PRESS RELEASE

Thursday 30 March 2023
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SECURE TRUST BANK PLC

Preliminary Results for the 12 months to 31 December 2022

Significant Strategic Progress and Growth Momentum

Highlights[1]

- **28.1% growth in profit before tax pre impairments to £76.1 million**
- **Total profit before tax of £44.0 million (2021: £56.0 million)**
- **19.1% growth in lending balances to £2.9 billion**
- **500 basis point improvement in cost income ratio to 55.0%, with further progress expected in FY23**
- **Arrears remain stable at low levels in consumer divisions**
- **Healthy regulatory capital base strengthened further following £90 million Tier 2 bond issuance**

Secure Trust Bank PLC ("STB" or the "Group"), a leading specialist lender, is pleased to announce its financial results for the year ended 31 December 2022, delivering 28.1% growth in continuing[1] profit before tax pre impairments of £76.1 million (2021: £59.4 million). This significant increase has been delivered through a combination of strong loan book growth, careful management of net interest margin and effective cost management.

A strong set of results demonstrating the potential of the Group's business model. The Group has been agile and responsive to changing market conditions, achieving a 19.1% increase in lending balances1 while restricting total operating cost growth to 4.3%. New business lending of £2.1 billion (2021: £1.4 billion) was at record levels, with the Group proactively tightening lending criteria through the year. This robust performance and our continued focus on managing risk exposures appropriately gives the Group confidence in delivery of our medium-term targets.

The Group has continued to execute on its strategic priorities, including the simplification of the business and focus on its existing attractive market segments. These twin areas of focus have delivered improved operational efficiency and strong growth in operating income. The Group delivered annualised operational cost improvements of £2.0 million in 2022 with further initiatives anticipated in the year ahead. The combination of growth and tight cost control resulted in a 500 basis points improvement in the Group's cost income ratio to 55.0% (2021: 60.0%).

Including the profit on sale of the DMS loan portfolio of £6.1 million[2] total profit before tax was £44.0 million. As previously communicated, the Group's profit before tax benefited from impairment releases in 2021. Impairment charges normalised in 2022 and as a result, continuing[1] pre-tax profit reduced to £39.0 million (2021: £55.9 million).

The Group announced on 28 February 2023 that it had raised £90.0 million of new Tier 2 Subordinated Notes and repurchased £25.0 million of existing Notes, with the remaining £25.0 million of existing notes repurchased on 20 March 2023. With an enlarged regulatory capital base, the Group is strongly positioned to deliver further loan book growth and scale the business.

The Group will recommend a final dividend of 29.1 pence per share, making a total 2022 dividend of 45.1 pence per share, meeting the Group commitment to return 25% of earnings to shareholders.

Financial summary

	2022	2021	Change %
Total profit before tax	**£44.0m**	**£56.0m**	**(21.4)**
Continuing profit before tax	**£39.0m**	**£55.9m**	**(30.2)**
Continuing profit before tax and pre impairments	**£76.1m**	**£59.4m**	**28.1**
Total basic earnings per share	180.5 pence	244.7 pence	(26.2)
Continuing basic earnings per share	158.5 pence	244.1 pence	(35.1)
Ordinary dividend per share	**45.1 pence**	**61.1 pence**	**(26.2)**
Total return on average equity	10.7%	15.9%	(5.2)pp
Cost of funds	1.9%	1.2%	0.7pp
Net interest margin	5.7%	6.1%	(0.4)pp

Cost of risk	1.4%	0.2%	1.2pp
Cost income ratio	55.0%	60.0%	(5.0)pp
Total lending balances[3]	£2,919.5m	£2,531.9m	15.3
Continuing lending balances	£2,919.5m	£2,451.0m	19.1
Customer deposits	£2,514.6m	£2,103.2m	19.6
Common Equity Tier 1 ("CET 1") ratio	**14.0%**	**14.5%**	**(0.5)pp**
Total capital ratio	**16.2%**	**16.8%**	**(0.6)pp**

Other highlights

- New business lending volumes increased by 43.5% to £2,067.8 million (2021: £1,441.1 million).
- Consumer Finance lending balances grew by 38.9% to £1,427.6 million (2021: £1,028.1 million), driven primarily by growth in lower risk, prime interest free products through strong retailer partnerships in Retail Finance and the successful launch of new products within Vehicle Finance in 2021.
- Retail Finance market share increased to 11.4%[4] (2021: 8.4%) of the retail store and online credit market.
- Vehicle Finance market share[4] increased to 1.1%[5] (2021: 0.7%) as new product launches build volumes.
- Business Finance lending balances grew by 4.8% to £1,491.9 million (2021: £1,422.9 million), driven by higher asset-backed lending utilisation levels in Commercial Finance. Real Estate Finance had positive lending growth in H1 2022, however, overall growth for the year was 0.5% due to interest rate volatility experienced in H2 2022 impacting demand.
- Customer deposits grew to £2,514.6 million (2021: £2,103.2 million) with a move towards fixed term funds. Bank of England Base Rate increases were passed on to managed rate products, resulting in a cost of funds of 1.9% (2021: 1.2%). Our deposit base is made up of retail customers and 95% of total deposits are fully covered by FSCS.
- Implementation of a cost efficiency programme, including digitalisation, property portfolio consolidation, operating model changes and sourcing and supplier management reviews which delivered annualised savings of £2.0 million in 2022.
- Enhanced customer experience in Retail Finance through open banking technology implementation.
- Customer satisfaction remains high, as measured by Feefo: 4.6 stars (2021: 4.6 stars)
- Listed as an official UK Best Workplace™ for the fourth year running, ranking 29 out of 67 companies.
- New Environmental, Social and Governance ("ESG") strategy launched formalising STB's existing initiatives, and creating additional priorities across environment, social and governance.

Outlook

The Group has made good progress on its strategy of focusing on its core markets where it has depth of expertise and opportunity to grow, in enhancing customer experience and in leveraging its distribution network. The Group continues to invest in new products and consider strategic acquisitions to complement our four core businesses. With a diversified and resilient business model, agility and strong capital and liquidity positions the Group is well placed to weather uncertain market conditions and deliver its medium-term targets and sustainable long-term growth.

The Group continues to trade in line with management expectations. The strong loan book growth delivered by Retail Finance during 2022 has continued so far in 2023 and growth opportunities remain significant. The strategic repositioning of both Retail Finance and Vehicle Finance in recent years has meant credit quality remains good, with arrears rates remaining at low levels to date. The pipeline of new business opportunities in Real Estate Finance has started to increase again. The Group will deliver further cost efficiency measures in 2023, building on the excellent cost control achieved in 2022. STB is confident of delivering another strong performance in FY 2023, despite the uncertain economic and market conditions.

Lord Forsyth, Chairman, said:

"With strong loan book growth, active management of net interest margin in a rising rate environment and excellent cost control the team delivered impressive results and gained market share. With a strengthened capital position, I remain confident that the Group is well placed to meet its strategic objectives and to face the future with confidence."

David McCreadie, Chief Executive, said:

"I am delighted with our positive operational performance and strong cost discipline during the year. The Group has grown lending balances prudently, having tightened credit criteria through the year, and has delivered significant operational efficiency improvements. Our diversified business model allows us to be flexible and agile, a key asset during this period of economic uncertainty. Our strategic pillars of grow, sustain and care are fully embedded as we look to optimise for growth in the years ahead.

"With significant growth potential in our attractive, specialist lending markets we are well placed to realise our ambitions. We will continue to consider potential merger and acquisition opportunities which can complement our core markets. We remain confident about the future as we make further progress towards our medium-term targets."

Medium-term targets	2022	Target
Net interest margin	5.7%	>5.5%
Cost income ratio	55.0%	<50%
Total return on average equity	10.7%	14% - 16%
Common Equity Tier 1 ("CET 1") ratio	14.0%	>12.0%
Compound Annual Growth Rate ("CAGR")[6]	15.6%	>15.0%

Footnotes:
1. Performance metrics presented below relate to continuing operations unless otherwise stated. For further details see the Appendix to the Annual Report and Accounts.
2. Includes selling costs of £1.2 million, and £2.8 million of associated costs to wind down the Debt Management business. See Note 10 to the Financial Statements for further details.
3. 31 December 2021 includes £1.3 million of assets held for sale.
4. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2022: FLA total and Retail Finance new business of £9,844 million (2021: £9,146 million) and £1,124.3 million (2021: £771.5 million) respectively.
5. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2022, FLA total and Vehicle Finance total of £23,472 million (2021: £19,838 million) and £262.9 million (2021: £134.3 million) respectively.
6. CAGR is the annual growth rate calculated as the annualised compound growth in continuing loans and advances to customers since 31 December 2020.

