is at the full discretion of the Company.
- Interest payments are paid at six monthly intervals and are mandatory.
- The Notes give the holders’ rights to the principal amount on the Notes, plus any unpaid interest, on liquidation. Any such claims are subordinated to senior creditors, but rank pari passu with holders of other subordinated obligations and in priority to holders of share capital.

The above features provide the issuer with a contractual obligation to deliver cash or another financial asset to the holders, and therefore the Notes are classified as financial liabilities.

Transaction costs that are directly attributable to the issue of the Notes and are deducted from the financial liability and expensed to the income statement on an effective interest rate basis over the expected life of the Notes.

The Notes are treated as Tier 2 regulatory capital which is used to support the continuing growth of the business taking into account increases in regulatory capital buffers. The issue of the Notes is part of an ongoing programme to diversify and expand the capital base of the Group.

The accounting policy for subordinated liabilities is included in Note 1.5 Financial assets and financial liabilities accounting policy.

33. Contingent liabilities and commitments

33.1 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.

33.2 Capital commitments

At 31 December 2021, the Group and Company had no capital commitments (2020: £nil).

33.3 Credit commitments

Group and Company

Commitments to extend credit to customers were as follows:

	2021 £million	2020 £million
Business Finance		
Real Estate Finance	68.9	63.5
Commercial Finance	120.9	128.5
Consumer Finance		
Retail Finance	83.6	69.3
Vehicle Finance	0.5	0.2
	273.9	**261.5**

34. Share capital

	Number	£million
At 1 January 2020	18,477,500	7.4
Issued during 2020	156,162	0.1
At 31 December 2020	18,633,662	7.5
Issued during 2021	14,143	–
At 31 December 2021	**18,647,805**	**7.5**

Share capital comprises ordinary shares with a par value of 40 pence each.

Equity instruments accounting policy

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs. Any amounts received over nominal value are recorded in the share premium account, net of direct issuance costs. Costs associated with the listing of shares are expensed immediately.

35. Share-based payments

At 31 December 2021 and 31 December 2020, the Group had four share-based payment schemes in operation:

- 2017 long term incentive plan
- 2017 Sharesave plan
- 2017 deferred bonus plan
- 'Phantom' share option scheme

A summary of the movements in share options during the year is set out below:

	Outstanding at 1 January 2021 Number	Granted during the year Number	Forfeited lapsed and cancelled during the year Number	Exercised during the year Number	Outstanding at 31 December 2021 Number	Vested and exercisable at 31 December 2021 Number	Vesting dates	Weighted average exercise price of options outstanding at 31	Weighted average exercise price of options outstanding at 31

								December 2021 £	December 2020 £
Equity settled									
2017 long term incentive plan	473,096	243,550	(300,999)	(13,847)	401,800	5,572	2022-2024	0.40	0.40
2017 Sharesave plan	572,464	57,645	(87,663)	–	542,446	8,589	2022-2024	6.17	12.28
2017 deferred bonus plan	51,319	13,023	(43,830)	(826)	19,686	1,670	2022-2024	0.40	0.40
	1,096,879	**314,218**	**(432,492)**	**(14,673)**	**963,932**	**15,831**		**3.65**	**5.26**
Weighted average exercise price	**5.26**	**2.29**	**2.76**	**0.40**	**3.65**				
Cash settled									
'Phantom' share option scheme	281,667	–	(187,500)	–	94,167	94,167	2019	25.00	25.00

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
Expense incurred in relation to share-based payments	0.9	–	0.9	–

35.1. Long term incentive plan ('LTIP')

The LTIP was established on 3 May 2017. Two separate awards to a number of participants were made under this plan during the year, as set out below.

35.1.1 LTIP Restricted share award

56,023 (2020: Nil) options were awarded which were not subject to any performance conditions. The awards will vest three years from the date of grant. The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used for the grant date valuation were as follows:

	Awarded during 2021
Share price at grant date	£11.73
Exercise price	£0.40
Expected dividend yield	5.49%
Expected stock price volatility	46.27%
Risk free interest rate	0.00%
Average expected life (years)	3.00
Original grant date valuation	**£9.94**

35.1.2 LTIP

187,527 (2020: 267,602) options were awarded which are subject to four performance conditions, which are based on:

- rank of the total shareholder return ('TSR') over the performance period against the TSR of the comparator group of peer group companies;
- rank of the TSR over the performance period against the TSR of the FTSE Small Cap Index;
- growth of the TSR in absolute terms; and
- maintaining appropriate risk practices over the performance period reflecting the longer-term strategic risk management of the Group.

The awards have a performance term of three years, and will be released to the participants on the vesting date. The awards will vest on the date on which the Board determines that these conditions have been met.

Of the share options exercised during the year, 13,317 (2020: 1,112) were exercised for shares, and 530 (2020: 1,537) were exercised for a cash alternative at a deemed market price of £11.90 (2020: £9.11).

The original grant date valuation was determined using a Black-Scholes model for the EPS and risk management tranches, and a Monte Carlo model for the TSR tranche. Measurement inputs and assumptions used for the grant date valuation were as follows:

	Awarded during	Awarded during

	2021	2020
Share price at grant date	£11.73	£7.32
Exercise price	£0.40	£0.40
Expected dividend yield	5.49%	4.18%
Expected stock price volatility	45.56%	43.87%
Risk free interest rate	0.11%	-0.07%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£6.99**	**£4.08**

35.2. Sharesave plan

The Sharesave plan was established on 3 May 2017.

This plan allows all employees to save for three years, subject to a maximum monthly amount of £500, with the option to buy shares in Secure Trust Bank PLC when the plan matures. Participants cannot change the amount that they have agreed to save each month but they can suspend payments for up to six months. Participants can withdraw their savings at any time but, if they do this before the completion date, they lose the option to buy shares at the Option Price, and in most circumstances if participants cease to hold plan-related employment before the third anniversary of the grant date, then the options are also lost. The options ordinarily vest approximately three years after grant date, and are exercisable for a period of six months following vesting.

35.2. Sharesave plan

The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used were as follows:

	Awarded during 2021	Awarded during 2020
Share price at grant date	£12.45	£6.32
Exercise price	£10.69	£5.31
Expected stock price volatility	53.84%	44.97%
Expected dividend yield	5.49%	13.92%
Risk free interest rate	0.74%	0.00%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£4.12**	**£0.93**

35.3. Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

In 2021 and 2020, awards were granted to certain Senior Managers of the Group. The awards vest in three equal tranches after one, two and three years following deferral. Accordingly, the following awards remain outstanding under the plan, entitling the members of the scheme to purchase shares in the Company:

	Awards granted Vesting after one year Number	Awards granted Vesting after two years Number	Awards granted Vesting after three years Number	Awards granted Total
At 1 January 2020	9,886	9,886	9,890	29,662
Granted	11,679	11,679	11,682	35,040
Exercised	(9,886)	(3,497)	–	(13,383)
At 31 December 2020	**11,679**	**18,068**	**21,572**	**51,319**
Granted	4,057	4,340	4,626	13,023
Exercised	(826)	–	–	(826)
Cancelled	(9,183)	(15,572)	(19,075)	(43,830)
At 31 December 2021	**5,727**	**6,836**	**7,123**	**19,686**
Vested and exercisable	**1,670**	**–**	**–**	**1,670**

35.3. Deferred bonus plan

Two separate awards were made under this plan during the year, 1,702 in April 2021 and 11,321 in September 2021. The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used were as follows:

	Granted in April 2021 Awards vesting after one year	**Granted in April 2021 Awards vesting after two years**	**Granted in April 2021 Awards vesting after three years**	**Granted in September 2021 Awards vesting after one year**	**Granted in September 2021 Awards vesting after two years**	**Granted in September 2021 Awards vesting after three years**
Share price at grant date	£11.73	£11.73	£11.73	£12.45	£12.45	£12.45
Exercise price	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40
Expected dividend yield	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%
Expected stock price volatility	46.54%	53.22%	46.27%	42.06%	60.86%	53.84%
Risk free interest rate	0.00%	0.00%	0.00%	0.74%	0.74%	0.74%
Average expected life (years)	1.00	2.00	3.00	0.58	1.58	2.58
Original grant date valuation	**£10.85**	**£10.39**	**£9.94**	**£11.54**	**£11.06**	**£10.59**

	Granted 2020 Awards vesting after one year	Granted 2020 Awards vesting after two years	Granted 2020 Awards vesting after three years
Share price at grant date	£7.32	£7.32	£7.32
Exercise price	£0.40	£0.40	£0.40
Expected dividend yield	12.02%	12.02%	12.02%
Expected stock price volatility	66.54%	53.01%	45.76%
Risk free interest rate	0.00%	0.00%	0.00%
Average expected life (years)	1.00	2.00	3.00
Original grant date valuation	**£6.09**	**£5.36**	**£4.70**

35.4 Cash settled share-based payments

On 16 March 2015, a four-year 'phantom' share option scheme was established in order to provide effective long term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by the Company, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an ordinary share in the Company over an initial value set at £25 per ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the share option scheme were sold in November 2014.

During the year, 187,500 awards under this plan were cancelled. As at 31 December 2021, 94,167 (2020: 281,667) share options remained outstanding. The options vested during 2019 and are exercisable for a period of 10 years after grant date.