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, 30 March 2023 at 10.00am, which can be accessed by registering at: https://stream.brrmedia.co.uk/broadcast/63b7e8bdd908a85f58e0d6ae

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

Dial +44 (0)330 551 0200
Confirmation code: Secure

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This announcement contains inside information This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

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.

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 2022 Annual Report and Accounts on pages 182 to 184.

Key performance indicators have been presented in the Financial review on a continuing basis, unless otherwise stated.

Continuing businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only. Discontinued businesses include the Debt Management, Consumer Mortgages and Asset Finance businesses. As a result, certain ratios have been restated on a 'continuing' basis. Further details on discontinued businesses can be found in Note 10 to the Financial Statements.

Further explanation of the financial key performance indicators is discussed in the narrative of the Financial review on pages 12 to 17 of the 2022 Annual Report and Accounts, 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 (pages 37 to 49 of the 2022 Annual Report and Accounts) and Climate-related financial disclosures (pages 50 to 59 of the 2022 Annual Report and Accounts) sections.

The Directors' Remuneration Report, starting on page 80 of the 2022 Annual Report and Accounts, sets out how executive pay is linked to the assessment of key financial and non-financial performance indicators.

	2022	2021	2020
Grow			
Loans and advances to customers (£million)	**2,919.5**	2,451.0	2,184.9
Why we measure this: Shows the growth in the Group's lending balances, which generate income			
Compound annual growth rate from December 2020 (%)	**15.6**	12.2	N/A
Why we measure this: Shows the rate of growth in the Group's lending balances			
Core net interest margin (%)	**5.7**	6.1	6.1
Why we measure this: Shows the interest margin earned on the Group's lending balances, net of funding costs			
Total return on average equity (%)	**10.7**	15.9	5.9
Why we measure this: Measures the Group's ability to generate profit from the equity available to it			
Sustain			
Cost to income ratio (%)	**55.0**	60.0	56.6
Why we measure this: Measures how efficiently the Group uses its cost base to produce income			
Common Equity Tier 1 ('CET 1') ratio (%)	**14.0**	14.5	14.0
Why we measure this: The CET 1 ratio demonstrates the Group's capital strength			
Cost of risk (%)	**1.4**	0.2	2.0
Why we measure this: Measures how effectively the Group manages the credit risk of its lending portfolios			
Care			
Customer Feefo ratings (Stars) (mark out of 5 based on star rating from 990 reviews, 2021:937, 2020:1,466)	**4.6**	4.6	4.7
Why we measure this: Indicator of customer satisfaction with the Group's products and services			
Employee survey trust index score (%) (based on all employee survey)	**85.0**	80.0	82.0
Why we measure this: Indicator of employee engagement and satisfaction			
Environmental intensity indicator (total Scope 1, 2 and certain Scope 3 emissions per £million Group operating income -see page 56 of the Annual Report and Accounts for further details)	**2.8**	3.0	3.1
Why we measure this: Indicator of the Group's impact on the environment			

Chairman's statement

New lending in our businesses reached record levels despite us tightening lending criteria and improving the credit quality of new business. The simplification of the Group to focus on markets where we have specialist skills was completed with the sale of the Debt Managers (Services) Limited's loan portfolio.

Of course, 2022 profits were always going to be impacted by the normalisation of impairment charges. However, strong loan book growth, active management of net interest margin in a rising rate environment and excellent cost control have delivered an impressive total profit before tax of £44.0 million (2021: £56.0 million) and continuing profit before tax of £39.0 million (2021: £55.9 million). As a result, the Board are proposing a final dividend for 2022 of 29.1 pence. This brings the total dividend for the year to 45.1 pence and meets our commitment to return 25% of earnings to shareholders.

A new environmental, social and governance ('ESG') policy has been approved by the Board to meet our climate change targets and ESG has been integrated into our overall strategy.

I am particularly proud that we have been ranked 25 among 79 Large organisations named as the UK's Best Workplaces™ for Wellbeing in 2023. In December we were awarded the Silver Talent Inclusion and Diversity Evaluation Mark for the second year running by the Employers Network for Equality and Inclusion.

I am pleased that we were successful in issuing £90.0 million of Tier 2 capital in February 2023. This new capital enables refinancing of the 2018 Tier 2 capital, and supports our growth ambitions. Further information can be found in Note 47 to the Financial Statements.

These are challenging times and our success could not have been achieved without a first-class leadership team and the dedication and creativity of our employees. On behalf of the Board I would like to express our thanks and appreciation to all of them.

Thanks are due to the Board too. An external effectiveness evaluation concluded they have the necessary skills and are carrying out their duties well. Lucy Neville-Rolfe stepped down in September to join the Government and I am most grateful for her contribution over the last four years.

We are all acutely aware of the headwinds facing the UK economy and the consequences for consumers and businesses. The energy bills crisis, high rates of inflation, tightened monetary policy, rising interest rates, political turmoil and the heart-breaking conflict in Ukraine have created significant uncertainty. However, our business model is robust and demonstrated throughout the COVID-19 pandemic that it is sufficiently agile to adapt to changing economic conditions. We are active in exploring merger and acquisition opportunities that could complement our businesses and believe that the Group is well placed to meet its strategic objectives and to face the future with confidence.

Lord Forsyth
Chairman

Chief Executive's statement

We delivered a strong performance in 2022, with significant growth in continuing profit before tax pre impairments, record new business and loan book growth, and disciplined cost control. We continued to provide customers with excellent service and our capital position remains very healthy.

A key strategic objective has been to simplify our business model. We delivered another important part of this strategy in March 2022, with the announcement of our exit from the debt purchase market. The sale of Debt Managers (Services) Limited's ('DMS') loan portfolio was completed in May 2022, with the migration of the portfolio completed in November 2022. The sale generated a profit of £6.1 million[1], which includes selling costs and some closure costs. We expect to incur further costs over the next couple of years as we fully wind down the business. I would like to extend my appreciation and thanks to all colleagues who supported the transfer of the loan portfolio to the purchaser. By exiting this loss-making business, we reset our medium-term market guidance for net interest margin to be >5.5% and cost income ratio to be <50%. Given the change in Group structure following the disposal of non-core assets, all commentary in my report refers to the continuing operations of the Group unless otherwise stated. Further information on discontinued operations can be found in Note 10 to the Financial Statements.

A second area of strategic focus has been on capturing a greater share of prime customers in our Consumer Finance businesses. Within Retail Finance, our loan book has shifted more towards low-risk interest free credit propositions and at the year-end arrears were at historically low levels. Within Vehicle Finance, we have had good success with the Personal Contract Purchase and Hire Purchase products that were launched for prime customers during 2021, and which combined accounted for 24.2% (2021: 5.3%) of the Vehicle Finance loan book at 31 December 2022. At year-end, Vehicle Finance arrears were in line with pre-pandemic levels.

Loan book growth was particularly strong in the first half of 2022 as we benefited from the recovery post pandemic and from our strategic move in recent years to expand our addressable market and our distribution. We took proactive steps in the second half of the year, as the economic outlook deteriorated, to manage effectively the risk for both our business and our customers which had the desired effect of slowing the rate of loan book growth.

Medium-term targets	
Total return on average equity	14-16%
Cost income ratio	<50%
Common equity tier 1 ratio	>12%

Net interest margin	>5.5%
Compound annual growth rate of the lending book	15%+

We delivered record new business lending across our Consumer Finance and Business Finance businesses, achieving volumes of £2,067.8 million (2021: £1,441.1 million). We achieved 11.4% (2021: 8.4%)[2] market share in new business lending for Retail Finance and 1.1% (2021: 0.7%)[3] for Vehicle Finance. This contributed to net lending growth of 19.1% (2021: 12.2%) and drove a significant increase in operating income.

The higher interest rate backdrop has contributed to higher funding costs for new and existing deposits as we re-priced managed rate savings products several times in the year, offering attractive rates to customers whilst maintaining a sufficient level of funding. The savings market remains competitive, and our product mix shifted towards fixed-term products, as customer behaviour evolved as interest rates rose. Variable rate lending portfolios within our Business Finance businesses reflected changes in Base Rate immediately. Whereas, for our fixed rate lending portfolios, funding cost increases were passed on through new business price increases, which take a short time to crystallise into pricing and the income statement, as pipeline cases complete and introducer arrangements are reset. Combined, this generated a net interest margin of 5.7% (2021: 6.1%).