As at 31 December 2021, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	2021	2020
Share price at reporting date	£12.35	£8.75
Expected stock price volatility	45.30%	45.89%
Expected dividend yield	5.49%	10.06%
Risk free interest rate	0.55%	0.00%
Average expected life (years)	3.34	4.92
Fair value	**£1.06**	**£0.30**

This resulted in the following being recognised in the financial statements:

	2021 £million	2020 £million
Liability	**0.1**	**0.2**

35.4 Cash settled share-based payments

For each award granted during the year, expected volatility was determined by calculating the historical volatility of the Group's share price over the period equivalent to the expected term of the options being granted. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Share-based compensation accounting policy

The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). The amount is recognised in operating expenses in the income statement, with a corresponding increase in equity. Further details of the valuation methodology is set out above.

The fair value of cash settled share-based payments is recognised in operating expenses in the income statement with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at the settlement date based on the fair value of the options granted, with a corresponding adjustment to operating expenses.

36. Cash flow statement

36.1. 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.

	Group 2021 £million	Group 2020 £million	**Company 2021 £million**	Company 2020 £million
Cash and balances at central banks	235.7	181.5	235.7	181.5
Loans and advances to banks (Note 13)	50.3	63.3	47.4	61.7
Debt securities	25.0	–	25.0	–
Less restricted cash				
Included in cash and balances at central banks	(1.7)	(1.0)	(1.7)	(1.0)
Included in loans and advances to central banks (Note 13)	(6.3)	(11.7)	(6.3)	(11.7)
Total restricted cash	(8.0)	(12.7)	(8.0)	(12.7)
	303.0	**232.1**	**300.1**	**230.5**

36.2. 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 (2020: £0.1 million) of lease liabilities interest expense, as shown in Note 29, and £0.1 million (2020: £0.2 million) amortisation of issue costs on subordinated liabilities, as shown in Note 32.

Cash and cash equivalents accounting policy

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand and demand deposits, and cash equivalents, being highly liquid investments which are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and short-term highly liquid debt securities.

37. Financial risk management strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The Directors and senior management of the Group have formally adopted a Group risk appetite statement which sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board. In addition key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

A more detailed description of the risk governance structure is contained in the Strategic Report beginning on page 26.

Included within the principal financial risks inherent in the Group's business are credit risk (Note 38), market risk (Note 39), liquidity risk (Note 40), and capital risk (Note 41).

38. Credit risk

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to satisfy their debt servicing commitments when due. Counterparties include the consumers to whom the Group lends on a secured and unsecured basis and the small and medium size enterprises ('SME') to whom the Group lends on a secured basis as well as the market counterparties with whom the Group deals.

Impairment provisions are provided for expected credit losses at the statement of financial position date. Significant changes in the economy could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages the Group's exposures to credit risk as it considers this to be the most significant risk to the business. Disclosures relating to collateral on loans and advances to customers are disclosed in Note 15.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. Disclosures of these at the year-end are contained in Note 13. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

See page 28 for further details on the mitigation and change during the year of credit risk.

Group

With the exception of loans and advances to customers, the carrying amount of financial assets represents the Group's maximum exposure to credit risk. The Group's maximum exposure to credit risk for loans and advances to customers by portfolio and IFRS 9 stage without taking account of any collateral held or other credit enhancements attached was as follows:

	Stage 1	**Stage 2**			**Stage 3**			**Total**
		<= 30 days past due	**> 30 days past due**	**Total**	**Excl. purchased credit-impaired**	**Purchased credit-impaired**	**Total**	
	£million	**£million**	**£million**	**£million**	**£million**	**£million**	**£million**	**£million**
31 December 2021								
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**

£50.3 million (2020: £35.4 million) of collateral in the form of property has been pledged as security for Real Estate Finance Stage 3 balances of £37.3 million (2020: £24.0 million). £8.9 million (2020: £9.9 million) of collateral in the form of vehicles has been pledged as security for Vehicle Finance Stage 3 balances of £18.0 million (2020: £22.5 million).

	Stage 1	Stage 2			Stage 3			Total
		<= 30 days past due	> 30 days past due	Total	Excl. purchased credit-impaired	Purchased credit-impaired	Total	
	£million	£million	£million	£million	£million	£million	£million	£million
31 December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								
Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Vehicle Finance	173.7	87.2	2.6	89.8	22.6	–	22.6	286.1

Debt Management	–	–	–	–	11.7	77.1	88.8	88.8
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	4.1	–	–	–	–	–	–	4.1
Total drawn exposure	**1,915.3**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,441.6**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,176.8**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,703.1**
Less:								
Impairment allowance	(27.1)	(22.7)	(4.5)	(27.2)	(21.7)	(6.7)	(28.4)	(82.7)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,148.6**	**315.8**	**41.1**	**356.9**	**43.4**	**70.4**	**113.8**	**2,619.3**

A reconciliation of opening to closing allowance for impairment of loans and advances to customers is presented in Note 17.

Company

The Group's maximum exposure to credit risk for loans and advances to customers by portfolio and IFRS 9 stage without taking account of any collateral held or other credit enhancements attached was as follows:

	Stage 1	**Stage 2**			**Stage 3**			**Total**
	£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**
31 December 2021								
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
Total drawn exposure	**2,069.5**	**367.9**	**4.8**	**372.7**	**69.0**	**–**	**69.0**	**2,511.2**
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**	**69.0**	**–**	**69.0**	**2,785.1**
Less:								
Impairment allowance	(18.6)	(16.7)	(3.6)	(20.3)	(22.0)	–	(22.0)	(60.9)
Provision for loan commitments	(0.9)	–	–	–	–	–	–	(0.9)
Total net exposure	**2,321.0**	**354.1**	**1.2**	**355.3**	**47.0**	**–**	**47.0**	**2,723.3**

	Stage 1	Stage 2			Stage 3			Total
	£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
31 December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								

Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Vehicle Finance	174.0	87.5	2.6	90.1	22.5	–	22.5	286.6
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	0.5	–	–	–	–	–	–	0.5
Total drawn exposure	**1,912.0**	**338.8**	**45.6**	**384.4**	**53.3**	**–**	**53.3**	**2,349.7**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,173.5**	**338.8**	**45.6**	**384.4**	**53.3**	**–**	**53.3**	**2,611.2**
Less:								
Impairment allowance	(28.1)	(24.2)	(4.7)	(28.9)	(22.9)	–	(22.9)	(79.9)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,144.3**	**314.6**	**40.9**	**355.5**	**30.4**	**–**	**30.4**	**2,530.2**

38.1. 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 33 respectively.

Geographical concentration

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:

Group and Company

	Real Estate Finance £million 2021	**Consumer Mortgages £million 2021**	Real Estate Finance £million 2020	Consumer Mortgages £million 2020
Central England	90.1	–	139.7	14.6
Greater London	619.7	–	638.4	10.2
Northern England	66.2	–	65.8	16.2
South East England (excl. Greater London)	258.7	–	171.3	25.6
South West England	30.7	–	18.1	7.3
Scotland, Wales and Northern Ireland	47.4	–	24.0	4.0
Gross loans and receivables	1,112.8	–	1,057.3	77.9
Allowance for impairment	(3.2)	–	(5.4)	(0.2)
Total	**1,109.6**	**–**	**1,051.9**	**77.7**

38.2. Forbearance

Business Finance

- Real Estate Finance: Where clients provided evidence of payment difficulties, the business supported by providing one, or both of extensions to maturity dates and altered payment profiles to provide short-term payment holidays for all or part of payments due. In total, 15% of customers by volume were granted a form of payment holiday during the prior year. As at 31 December 2021 0.9% of customers by volume remained on a payment holiday.

Consumer Finance

- Retail Finance: Approximately 2.1% of customers were granted COVID-19 payment holidays during 2020. As at 31 December 2021 no customers remained on the payment holiday.
- Vehicle Finance: Approximately 15.6% of customers were granted COVID-19 payment holidays during 2020. As at 31 December 2021 no customers remained on the payment holiday.

Where consumer customers have come to the end of their payment holiday, under COVID-19 arrangements, and have been unable to return to regular payments, they have been provided with a reduced payment arrangement.

Throughout 2021 the Group did not routinely reschedule contractual arrangements where customers default on their repayments. In cases where it offered the customer the option to reduce or defer payments for a short period, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment

purposes. Arrears tracking would continue on the account with any impairment charge being based on the original contractual due dates for all products.

All forbearance arrangements are formally discussed and agreed with the customer. By offering customers in financial difficulty the option of forbearance the Group potentially exposes itself to an increased level of risk through prolonging the period of non contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period. All forbearance arrangements are reviewed and monitored regularly to assess the ongoing potential risk, suitability and sustainability to the Group.

Where forbearance measures are not possible or are considered not to be in the customer's best interests, or where such measures have been tried and the customer has not adhered to the forbearance terms that have been agreed, the Group will consider realising its security and taking possession of the property in order to sell it and clear the outstanding debt.

39. Market risk

The Group's, market risk is primarily linked to interest rate risk. Interest rate risk refers to the exposure of the Group's financial position to adverse movements in interest rates.

When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Group's assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect the Group's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

The principal currency in which the Group operates is Sterling, although a small number of transactions are completed in US dollars, Euros and other currencies in the Commercial Finance business. The Group has no significant exposures to foreign currencies and hedges any residual currency risks to Sterling. The Group does not operate a trading book.

See page 31 for further details on the mitigation and change during the year of market risk.

Interest rate risk

Group and Company

The Group seeks to 'match' interest rate risk on either side of the statement of financial position. However, this is not a perfect match and interest rate risk is present on the mismatch between fixed rate loans and savings products and variable rate assets and liabilities.