I am pleased with our management of costs during a period of high inflation. We have worked hard to identify opportunities to remove and avoid costs. The delivery of our strategic priority to simplify the Group has allowed us to improve our operational efficiency. This enabled us to reduce our cost income ratio by 500 basis points to 55.0% (2021: 60.0%).

The combination of strong loan book growth, well managed net interest margin and excellent cost control delivered significant growth in profit before tax pre impairments of £76.1 million, an increase of £16.7 million (2021: £59.4 million). We saw the cost of risk return to pre-pandemic levels to 1.4% (2022: 0.2%) and this resulted in profit before tax of £39.0 million (2021: £55.9 million). Total profit before tax was £44.0 million (2021: £56.0 million).

In February 2023 we issued £90.0 million of subordinated debt, which qualifies as Tier 2 regulatory capital. At the same time we repurchased £25.0 million of our existing 2018 Tier 2 subordinated debt, and we repurchased the remaining £25.0 million in March 2023. We are pleased with the support we have received from new and existing investors for the new issuance. With an enlarged and optimised capital base we are strongly positioned to continue to help consumers and businesses to fulfil their ambitions.

Vision and purpose

We shared our refreshed strategy at the end of 2021, where we announced a renewed focus on our core markets where we have depth of expertise and specialist skills, through our three strategic pillars of grow, sustain and care. This is now fully embedded across our organisation as we look to optimise for growth and make further progress towards our medium-term targets. As noted above we have further simplified the Group with the sale of the DMS loan portfolio. We have made progress against our strategic objectives, and medium-term targets, notably on lending book growth and cost income ratio. Further details are presented on page 11 of the 2022 Annual Report and Accounts. This strongly supports our vision to become the UK's most trusted specialist lender.

As we look to the future, in May 2022 we completed the purchase of AppToPay Ltd, which will provide the proprietary technology platform to enable the Retail Finance business to enter the digital 'Buy Now Pay Later' market with a fully regulated product in 2023. As with all our lending decisions we will undertake affordability and credit assessments. We are excited about entering this new market, but we will do this cautiously during these uncertain times. We will also continue to consider potential merger and acquisition opportunities that can complement and leverage our businesses and take advantage of our existing well-established distribution networks of retailers, dealerships and intermediary relationships.

Helping our customers

We understand these are challenging times for many of our customers, with the high level of inflation and the cost of living crisis. Helping our customers achieve their ambitions requires us to support them through these uncertain times. We do this through our digital channels and contact centres for the Consumer Finance businesses and relationship managers for the Business Finance businesses. We have long established relationships with more than 1,500 retailers as part of the Retail Finance business, and now work with over 560 dealers, brokers or internet introducers in the Vehicle Finance business. We continue to work to maintain our effective working relationships, using our expertise to make sure our products continue to meet the needs of our customers.

We routinely review the customer experience across our businesses, particularly enhancing our digital offering and customer journey. In a key achievement towards the end of 2022, we partnered with Mastercard to launch a new payment method within the Retail Finance business. This uses open banking technology, offering seamless and fast account to account payments made via a customer's current account banking app, without the need for customers to provide their debit card details. The uptake has been positive, with more customers than expected using this easy option to make one off and early repayments. We look forward to embracing this development and technology across other businesses during 2023. We have also launched a project to introduce a mobile app for our Savings products in 2023.

We were recognised for several awards for our customer service and products during the year. Most notably, we achieved the Customer Service Excellence Standard for the tenth year running, as well as awards from Feefo and Moneyfacts. Feefo awarded us the Platinum Trusted Service award for Vehicle Finance and Retail Finance. This is awarded to those companies who have achieved the Gold service award for three consecutive years, and recognises our consistent support for customers during a challenging period. Feefo scores continue to rate highly at 4.6 stars out of 5 (2021: 4.6 stars out of 5). In addition, Moneyfacts awarded us 'Best Notice Account Provider'. We also achieved 'Highly Commended' recognition in four categories at the Savings Champion Awards in December 2022.

Operational efficiency

We launched a programme as part of the refreshed strategy in 2021, which sought to look at where we can operate more effectively across the Group. Alongside the improvement in payment experience noted above, we have looked at internal technology, digitalisation, operational processes and sourcing and supplier management to enable us to operate as efficiently as possible across all our operational sites, and this programme has delivered tangible benefits. Alongside this, we have listened to our Savings customers and considered the environmental impact of customer correspondence. This has enabled us to transition 89% of our customers to use internet banking to access their statements, and all certificates of interest are now provided via this method.

Having adopted a hybrid working model, we then reviewed our property portfolio considering the new ways of working. As a consequence, in the second half of 2022, we reduced from two sites to one at our Retail Finance site in Cardiff, and plan to do the same at the head office site in Solihull during the first half of 2023.

As we have simplified the Group and reduced the number of businesses we are in, we have taken the opportunity to review leadership structures, roles and spans of control, and delivered further cost savings.

Our people

Last year I announced several new senior appointments. I am pleased to say the team is working well together and focused on delivering our strategic objectives. Having simplified the business further, and due to a number of retirements, five members of the senior management team left the Group in 2022. I would like to thank those colleagues for their support and wish them well for the future. Julian Hartley joined the Executive Committee in October 2022 as Managing Director, Vehicle Finance and Savings, further broadening the experience of the leadership team. Geoff Ray, Managing Director, Real Estate Finance joined our Executive Committee in January 2023. Geoff has been with us for over six years.

We had some wonderful achievements during the year. In 2022, we were listed as an official UK's Best Workplaces™ for the fourth year running. We were ranked 29 out of 67 companies and we have now been awarded a trio of accolades from Great Place to Work®: UK's Best Workplaces™, UK's Best Workplaces™ for Women and more recently for UK's Best Workplaces™ for Wellbeing.

Our Your Voice employee survey showed us that 89% (2021: 80%) of those who took part in the survey are proud to work here, and we also achieved a Trust Index of 85% (2021: 80%), the highest we have achieved in an annual survey since we started partnering with Great Place to Work® and on par with the UK's Best Workplaces™. I am also pleased to say we have signed up to HM Treasury's Women in Finance Charter which underlines our commitment to equality, diversity and inclusion.

We understand that as well as our customers, our colleagues may be facing financial challenges. We took the decision to award a one-off payment in October 2022 to colleagues who earn £35,000 annually or less, which acknowledges the impact of the cost of living crisis on our lower level earners. We also introduced a range of resources and information on financial wellbeing for all our colleagues during the year.

We continue to support employee wellbeing and provide all employees with a 'wellbeing hour' each month, and in 2022 we established a menopause policy along with awareness sessions and provided 'everyday allyship' training for all managers.

I would like to thank all our colleagues for their continued hard work and commitment to the Group.

Outlook

2022 has been a year of significant progress for the Group. We remain vigilant, adapting to the evolving economic environment. Our size and expertise provide us the agility to do so, and our track record has demonstrated our resilience through previous periods of uncertainty. We will do this while continuing to help consumers and businesses fulfil their ambitions. We have made good progress against our medium-term objectives; I am confident that we will make further progress in the year ahead and that we are well placed for the future.

David McCreadie
Chief Executive Officer

1. Includes selling costs of £1.2 million, and £2.8 million of associated costs to wind down the Debt Management business. See Note 10 to the Financial Statements for further details.
2. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2022: FLA total and Retail Finance new business of £9,844 million (2021: £9,146 million) and £1,124.3 million (2021: £771.5 million) respectively.
3. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2022, FLA total and Vehicle Finance total of £23,472 million (2021: £19,838 million) and £262.9 million (2021: £134.3 million) respectively.

Strategic priorities

Grow

How will it be delivered

- Generate growth and attractive returns in specialist segments.
- Exploit digital capabilities to build scale and drive cost efficiency.

Progress we are making

- Consumer and Business Finance achieved a total return on average equity of 10.7%, with a 19.1% annual growth in the loan book during 2022, and compound annual growth measured from 31 December 2020 of 15.6%, reflecting growth across all our divisions.

- Traction gained with new products in Vehicle Finance through the new prime Hire Purchase and Personal Contract Purchase products which are targeted at lower credit risk customers. Prime lending now makes up 24.2% (2021: 5.3%) of the Vehicle Finance loan book.
- Delivered first phases of our cost and operational efficiency programme which comprised sourcing and supplier management, technology optimisation, organisational design and people, and reducing the Group's property footprint, resulting in a cost income ratio of 55.0% (2021: 60.0%).
- Non-core loan book of Debt Managers (Services) Limited was sold during the year; and we completed the acquisition of AppToPay Ltd, which will provide the technology for Retail Finance to enter the digital Buy Now Pay Later sector.