The Group monitors the interest rate mismatch on at least a monthly basis using market value sensitivity and earnings at risk, which were as follows at 31 December:

	2021 **£million**	Restated 2020 £million
Market value sensitivity		
+200bp parallel shift in yield curve	2.7	2.2
-200bp parallel shift in yield curve	(2.7)	(0.1)
Earnings at risk sensitivity		
+100bp parallel shift in yield curve	1.4	1.0
-100bp parallel shift in yield curve	(0.4)	(0.1)

In 2020 a zero percent interest rate floor was applied to the yield curve within the above metrics. In 2021 the Group decided to remove this floor following the addition of negative policy rates to the Bank of England's monetary policy toolkit. This has resulted in the large variance year-on-year.

The Directors consider that 200bps in the case of Market value sensitivity and 100bps in the case of Earnings at risk are a reasonable approximation of possible changes.

40. Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost. The Group maintains adequate liquidity resources and a prudent, stable funding profile at all times to cover liabilities as they fall due in normal and stressed conditions.

The Group manages its liquidity in line with internal and regulatory requirements, and at least annually assesses the robustness of the liquidity requirements as part of the Group's Internal Liquidity Adequacy Assessment Process ('ILAAP').

See page 29 for further details on the mitigation and change during the year of liquidity and funding risk.

The tables below analyse the contractual undiscounted cash flows for financial liabilities into relevant maturity groupings:

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2021						
Due to banks	390.8	394.1	0.1	1.0	393.0	-

Deposits from customers	2,103.2	2,131.9	752.6	807.4	566.1	5.8
Subordinated liabilities	50.9	56.8	0.8	2.5	53.5	-
Liabilities associated with assets held for sale	2.0	2.0	2.0	-	-	-
Lease liabilities	3.1	3.3	0.9	2.3	0.1	-
Other financial liabilities	18.3	18.3	18.3	-	-	-
	2,568.3	**2,606.4**	**774.7**	**813.2**	**1,012.7**	**5.8**
Derivative financial liabilities	6.2	5.5	0.1	1.5	3.9	-
	2,574.5	**2,611.9**	**774.8**	**814.7**	**1,016.6**	**5.8**

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2020						
Due to banks	276.4	276.7	13.4	113.3	150.0	-
Deposits from customers	1,992.5	2,029.3	919.4	496.5	609.7	3.7
Subordinated liabilities	50.8	59.2	0.8	2.5	55.9	-
Lease liabilities	3.9	4.2	0.9	3.0	0.3	-
Other financial liabilities	46.2	46.2	46.2	-	-	-
	2,369.8	**2,415.6**	**980.7**	**615.3**	**815.9**	**3.7**
Derivative financial liabilities	6.1	4.6	0.5	1.5	2.6	-
	2,375.9	**2,420.2**	**981.2**	**616.8**	**818.5**	**3.7**

Company

The contractual undiscounted cash flows for financial liabilities of the Company are the same as above except for the following:

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2021						
Lease liabilities	2.3	2.4	0.7	1.7	-	-
Other financial liabilities	32.8	32.8	32.8	-	-	-
Non-derivative financial liabilities	2,580.0	2,618.0	787.0	812.6	1,012.6	5.8
Total	2,586.2	2,623.5	787.1	814.1	1,016.5	5.8

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2020						
Lease liabilities	2.9	3.1	0.7	2.4	-	-
Other financial liabilities	53.7	53.7	53.7	-	-	-
Non-derivative financial liabilities	2,376.3	2,422.0	988.0	614.7	815.6	3.7
Total	2,382.4	2,426.6	988.5	616.2	818.2	3.7

41. 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. The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP'). The Group manages Tier 1 and Tier 2 as capital, noting the regulatory adjustments required in the table below.

Further information on capital is included within our Pillar 3 disclosures, which can be found on the Group's website.

See page 30 for further details on the mitigation and change during the year of capital risk.

The following table, which is unaudited and therefore not in scope of the independent auditor's report, shows the regulatory capital resources for the Group. The Group has adopted the IFRS 9 transitional rules. For further detail see the Financial Review on page 16.

Tier 2 capital comprises solely subordinated debt, excluding accrued interest, capped at 25% of the capital requirement.

	2021 £million (unaudited)	Restated 2020 £million (unaudited)
Tier 1		
Share capital	7.5	7.5
Share premium	82.2	82.2
Retained earnings	211.7	177.0
Revaluation reserve	1.3	0.9
IFRS 9 transition adjustment	13.9	26.9
Goodwill	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(4.3)	(4.5)
CET1 capital before foreseeable dividend	**311.3**	**289.0**
Foreseeable dividend	(7.7)	(8.2)
CET1 capital	**303.6**	**280.8**
Tier 2		
Subordinated liabilities	50.9	50.8
Less ineligible portion	(3.9)	(5.7)
Total Tier 2 capital	**47.0**	**45.1**
Own Funds	**350.6**	**325.9**
Reconciliation to total equity:		
IFRS 9 transition adjustment	(13.9)	(26.9)
Eligible subordinated liabilities	(47.0)	(45.1)
Cash flow hedge reserve	(0.3)	–
Goodwill and other intangible assets net of attributable deferred tax	5.3	5.5
Foreseeable dividend	7.7	8.2
Total equity	**302.4**	**267.6**

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.

42. Classification of financial assets and liabilities

Group

	Total carrying amount £million 2021	**Fair value £million 2021**	**Fair value hierarchy level 2021**	Total carrying amount £million 2020	Fair value £million 2020	Fair value hierarchy level 2020
Cash and balances at central banks	235.7	235.7	Level 1	181.5	181.5	Level 1
Loans and advances to banks	50.3	50.3	Level 2	63.3	63.3	Level 2
Debt securities	25.0	25.0	Level 1	–	–	–
Loans and advances to customers	2,530.6	2,568.6	Level 3	2,358.9	2,420.6	Level 3
Derivative financial instruments	3.8	3.8	Level 2	4.8	4.8	Level 2
Assets held for sale	1.3	1.3	Level 3	–	–	–
Other financial assets	0.4	0.4	Level 3	3.3	3.3	Level 3
	2,847.1	**2,885.1**		**2,611.8**	**2,673.5**	

Due to banks	390.8	390.8	Level 2	276.4	276.4	Level 2
Deposits from customers	2,103.2	2,106.9	Level 3	1,992.5	2,010.2	Level 3
Derivative financial instruments	6.2	6.2	Level 2	6.1	6.1	Level 2
Liabilities held for sale	2.0	2.0	Level 3	–	–	–
Lease liabilities	3.1	3.1	Level 3	3.9	3.9	Level 3
Other financial liabilities	18.3	18.3	Level 3	46.2	46.2	Level 3
Subordinated liabilities	50.9	50.7	Level 2	50.8	50.6	Level 2
	2,574.5	**2,578.0**		**2,375.9**	**2,393.4**	

All financial assets and liabilities at 31 December 2021 and 31 December 2020 were carried at amortised cost, except for derivative financial instruments which are at fair value through profit and loss. Therefore, for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

Company

	Total carrying amount £million 2021	**Fair value £million 2021**	**Fair value hierarchy level 2021**	Total carrying amount £million 2020	Fair value £million 2020	Fair value hierarchy level 2020
At 31 December 2021						
Cash and balances at central banks	235.7	235.7	Level 1	181.5	181.5	Level 1
Loans and advances to banks	47.4	47.4	Level 2	61.7	61.7	Level 2
Debt securities	25.0	25.0	Level 1	–	–	–
Loans and advances to customers	2,450.3	2,487.1	Level 3	2,269.8	2,331.3	Level 3
Derivative financial instruments	3.8	3.8	Level 2	4.8	4.8	Level 2
Other financial assets	89.6	89.6	Level 3	93.2	93.2	Level 3
	2,851.8	**2,888.6**		**2,611.0**	**2,672.5**	
Due to banks	390.8	390.8	Level 2	276.4	276.4	Level 2
Deposits from customers	2,103.2	2,106.9	Level 3	1,992.5	2,010.2	Level 3
Derivative financial instruments	6.2	6.2	Level 2	6.1	6.1	Level 2
Liabilities associated with assets held for sale	2.0	2.0	Level 3	–	–	–
Lease liabilities	2.3	2.3	Level 3	2.9	2.9	Level 3
Other financial liabilities	32.8	32.8	Level 3	53.7	53.7	Level 3
Subordinated liabilities	50.9	50.7	Level 2	50.8	50.6	Level 2
	2,588.2	**2,591.7**		**2,382.4**	**2,399.9**	

All financial assets and liabilities at 31 December 2021 and 31 December 2020 were carried at amortised cost except for derivative financial instruments which are valued at fair value through profit and loss. Therefore, for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Fair value classification

The tables above include the fair values and fair value hierarchies of the Group and Company's financial assets and liabilities. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Loans and advances to customers and Deposits from customers

The fair value of the financial assets and liabilities, is calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date. For loans and advances to customers, the same assumptions regarding the risk of default were applied as those used to derive the carrying value.

Debt securities

The fair value of debt securities is based on the quoted price where available.

Derivative financial instruments

The fair value of derivative financial instruments is calculated based on the present value of the expected future cash flows of the instruments. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

Subordinated liabilities

The fair value subordinated liabilities is calculated based on quoted market prices where available, or where an active market quote is not available, a proxy is used from similar issuances.

For all remaining financial assets and liabilities, the fair value of financial assets and liabilities is calculated to be equivalent to their carrying value, due to their short maturity dates.