Targets and future priorities

- Maintain growth in the lending balance sheet, targeting in the medium-term 15%+ compound annual growth in appropriate market conditions, whilst maintaining return on average equity of 14%-16% through scaling our specialist businesses.
- Widen our distribution and addressable markets, both through new products in Consumer Finance.
- Continue the cost and operational efficiency journey to achieve a <50% cost income ratio.
- Build-out our existing digital capabilities to win share and drive scale, including transitioning legacy products to new scalable platforms.
- Exploit merger and acquisition opportunities that complement our existing businesses and leverage costs, systems and market expertise.

Sustain

How will it be delivered

- Create sustainable value through market expertise and deep customer knowledge.
- Utilise strong credit discipline, capital allocation and risk management capabilities.

Progress we are making

- Achieved a net interest margin of 5.7% (2021:6.1%), whilst operating in a challenging rising rate environment.
- Capital was deployed to support growth in loans and advances to customers, resulting in a common equity tier 1 ('CET 1') ratio of 14.0% (2021: 14.5%).
- Manage credit scorecard cut-offs and affordability thresholds to improve quality of credit in a challenging market environment.
- Ongoing investment in regulatory compliance, finance automation and financial crime prevention.

Targets and future priorities

- Continue to build on experienced specialist teams, deep expertise and knowledge to deliver sustainable value growth, ensuring a proactive approach to product design and pricing in a rising interest rate environment to maintain a net interest margin in excess of 5.5%.
- Manage the mix and risk profile of the business to maintain the CET 1 ratio above 12%.
- Drive sustainable scale and growth whilst maintaining credit discipline, risk management and optimising our capital allocation.
- Provide products relevant to the external market and customers.

Care

How will it be delivered

- Help customers with simple, clear and compelling products.
- Deliver consistently excellent customer care and swift outcomes.

Progress we are making

- Continued investment in digital platforms, allowing dealers and retailers to integrate seamlessly, as well as continued growth of online engagement and self-service, with enhancements across all our businesses.
- Strong customer satisfaction and advocacy across all areas of the Group as evidenced by independent customer review ratings, and recognition from third parties such as Feefo, Moneyfacts and Customer Service Excellence.
- Launched a Board approved environmental, social and governance ('ESG') strategy (for further details see pages 37 to 39 of the 2022 Annual Report and Accounts).
- Appointed a Board member as our Consumer Duty Champion, and approved our plan for compliance with the regulation.

Targets and future priorities

- Increase customer self-service through digital capabilities, including a Savings proposition delivering native mobile apps, biometric authentication for enhanced security and enabling confirmation of payee to improve customer safety and satisfaction.

- Develop new products, including Buy Now Pay Later and Near Prime PCP, as well as seizing opportunities presented by emerging green markets, such as the Greener Homes Scheme, and consumer and retailer demand for finance on environmentally friendly products and services.
- Embedding the ESG strategy, which includes the further progression of an Equality, Diversity and Inclusion strategy.
- Implement our Consumer Duty plan.

Financial review

Income statement

Continuing operations	**2022 £million**	2021 £million	Movement %
Interest income and similar income	203.0	163.9	23.9
Interest expense and similar charges	(50.4)	(27.7)	81.9
Net interest income	**152.6**	**136.2**	**12.0**
Fee and commission income	17.4	13.3	30.8
Fee and commission expense	(0.4)	(0.6)	(33.3)
Net fee and commission income	**17.0**	**12.7**	**33.9**
Operating income	**169.6**	**148.9**	**13.9**
Net impairment charge on loans and advances to customers	(38.2)	(5.0)	664.0
Gains on modification of financial assets	1.1	1.5	(26.7)
Fair value losses on financial instruments	(0.3)	(0.1)	200.0
Operating expenses	(93.2)	(89.4)	4.3
Profit before income tax from continuing operations	**39.0**	**55.9**	**(30.2)**
Income tax expense	(9.4)	(10.4)	(9.6)
Profit for the year from continuing operations	**29.6**	**45.5**	**(34.9)**
Discontinued operations			
Profit before income tax from discontinued operations	5.0	0.1	4,900.0
Income tax expense	(0.9)	–	–
Profit for the period from discontinued operations	**4.1**	**0.1**	**4,000.0**
Profit for the year	**33.7**	**45.6**	**(26.1)**
Basic earnings per share (pence) – Total	180.5	244.7	(26.2)
Basic earnings per share (pence) – Continuing	158.5	244.1	(35.1)

Selected key performance indicators and performance metrics			
Total profit before tax	**44.0**	56.0	(21.4)
	%	%	Percentage point movement
Net interest margin	**5.7**	6.1	(0.4)
Cost of funds	**1.9**	1.2	0.7
Cost to income ratio	**55.0**	60.0	(5.0)
Cost of risk	**1.4**	0.2	1.2
Total return on average equity	**10.7**	15.9	(5.2)
Common Equity Tier 1 (‘CET 1’) ratio	**14.0**	14.5	(0.5)
Total capital ratio	**16.2**	16.8	(0.6)

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under International Financial Reporting Standards (‘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 2022 Annual Report and Accounts on pages 182 to 184. In the narrative of this review, key performance indicators are identified by being in bold font.

Key performance indicators and performance metrics have been presented in this review on a continuing basis, unless otherwise stated.

Continuing businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only. It excludes the Debt Management, Consumer Mortgages and Asset Finance businesses. The associated loan portfolios for these businesses were sold in 2022 or 2021. As a result, certain ratios for 2021 have been restated on a 'continuing' basis. Further details of continuing businesses can be found in the Appendix to the 2022 Annual Report and Accounts on page 182. The Directors' Remuneration Report, starting on page 80 of the 2022 Annual Report and Accounts, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

2022 was another strong year for the Group, with good progress against our medium-term financial targets. The Group successfully navigated the uncertain macroeconomic environment and delivered healthy loan book growth of 19.1% (2021: 12.2%) while at the same time shifting our Consumer Finance business towards better quality prime business. Net interest margin was well managed against this lower yielding book and profit before tax pre impairments was significantly increased due to loan book growth and disciplined cost control. Our capital position remains healthy, with a CET 1 ratio of 14.0% (2021: 14.5%) well ahead of our medium-term target and our total return on average equity was 10.7% (2021: 15.9%).

The Group achieved a profit before tax of £39.0 million (2021: £55.9 million). Although this was a reduction of 30.2% on 2021 as a result of normalisation of impairment charges, profit before tax pre impairments of £76.1 million was 28.1% higher (2021: £59.4 million) reflecting record growth in net lending balances and disciplined cost management.

In addition, the Group benefited from the recognition of the profit on disposal of the Debt Managers (Services) Limited ('DMS') loan portfolio of £6.1 million in the year and at a total level the profit before tax was £44.0 million (2021: £56.0 million).

Total earnings per share decreased from 244.7 pence per share to 180.5 pence per share, and on a continuing basis earnings per share decreased from 244.1 pence per share to 158.5 pence per share. Total return on average equity decreased from 15.9% to 10.7%. Earnings per share and return on average equity performance were impacted by the normalisation of impairment charges. Detailed disclosures of earnings per ordinary share are shown in Note 11 to the Financial Statements. The components of the Group's profit are analysed in more detail in the sections below.

Operating income

The Group's operating income increased by 13.9% to £169.6 million (2021: £148.9 million).

Net interest income on the Group's lending assets continues to be the largest component of operating income. This increased by 12.0% to £152.6 million (2021: £136.2 million), driven by growth in net lending assets, with average balances increasing by 20.5% to £2,699.3 million (2021: £2,240.5 million).

The Group's **net interest margin** decreased to 5.7% (2021: 6.1%), reflecting the increased interest rate environment and the continued shift towards lower yielding but better quality prime interest free lending in Retail Finance as well as the reduction in higher yielding development loans in Real Estate Finance.

The Group's other income, which relates to net fee and commission income, increased by 33.9% to £17.0 million (2021: £12.7 million), predominately driven by an increase in overall net lending assets.

Impairment charges

Impairment charges increased to £38.2 million (2021: £5.0 million), reflecting a return to a normalised level of impairment charge following releases of COVID-19 driven provisions in 2021, and delivering a cost of risk of 1.4% (2021: 0.2%), which is comparable to pre-COVID level of 1.7% in 2019. Overall impairment provisions remain robust at £78.0 million (2021: £60.2 million) with the aggregate coverage level at 2.6% (2021: 2.4%) for continuing loan books.

During the year the Group enhanced its IFRS 9 process by engaging external economic advisors to inform our macroeconomic variables model assumption inputs. During the fourth quarter of the financial year, the Group refreshed these macroeconomic inputs incorporating a weaker UK economic outlook. The forecast economic assumptions within each IFRS 9 scenario, and the weighting applied, are set out in more detail in Note 17.1 to the Financial Statements.

The Group has applied Expert Credit Judgements ('ECJ's') where management believes the IFRS 9 modelled output is not accurately reflecting current risks in the loan portfolios. Further details of these ECJs are included in Note 17 to the Financial Statements.

Operating expenses

The Group's cost base increased in the year by 4.3% to £93.2 million (2021: £89.4 million), with an improvement in the cost to income ratio of 500 basis points to 55.0% (2021: 60.0%).

Included within costs were £1.2 million relating to non-recurring corporate projects (2021: £nil), which if excluded would have reduced the cost income ratio to 54.2%, an underlying improvement of 580bps.

The improvement in the ratio reflects both the increase in operating income and the ongoing programme of initiatives which seek to achieve more efficient and effective operational processes, including digitisation of processes, supplier and procurement reviews, organisational design and property management.

Taxation

The effective statutory tax rate has increased to 24.1% (2021: 18.6%). The effective rate for 2022 has increased above the Corporation Tax rate of 19% due to a reduction to deferred tax asset values which are linked to the expected levels of future tax relief based on enacted rates, mainly arising from changes to the banking surcharge enacted in 2022. Further details can be found in Note 9 to the Financial Statements.

Discontinued businesses

In May 2022, the Group disposed of the loan portfolio of DMS, realising an overall initial profit on disposal of £6.1 million. Further wind-down costs are expected to be incurred over the next couple of years. DMS continued to operate as a servicer for the purchaser whilst the loan book was migrated to its operating platform, which concluded in November 2022. During 2021 the Group disposed of the Asset Finance and Consumer Mortgage portfolios. Further details of the impact of these businesses are provided in Notes 3 and 10 to the Financial Statements.

Distributions to shareholders

The Board recommend the payment of a final dividend for 2022 of 29.1 pence per share which, together with the interim dividend of 16.0 pence per share, represents a total dividend for the year of 45.1 pence per share (2021: 61.1 pence per share). This is in line with the Group's policy to pay total annual dividends representing 25% of annual earnings.

Summarised balance sheet

	2022 £million	2021 £million
Assets		
Cash and Bank of England reserve account	**370.1**	235.7
Loans and advances to banks	**50.5**	50.3
Debt securities	**–**	25.0
Loans and advances to customers – continuing	**2,919.5**	2,451.0
Loans and advances to customers – discontinued [1]	**–**	80.9
Fair value adjustment for portfolio hedged risk	**(32.0)**	(3.5)
Derivative financial instruments	**34.9**	3.8
Other assets	**37.3**	42.7
	3,380.3	2,885.9
Liabilities		
Due to banks	**400.5**	390.8
Deposits from customers	**2,514.6**	2,103.2
Fair value adjustment for portfolio hedged risk	**(23.0)**	(5.3)
Derivative financial instruments	**26.7**	6.2
Tier 2 subordinated liabilities	**51.1**	50.9
Other liabilities	**83.5**	37.7
	3,053.4	2,583.5

1. 2021 includes a loan portfolio classified as Assets held for sale of £1.3 million.

New business

Loan originations in the year, being the total of new loans and advances to customers entered into during the period, increased by 43.5% to £2,067.8 million (2021: £1,441.1 million). Further detail on the divisional split of this new business can be found in the Business reviews on pages 18 to 21 of the 2022 Annual Report and Accounts.

Customer lending and deposits

Group lending assets increased by 19.1% to £2,919.5 million (2021: £2,451.0 million) primarily driven by strong growth in our Consumer Finance business.

Consumer Finance balances grew by £399.5 million or 38.9%, driven by strong demand in the first half of 2022 (21.5% growth) and a slightly slower growth rate in the second half of 2022 (17.4% growth), as the effects of us proactively tightening credit criteria due to the macroeconomic environment made an impact.

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 39 to the Financial Statements.

Customer deposits include Fixed term bonds, ISAs, Notice and Access accounts. Customer deposits increased by 19.6% to £2,514.6 million (2021: £2,103.2 million). Total funding ratio of 112.5% increased marginally (2021: 112.4%). As set out on page 17 of the 2022 Annual Report and Accounts, the mix of the deposit book has continued to change as the Group has adapted to the recent Base Rate changes, with a focus on retaining stable funds, which is reflected in the increase in fixed term bonds.

Investments and wholesale funding

As at the end of 2022 the Group held no debt securities (2021: £25.0 million). Amounts due to banks consisted primarily of drawings from the Bank of England Term Funding Scheme with additional incentives for SMEs ('TFSME') facility.

Tier 2 subordinated liabilities
Tier 2 subordinated liabilities represent two £25.0 million tranches of 6.75% Fixed Rate Callable Subordinated Notes ('2018 Notes'), including interest accrued. Further details of the note issuances are provided in Note 32. The Notes qualify as Tier 2 capital.

In February 2023 we issued £90.0 million of 10.5 year 13.0% Fixed Rate Callable Subordinated Notes, which qualify as Tier 2 regulatory capital. Our existing 2018 Notes were repurchased in February and March 2023. For further details see Note 47.1 to the Financial Statements.

Capital

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

Key factors influencing the management of capital include:

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

Capital resources
Capital resources increased over 2021 from £350.6 million to £377.3 million. This includes the proposed 2022 final dividend of £5.4 million. The increase was primarily due to CET 1 capital and was driven by retained earnings growth, offset by the impact of changes to the IFRS 9 adjustment as set out below.

Capital	**2022 £million**	2021 £million
CET 1 capital	**327.4**	303.6
Eligible Tier 2 capital	**49.9**	47.0
Total capital	**377.3**	350.6
Total risk exposure	**2,335.0**	2,087.4

Capital ratios	**2022 %**	2021 %
CET 1 ratio	**14.0%**	14.5
Total capital ratio	**16.2%**	16.8
Leverage ratio	**10.7%**	10.3

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

The Group's regulatory capital is divided into:

- CET 1 capital, which comprises shareholders' funds, after adding back the IFRS 9 transition adjustments 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 total Pillar 1 and Pillar 2A requirements.

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 UK Capital Requirements Regulation.

Excluding the impact of the IFRS 9 transitional rules, the Group's CET 1 ratio and total capital ratio would reduce to 13.6% and 15.7% 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.

	2022 £million	2021 £million
Total Capital Requirement	**210.2**	196.7
Capital conservation buffer	**58.4**	51.9

Countercyclical buffer	**23.4**	–
Total	**292.0**	248.6

The increase in lending balances through the year resulted in an increase in risk weighted assets over 2022, bringing the total risk exposure up from £2,087.4 million to £2,335.0 million.

The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The countercyclical capital buffer was 0% throughout 2021 as part of the PRA's response to COVID-19. However this increased to 1% on 13 December 2022 alongside the removal of firm specific temporary PRA buffers. The Financial Policy Committee have announced that the countercyclical capital buffer will increase to 2% on 5 July 2023. For more information please see page 24 of the 2022 Annual Report and Accounts.

Liquidity

Liquidity resources

We continued to hold significant surplus liquidity over the minimum requirements throughout 2022, managing liquidity by holding High Quality Liquid Assets ('HQLA') and utilising predominantly retail funding balances from customer deposits over 2022. Liquidity remained high at the end of the period primarily due to prefunding Real Estate Finance lending in January 2023. Total liquid assets increased to £416.9 million as at 31 December 2022 (2021: £306.7 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	**2022 £million**	2021 £million
Aaa – Aa3	**370.1**	259.0
A1 – A2	**41.6**	42.6
Unrated	**5.2**	5.1
	416.9	306.7

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

Customer deposits	**2022 %**	2021 %
Fixed term bonds	**56**	46
Notice accounts	**20**	37
ISA	**17**	12
Access accounts	**7**	5
	100	100

Management of liquidity

The Group uses various 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 the Group's average LCR was 270.1% (based on a rolling 12 month-end average).

Business review - Consumer Finance

Retail Finance

We provide quick and easy finance options at point of purchase:

- Helping consumers purchase lifestyle goods and services without having to wait.

- Supporting the growth of UK retailers by offering integrated finance options which drive sales.