43. Related party transactions

Related parties of the Company and Group include subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

A number of banking transactions were entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits as set out below. The tables that follow relate to key management personnel, members of their close family and related entities as described above:

	2021 £million	2020 £million
Loans		
Loans outstanding at 1 January	0.4	4.4
Change in related parties during the year	(0.4)	(4.0)
Loans outstanding at 31 December	**–**	**0.4**
Deposits		
Deposits outstanding at 1 January	0.2	0.2
Change in related parties during the year	(0.2)	–
Deposits outstanding at 31 December	**–**	**0.2**

The loan outstanding in the prior year above comprised a £0.4 million advance as part of a refinanced £0.4 million facility agreed with a company in which a former member of the Key Management Personnel of the Company holds 50% of the voting shares, which was secured by property and personal guarantees.

This transaction was agreed by the Group's Real Estate Finance business and arose during the normal course of business, was subject to the usual Board governance and Credit Committee approval procedures and was on substantially the same terms as for comparable transactions with third parties.

The Company undertook the following transactions with other companies in the Secure Trust Bank Group:

	2021 £million	2020 £million
Interest income and similar income	(21.0)	(18.8)
Gain on sale of defaulted debt	0.1	0.2
Operating expenses	(0.7)	(0.8)
Investment income	4.8	5.7
	(16.8)	**(13.7)**
Equity contribution to subsidiaries re. share-based payments	**0.2**	**–**

The loans and advances with, and amounts receivable and payable to, related companies are noted below:

	Company 2021 £million	Company 2020 £million
Amounts receivable from subsidiary undertakings	89.3	86.7
Amounts due to subsidiary undertakings	(17.9)	(12.6)
	71.4	**74.1**

All amounts above are repayable on demand and the Company charged interest at a variable rate on amounts outstanding.

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Directors' Remuneration Report beginning on page 76.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' Remuneration Report beginning on page 76. Details of the Directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' report.

44. Immediate parent company and ultimate controlling party

The Company has had no immediate parent company or ultimate controlling party.

45. Country-by-Country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of CRD V. The requirements aim to give increased transparency regarding the activities of institutions.

The Country-by-Country Information is set out below:

Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
31 December 2021						
Secure Trust Bank PLC	Banking services	UK	194.3	973	56.0	12.6

Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Restated Profit before tax £million	Tax paid on profit £million
31 December 2020						
Secure Trust Bank PLC	Banking services	UK	208.5	1,021	19.1	4.8

46. Post balance sheet events

46.1 Acquisition of AppToPay Limited

On 25 November 2021, the Company announced its intention to acquire 100% of the ordinary share capital of AppToPay Limited, the owner of a proprietary technology platform. The acquisition is complementary to the Group's existing retail finance proposition and supports its planned entry into the Digital Buy Now Pay Later market. The acquisition is subject to regulatory approval and the AppToPay management team will continue in the business.

The cash consideration for the company of £1.0 million will be paid on completion. In addition to this, an earn-out of a maximum of £0.2 million is payable in 2023, subject to certain performance conditions. The net identifiable assets of AppToPay Limited, prior to fair value adjustments, comprises solely of intangible assets.

The acquisition of AppToPay Limited will be accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it will be also necessary to identify and recognise certain assets and liabilities which are not included on the acquiree's balance sheet, for example intangible assets. The valuation of these assets and liabilities will be performed on completion of the acquisition and reported in the June 2022 Interim Report.

46.2 Sale of loan book and associated liabilities to Rentsmart Limited

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, both in STB Leasing Limited, were in the process of being sold to its partner, RentSmart Limited. These assets and liabilities were sold for their carrying amount on 31 January 2022. Further details are set out in Note 19.

46.3 Sale of Debt Managers (Services) Limited loan portfolio

Following a strategic review, the Board has decided to exit the debt purchase market and, on 11 March 2022 announced that it had agreed to sell Debt Managers (Services) Limited's portfolio of loans to Intrum UK Finance Limited. The value of the portfolio as at 30 September 2021 was £84.7 million and the value of the consideration for the portfolio as at 30 September 2021 was £94.0 million. The Group estimates that in 2022 the sale will (taking into account anticipated market exit costs) generate a net profit before tax benefit and the release of around £72 million of risk weighted assets on completion. Completion is subject to approvals from originators of the loans which is expected to complete by June 2022.

All of the above items are non-adjusting events.

Five year summary (unaudited)

	2021 £million	Restated 2020 £million	Restated* 2019 £million	2018 £million	2017 £million
Profit for the year					
Interest and similar income	180.0	192.5	191.4	169.2	149.3
Interest expense and similar charges	(29.2)	(41.6)	(46.0)	(35.5)	(26.7)
Net interest income	**150.8**	**150.9**	**145.4**	**133.7**	**122.6**
Net fee and commission income	13.7	15.2	20.1	17.9	14.9
Operating income	**164.5**	**166.1**	**165.5**	**151.6**	**137.5**
Net impairment charge on loans and advances to customers	(4.5)	(51.3)	(32.6)	(32.4)	(36.9)