	2022 **£million**	2021 £million	Movement £million	Movement %
New business	**1,124.3**	771.5	352.8	45.7
Lending balance	**1,054.5**	764.8	289.7	37.9
Total revenue	**78.0**	67.7	10.3	15.2
Impairment charge	**14.8**	5.0	9.8	196.0

What we do

- We operate a market leading online e-commerce service to retailers, providing unsecured, prime lending products to UK customers to facilitate the purchase of a wide range of consumer products including bicycles, music, furniture, outdoor/leisure, electronics, dental, jewellery, home improvements and football season tickets. These markets include a large number of household names.
- The finance products are either interest bearing or have promotional interest free credit subsidised by retailers. For interest free products, the customer pays the same price for the goods regardless of whether credit is taken or not. Taking the credit option allows the customer to spread the cost of the main purchase into more manageable monthly payments, and afford ancillary extras and add-ons, which can also be financed. Interest free attracts a large proportion of high credit quality customers.
- The online processing system allows customers to sign their credit agreements digitally, 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.

2022 performance

Strong lending growth during 2022 of 37.9% (2021: 16.2%), resulting from an increase in our market share of the retail store and online credit market[1].

- Extension of our footprint with key retail partners as well as the introduction of new retailer relationships as we leveraged our strong track record of systems integration.
- Lending and revenue growth has come mainly from interest free lending into the furniture and jewellery sectors, which attracts a prime customer at a lower credit risk but a lower net interest margin. At the end of the year, 85.1% (2021: 80.2%) of the lending book related to interest free lending.
- We have consciously focused on primer sectors in response to the deteriorating economic environment. As a result, impairment charges have benefited from the improved credit quality of the book, with cost of risk reducing to nearly half of the pre-pandemic levels.
- We anticipate further lending growth from our existing retail partners and our operational plans are focused on digitalising all key processes to improve the customer and retail partners experience.
- The acquisition of AppToPay will provide an additional regulated product in the new digital Buy Now Pay Later markets using mobile application-based technology.

1. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2022: 11.4% (2021: 8.4%): FLA total and Retail Finance new business of £9,844 million (2021: £9,146 million) and £1,124.3 million (2021: £771.5 million) respectively.

Vehicle Finance

We help to drive more business in UK car dealerships:

- Providing funds to customers to help them buy used vehicles from dealers via Vehicle Finance.
- Providing funds to dealers to help them buy vehicles for their forecourts and showrooms via Stock funding.

	2022 **£million**	2021 £million	Movement £million	Movement %
New business	**401.7**	199.8	201.9	101.1
Lending balance	**373.1**	263.3	109.8	41.7
Total revenue	**48.0**	39.3	8.7	22.1
Impairment charge	**21.3**	0.1	21.2	21,200.0

What we do

- We provide lending products which are secured against the vehicle being financed. The majority of vehicles financed are used cars sold by independent dealers.
- We also provide vehicle stock funding whereby funds are advanced and secured against dealer forecourt used car stock; sourced from auctions, part exchanges or trade sources.

- Finance is provided via technology platforms allowing Vehicle Finance 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.

2022 performance

- Proactively tightened lending criteria several times during the year to manage the credit quality of new business written.
- Continued lending growth, with our market share increasing to 1.1%1 (2021: 0.7%). During 2022, the market for used cars bought on point-of-sale finance was 7.6% higher than in 20212. The amount of finance advanced increased by significantly more over the same period, up 18.3%, to £23.5 billion1, reflecting the increase in used vehicle values.
- New Prime Hire Purchase and PCP offering, launched in 2021, delivered £83.4 million and £10.6 million of new lending respectively during 2022, which now represents 24.2% (2021: 5.3%) of the lending book.
- Lending book growth exceeded revenue growth due to the increased mix of higher credit quality, lower net interest margin, prime business. New business growth exceeded lending growth due to the short-term duration of Stock Funding.
- 2021 impairment charges were driven by a release in provisions arising from more benign macroeconomic conditions, as anticipated, this was not repeated in 2022 with a return to more normalised impairment provisions.
- As part of the continuing Motor Transformation Programme, in 2022 we successfully delivered the first phase of the new collections platform for the near prime portfolio. Phase 2 of this programme will incorporate the prime portfolio and develop integrations with our third-party suppliers in 2023.

1. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2022, FLA total and Vehicle Finance total of £23,472 million (2021: £19,838 million) and £262.9 million (2021: £134.3 million) respectively.
2. Source: FLA. Cars bought on finance by consumers through the point of sale: New business number of used cars.

Business review - Business Finance

Real Estate Finance

We lend money against residential properties to professional landlords and property developers:

- Providing mortgage-style borrowing to professional landlords to allow them to improve and grow their portfolio.
- Providing development facilities to property developers and SME house builders to help build new homes for sale or letting.

	2022 £million	2021 £million	Movement £million	Movement %
New business	**384.5**	376.1	8.4	2.2
Lending balance	**1,115.5**	1,109.6	5.9	0.5
Total revenue	**57.7**	54.8	2.9	5.3
Impairment charge	**1.3**	0.1	1.2	1,200.0

What we do

- We provide lending secured against property assets to a maximum 70% loan-to-value ratio, on fixed or variable rates over a term of up to five years.
- Finance opportunities are sourced and supported on a relationship basis directly and via introducers and brokers.
- We have an experienced specialist team, with many years of property expertise, who are nimble and responsive within the market.
- We maintain a strong risk management framework for existing and prospective customers.

2022 performance

- Growth in total revenue and lending balances during a challenging trading year. Revenues were higher reflecting growth in average lending balances, increases in interest rates and one-off fees offset by a lower mix of development lending.
- On the back of a strong first half of the year, new business lending hit a record level. The interest rate volatility in the second half of the year restricted lending growth as both borrowers and lenders became more cautious. Whilst new business slowed in the second half, early loan repayments also reduced, and we focused on continuing to support our customers.
- As at year end 85.0% of the loan book provided lending for residential investment financing, which included £144.6 million of our Greener Homes Scheme loans, which support borrowers to meet the UK's clean growth strategy by 2035.
- Collateralised loan book with an average loan-to-value of 57.7% (2021: 56.0%), reducing the level of inherent risk to credit losses.
- During the year electronic documentation execution was implemented to improve the customer experience as well as reduce costs.

Commercial Finance

We support the growth of UK businesses by enabling effective cash flow:

- Providing working capital finance to UK SMEs.
- Providing funds for strategic events.

	2022 £million	2021 £million	Movement £million	Movement %
New business	**157.3**	93.7	63.6	67.9
Lending balance	**376.4**	313.3	63.1	20.1
Total revenue	**29.3**	17.4	11.9	68.4
Impairment charge/(credit)	**0.8**	(0.2)	1.0	(500.0)

What we do

- Our lending remains predominantly against receivables, typically releasing funds against 90% of qualifying invoices under invoice discounting facilities. Other assets can also be funded either long or short-term and across a range of loan-to-value ratios alongside these facilities.
- We also provided additional 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').
- Business is sourced and supported both directly and via professional introducers, but is not reliant on the broker market.
- The Commercial Finance team has a strong reputation across the Asset Based Lending market. The experienced specialist team works effectively with its partners across private equity and tier 1 and 2 accountancy practices.

2022 performance

- Strong growth in revenue and lending balances in 2022 reflects the contribution of new clients onboarded and low client attrition across both 2021 and 2022, as well as the increases in UK Base Rate throughout the year.
- The Group continues to administer UK Government CBIL, CLBILS and RLS and was accredited by the British Business Bank to offer the RLS Phase 3 product. At 31 December 2022, the outstanding lending balances under these schemes totalled £28.9 million (2021: £42.9 million) against the original total lending under the various schemes of c.£58 million. Commercial Finance took the conscious decision not to participate in the UK Government's Bounce Bank Loan Scheme, which closed in March 2021.
- The decline in economic activity, rising inflation and cost pressures are adding financial stress across our customers and this is recognised by a modest increase in impairments this year.
- In 2022, the business implemented a new client relationship management system to improve customer service and drive operational efficiency.

Business review - Savings

Customers trust us to look after their savings and provide a competitive return:

- Helping our customers save for special events such as a holiday, wedding or retirement.
- Helping our lending businesses fund their product sets to enable them to lend in the market we compete in.

	2022 £million	2021 £million	Movement £million	Movement %
Fixed term bonds	**1,414.0**	974.6	439.4	45.1
Notice accounts	**500.7**	771.9	(271.2)	(35.1)
ISAs	**421.8**	255.0	166.8	65.4
Access accounts	**178.1**	101.7	76.4	75.1
	2,514.6	2,103.2	411.4	19.6

What we do

- We offer a range of savings accounts that are purposely simple in design, with a choice of products from easy access to 180-day notice, and six month 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 competitive rates offered; optimised to the demand of our funding needs.

2022 performance

- 2022 saw increases in the Bank of England Base rate, which in turn impacted the rates offered within the savings market, increasing the Group's cost of funds.
- The 2022 savings market was considerably more dynamic in terms of product pricing than recent years, during which we raised over £1.6 billion of new deposits.
- The increasing attractiveness of fixed rate markets during 2022 drove customer preference for shorter-dated fixed term deposits.
- Further diversification of our product range saw the introduction of our Access account to new and existing customers in April, expanding our ability to raise deposits in this segment of the savings market. Access accounts were also a popular customer choice in 2022 given the elevated rate environment. However, the Notice account product has become less attractive due to the strong rates offered on fixed rate bonds and access accounts in the market.
- At the end of 2022, we widened our range of Fixed Term products to include six and nine month bonds, to address the demand for very short term products. This supports smoothing of our maturity profile and monthly deposit raising over time. In addition, we also saw a continued growth of ISA balances.
- Savings have continued to deliver improvements to the customer experience during the year. Enhancements to our online application processes improved the customer journey at account opening, through utilising group capability to verify customer details.
- Adoption of Confirmation of Payee services for validating customers' nominated accounts was completed at the end of 2022, reducing the need for customers to send supporting documentation as part of the application process. We plan to use this as the base to introduce the service for inbound payments during H1 2023, requested by customers funding new accounts during the year.
- Suitable customers were advised our primary channel of communication would move to digital. Over 89% of customers have adopted this approach, and statements and interest certificates moved to being available through our online banking platform during 2022. Further opportunities to reduce paper throughout our account processes will be reviewed in 2023.
- 2023 will also see the enhancement of our digital proposition with the launch of a mobile app.

Market review

The Group operates exclusively within the UK and its performance is influenced by the macroeconomic environment in the UK. As the Group's revenue is derived almost entirely from customers operating in the UK, the Group is particularly exposed to the condition of the UK economy. Customers' borrowing demands are variously influenced by, among other things, UK property markets, employment levels, inflation, interest rates, and customer confidence. The economy affects demand for the Group's products, margins that can be earned on lending assets and the levels of loan impairment provisions.

As a financial services firm, the Group is subject to extensive and comprehensive regulation by governmental and regulatory bodies in the UK. The Group conducts its business subject to ongoing regulation by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'). The Group must comply with the regulatory regime across many aspects of its activity, including the training, authorisation and supervision of personnel, systems, processes and documentation.

Economic review

Economic growth as measured in UK Gross Domestic Product ('GDP') slowed in the second half of the year with zero growth in GDP recorded in the three months to December 2022. Annual GDP of 4.0%[1] represents a fall from the post pandemic recovery in 2021 (GDP: 7.5%). Global energy and food supply shocks caused by the Russian invasion of Ukraine saw huge rises in European wholesale gas and commodity prices. Rising energy, food and other goods prices drove inflation to a high of 11.1%[1] in October 2022. The Bank of England has responded with rises in its Base Rate of interest throughout the year to a level of 3.5% at the end of December 2022, which is the highest level since the 2008 financial crisis. Economists had predicted the UK would be in recession for the majority of 2023, but are now more optimistic that zero GDP is more likely. The increases in the real cost of living will adversely impact on consumers' disposable incomes and challenge the affordability of household bills and consumers' appetite for discretionary spending.

Employment levels are encouraging at 75.6%[1]. Unemployment remains at a low level of 3.7%[1], and vacancies in the labour market remain at high levels of circa 1.2 million1. Given the recessionary outlook and continued pressures on employers from borrowing and energy costs, unemployment is expected to rise towards 4.5% in early 2024.

House prices continued to grow in 2022. However, growth slowed in the second half as falling incomes and higher interest rates take effect on property transactions. The move in recent years of the mortgage market to fixed rates has provided a level of insulation to borrowers with regard to the extent of forced sales. However, a house price correction is expected in 2023 and 2024.

The UK Government has provided over £100 billion[2] in support measures throughout the year including the May 2022 cost-of-living package, the September energy package which provided energy cost support for households and businesses, tax cuts announced in September that were largely reversed in October, and in the November Autumn statement further near-term support through cost-of-living payments for

those in receipt of benefits. It is estimated that Government intervention on energy costs reduced the peak of inflation by 3.5%[2] but will weigh on growth as Government borrowing increased.

Outlook

Whilst inflation does appear to have peaked in Q4 2022, interest rates are expected to continue to rise in 2023 peaking at between 4% and 4.5% in early 2023 with the Monetary Policy Committee target inflation rate of 2% not expected to be achieved until 2025. The UK economy is expected to contract in 2023, house prices are expected to continue to fall after a long period of successive increases, and unemployment is expected to rise from its current low levels. With ongoing geopolitical uncertainty the balance of risks to the UK remains skewed to the downside.

Government and regulatory

This has been another eventful year for Government and regulatory announcements which potentially impact the Group. The key announcements in 2022 are set out below.

Prudential regulation

The Group became subject to revised regulatory requirements from 1 January 2022, as set out in the policy statements PS21/21 'The UK Leverage Ratio Framework' and PS22/21 'Implementation of Basel Standards: Final Rules'. These changes had an impact on the Group's regulatory requirements, including capital, large exposures, net stable funding and leverage, and Pillar 3 reporting.

The PRA consulted on proposals for a strong and simple prudential framework for non-systemic banks and building societies. In April 2022 within the consultation paper CP5/22: 'The Strong and Simple Framework: a definition of a Simpler-regime Firm'. This set out the proposed eligibility requirements to qualify under this regime. The Group is likely to qualify for this regime.

During June 2022, the PRA issued CP6/22 'Model risk management principles for banks' consulting on stronger governance expectations for model governance to address observed shortcomings within the industry. The proposals reference making a board member responsible for model risk management matters and references a proportionate approach, potentially with less onerous requirements for firms considered as 'Simpler Regime' firms. The PRA propose to incorporate these revised expectations into a new Supervisory Statement which is expected to be issued during 2023. A working group has been established to review the potential implications for the Group.

In November 2022, the PRA issued CP16/22 'The PRA consults on proposals for implementation of the Basel 3.1 standards' setting out its proposed changes to regulatory requirements, which are expected to become effective on 1 January 2025. The proposals set out changes to the regulatory environment, including significant changes to the capital requirements for credit risk and operational risk. The guidance also proposes allowing those firms which are eligible for the Simpler Regime to apply for a waiver not to adopt Basel 3.1 and instead remain on the current UK Capital Requirements Regulation regime until the capital rules applicable to the Simpler Regime are launched. Further consultation papers for requirements under this regime are not expected until 2023 and 2024, and for which an implementation date is still to be announced. The Group is reviewing CP16/22 to understand the potential impact under the proposed full rules and decide whether it will adopt the full rules or defer and adopt the Simpler Regime.

As expected from 13 December 2022, the UK Countercyclical Capital Buffer ('CCyB') rate increased from 0% to 1%. In July 2022, the Financial Policy Committee ('FPC') confirmed a further increase in the UK CCyB rate to 2% from 5 July 2023. The FPC have subsequently stated that they will continue to monitor the CCyB rate due to the current uncertainty around the economic outlook.

In response to the normalisation of the CCyB towards its 2% target level, the PRA announced on 13 June 2022 that the temporary PRA buffer increase to all firms that received a Pillar 2A capital reduction under the PS15/20 'Pillar 2A: Reconciling capital requirements and macroprudential buffers' would no longer apply from December 2022. The Group's capital planning process incorporates changes and future expected changes to its capital requirements.

1. Source: Office for National Statistics, data as at 31 December 2022 unless otherwise stated.

2. Source: Office of Budget Responsibility: Economic and Fiscal Outlook November 2022.

Conduct regulation

The FCA has also published several reports and new rules. In July 2022, the FCA issued their policy statement on the new Consumer Duty, which sets a higher and clearer level of outcomes-based consumer protection in retail financial markets. The duty comes into force on 31 July 2023. The first key milestone for implementing the duty required firms' boards to approve implementation plans by end October 2022, which has been completed by the Group. A project is in place to manage implementation across Group.

The FCA continues to focus on supporting consumers who are struggling with the rising cost of living. In July 2022 they published a Dear Chair letter requiring banks to improve the treatment of struggling business borrowers through their collections and recoveries activities. In November 2022 the FCA published findings from their Borrowers in Financial Difficulty review, which highlighted, in the FCA's view, that firms need to do more to support customers in financial difficulty. The FCA will continue to monitor data to assess how firms are delivering forbearance. The Group continues to review reports and guidance in this area to build on its existing processes and procedures to support its customers through any financial difficulty.