Gains/(losses) on modification of financial assets	1.5	(3.1)	–	–	–
Loss on disposal of loan books	(1.4)	–	–	–	–
Losses from derivatives and hedge accounting	(0.1)	–	–	–	–
Profit on sale of equity instruments available-for-sale	–	–	–	–	0.3
Operating expenses	(104.0)	(92.6)	(96.8)	(84.5)	(71.6)
Profit before income tax	**56.0**	**19.1**	**36.1**	**34.7**	**29.3**

	2021 £million	2020 £million	2019 £million	2018 £million	2017 £million
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)					
Basic earnings per ordinary share	244.7	82.7	168.3	153.2	128.8

	2021 £million	2020 Restated £million	2019 Restated £million	2018 £million	2017 £million
Financial position					
Cash and balances at central banks	235.7	181.5	105.8	169.7	226.1
Loans and advances to banks	50.3	63.3	48.4	44.8	34.3
Debt securities	25.0	–	25.0	149.7	5.0
Loans and advances to customers	2,530.6	2,358.9	2,450.1	2,028.9	1,598.3
Fair value adjustment for portfolio hedged risk	(3.5)	5.7	(0.9)	–	–
Derivative financial instruments	3.8	4.8	0.9	–	–
Other assets	44.0	47.0	51.4	51.2	27.9
Total assets	**2,885.9**	**2,661.2**	**2,680.7**	**2,444.3**	**1,891.6**
Due to banks	390.8	276.4	308.5	263.5	113.0
Deposits from customers	2,103.2	1,992.5	2,020.3	1,847.7	1,483.2
Fair value adjustment for portfolio hedged risk	(5.3)	4.7	(0.7)	–	–
Derivative financial instruments	6.2	6.1	0.6	–	–
Subordinated liabilities	50.9	50.8	50.6	50.4	–
Other liabilities	37.7	63.1	49.4	45.6	46.3
Total shareholders' equity	302.4	267.6	252.0	237.1	249.1
Total liabilities and shareholders' equity	**2,885.9**	**2,661.2**	**2,680.7**	**2,444.3**	**1,891.6**

*The 2019 income statement has been restated to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Operating expenses have been increased by £2.6 million.

Appendix to the Annual Report

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 13 months:

	2021 £million	2020 £million
Interest income and similar income	180.0	192.5
Interest expense and similar charges	(29.2)	(41.6)
Net interest income	150.8	150.9
Opening loan book	2,358.9	2,450.1
Closing loan book (including loans included in assets held for sale of £1.3 million)	2,531.9	2,358.9

Average loan book	2,374.0	2,406.0
Net interest margin	**6.4%**	**6.3%**

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

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

Annual growth rate is calculated as the annualised growth in 'core' loans and advances to customers:

	2021 £million	2020 £million
Loans and advances to customers	2,530.6	2,358.9
Less non-core loan portfolios:		
Asset Finance (sold during 2021)	–	(10.4)
Consumer Mortgages (sold during 2021)	–	(77.7)
Other	–	(4.1)
Total non-core portfolios	–	(92.2)
Core loans and advances to customers	**2,530.6**	**2,266.7**
	11.6%	**(1.8)%**

(iii) Return on average equity

Annualised return on average equity is calculated as the profit after tax for the previous 12 months as a percentage of average equity.

Average equity is calculated as the average of the monthly equity balances.

	2021 £million	Restated 2020 £million
Profit after tax	45.6	15.4
Opening equity	267.6	252.0
Closing equity	302.4	267.6
Average equity	287.0	261.1
Return on average equity	**15.9%**	**5.9%**

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:

	2021 £million	Restated 2020 £million
Operating expenses	104.0	92.6
Operating income	164.5	166.1
Cost to income ratio	**63.2%**	**55.7%**

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:

	2021 £million	2020 £million
Net impairment charge on loans and advances to customers	4.5	51.3
(Gains)/losses on modification of financial assets	(1.5)	3.1
Total loan impairment charges	3.0	54.4
Average loan book	2,374.0	2,406.0
Cost of risk	**0.1%**	**2.3%**

The cost of risk measures how effective the Group has been in managing its impairment charge.

(vi) Cost of funds

Cost of funds is calculated as the interest expense (excluding interest on liability swaps) for the financial period expressed as a percentage of average loan book

	2021 £million	2020 £million
Interest expense and similar charges	29.2	41.6
Interest on liability swaps	1.8	1.9
	31.0	43.5
Average loan book	2,374.0	2,406.0
Cost of funds	**1.3%**	**1.8%**

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:

	2021 £million	2020 £million
Deposits from customers	2,103.2	1,992.5
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)	390.1	273.1
Tier 2 capital (including accrued interest)	50.9	50.8
Equity	302.4	267.6
	2,846.6	2,584.0
Loan book (including loans included in assets held for sale of £1.3 million)	2,531.9	2,358.9
Funding ratio	**112.4%**	**109.5%**

The funding ratio measure the Group's liquidity.