In October 2022, the Payment Services Regulator confirmed the extension of the confirmation of payee rollout to an additional 400 firms. The service is designed to prevent accidentally misdirected payments and authorised push payment scams.

Government and monetary policy
In May 2022, the Government responded to the Department for Business, Energy and Industrial Strategy ('BEIS') 'Restoring trust in audit and corporate governance' which provided more detail of the expected reforms. The timetable for implementation remains unclear. The proposals include a stronger sanctions regime for directors who breach their legal duties in relation to corporate reporting and audit, along with additional requirements of 'large' public interest entities. It is expected many of the proposals will not to be applicable to the Group due to its size.

Following a consultation on the optimal structure for UK financial services post-Brexit, the Financial Services and Markets Bill (the 'FSMB') was introduced to Parliament on 20 July 2022 and aims to implement the outcomes of the Government's future regulatory framework review and to make changes to update the UK regulatory regime. The FSMB intends to move away from the on shored EU legislation towards the historical approach taken under the FSMA, whereby primary responsibility for regulation is delegated to the UK regulatory authorities, subject to the oversight of Parliament. The FSMB would implement the results of HM Treasury's wholesale markets review response published in March 2022, and provisions in respect of digital settlement assets, direct supervision of critical third-party service providers, changes to the financial promotions regime and insurers in financial difficulties among other things.

In December 2022, the UK Government released a package of proposed reforms to financial services regulation referred to as the 'Edinburgh Reforms'. The reforms are wide ranging, featuring thirty separate announcements and including (without limitation) proposed amendments to the ring-fencing and non-performing exposure regimes. HM Treasury has also proposed to use post-Brexit legislative flexibility to modernise UK financial services legislation by relaxing certain EU-derived provisions of prudential regulation. Details of the reforms and timing of implementation are not yet fully known, therefore the impact on the Group remains uncertain.

The Bank of England MPC announced eight consecutive increases in the UK Base Rate over the course of 2022 taking rates up from 0.25% at the start of the year to 3.5% at the end of December 2022. Rising interest rates have had a significant impact on the Group's funding costs and appropriate action has been taken to manage new business pricing and overall net interest margin.

An increase to future Corporation Tax rates was announced and legislated in 2021. After some contrary announcements the increase was confirmed by the 2022 Autumn Statement along with changes to banking surcharge that had been legislated for earlier in 2022. The Corporation Tax rate will increase from 19% to 25% with effect from 1 April 2023, having a negative impact on the Group's earnings. At the same time, the banking surcharge will reduce from 8% to 3% and the surcharge allowance available to banking groups will increase from £25 million to £100 million. This change to the banking surcharge will have a positive impact on the Group but results in a deferred tax charge in 2022 due to a reduction to deferred tax asset values calculated from expected future tax relief based on enacted rates.

Principal risks and uncertainties

Risk management
The effective management of risk is a key part of the Group's strategy and is underpinned by our Risk Aware value. This helps to protect the Group's customers and generate sustainable returns for shareholders. The Group is focused on ensuring that it maintains sufficient levels of capital, liquidity and operational control, and acts in a reputable way.

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 teams. The Risk function is responsible for designing and embedding appropriate risk management frameworks, processes and controls, and making sure that they are sufficiently robust, so that key risks are identified, assessed, monitored and accepted or mitigated in line with the Group's risk appetite. The Chief Risk Officer is responsible for reporting to the Board on the Group's principal risks and how these are being managed against agreed risk appetite.

Risk appetite
The Group has identified the risk drivers and major risk categories relevant to the business, which has enabled it to produce a comprehensive suite of risk appetite statements and metrics which underpin the strategy of the Group. The Board approves the Group's risk appetite statements, which define the level and type of risk that the Group is prepared to accept in the achievement of its strategic objectives.

Risk culture
A strong risk aware culture is integral to the successful delivery of the Group's strategy and the effective management of risk. The Group's risk culture is shaped by a range of factors including risk appetite, risk frameworks and policies, values and behaviours, and a clear tone from the top of the organisation.

The Group has an ongoing focus on developing its risk management practices and enhancing its risk culture. In 2022, the Group revised its risk frameworks and policies, delivered training at all levels of the Group, and has driven increased accountability and ownership of Risk within the first line of defence.

Risk governance
The Group's approach to managing risk is defined within its Enterprise-Wide Risk Management Framework. This provides a clear risk taxonomy for the Group and provides an overarching framework for risk management supported by individual risk discipline frameworks and policies, which set the standards on risk identification and assessment, mitigation, monitoring and reporting. The Group's risk management frameworks, policies and procedures are regularly reviewed and updated to reflect the risks that the Group faces in its business activities and

are appropriate for the nature, scale and complexity of the Group's operations. The Group's risk management frameworks support decision-making across the Group and are designed to ensure that risks are appropriately managed and reported via risk-specific committees.

Established risk committees are in place at Board, Group and individual business unit level to enable clear oversight of risk management, including robust risk identification and mitigation across the Group.

An Executive Risk Committee, chaired by the Chief Risk Officer, reviews key risk management information from across the risk disciplines, with material issues escalated to the Executive Committee and/or the Risk Committee of the Board, 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: all employees within the business units and associated support functions including Operations, Finance, Treasury, Human Resources and Legal. The first line has ownership of and primary responsibility for their risks;
- Second line: specialist risk management and compliance teams reporting directly into the Chief Risk Officer covering Credit risk, Operational risk, Prudential risk, Compliance and Financial crime. The second line are responsible for developing frameworks to assist the first line in the management of their risks and providing oversight and challenge designed to ensure these are managed within appetite; and
- Third line: is the Internal Audit function which provides independent assurance on the effectiveness of risk management across the Group.

1. Board Committees

See Corporate Governance section on pages 60 to 119 of the 2022 Annual Report and Accounts

2. Group Executive Committee

Chair: Chief Executive Officer

- Provides an executive oversight of the on-going safe and profitable operation of the Group. It reports to the Board through the Chief Executive Officer.
- Responsible for the execution of the strategy of the Group at the direction of the Chief Executive Officer.

3.1 Executive Risk Committee

Chair: Chief Risk Officer

- Responsible for overseeing the Group's risk profile, its adherence to regulatory compliance and monitoring these against the risk appetite set by Board.
- Monitors the effective implementation of the risk management framework across the Group.

3.2 Assets and Liabilities Committee ('ALCO')

Chair: Chief Financial Officer

- Responsible for implementing and controlling the liquidity, and asset and liability management risk appetite of the Group, providing high level control over the Group's balance sheet and associated risks.
- Sets and controls capital deployment, treasury strategy guidelines and limits and focuses on the effects of future plans and strategy on the Group's assets and liabilities.

4.1 Credit Committees

- Responsible for making decisions on lending, inclusive of oversight of credit scorecards and modelling.

4.2 Model Governance Committee

- Responsible for understanding, challenging, and assessing risk, weakness, and appropriateness of statistical and financial models and to challenge model assumptions and suitable model validation.

4.3 Other Committees

- The activities of the Executive Risk Committee and ALCO are also supported by various specialist sub-committees and working groups, covering: Liquidity, Financial Crime, Compliance and Regulation, Operational Risk, Assumptions and Climate Change.

Principal risks

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.

Further details of the principal risks and the changes to risk profile seen during the 2022 financial year are set out below. In line with the Group's updated Enterprise-Wide Risk Management Framework, Model risk has been added as a principal risk and Regulatory risk has been incorporated within Compliance and Conduct risk.

The Group also regularly reviews strategic and emerging risks and analysis has been included to detail output of these reviews for 2022.

Notes 39 to 42 to the financial statements provide further analysis of credit, liquidity, market and capital risks.

Further details of the Group's risk management framework, including risk appetite, can be found on the Group's website:

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

Credit risk

Description

The risk of loss to the Group from the failure of clients, customers, or counterparties to honour fully their obligations to the firm, including the whole and timely payment of principal, interest, collateral, or other receivables.

Mitigation

- The Group has a defined Credit risk framework, which sets out how Credit risk is managed and mitigated across the Group.
- Risk appetite is cautious with the Group focusing on sectors and products where it has deep experience.
- Specialist Credit teams are in place within each business area to enable new lending that is originated in line with Group risk appetite.
- For Business Finance, lending is secured against assets, with Real Estate Finance lending, the majority of which is at fixed rates, secured by property at conservative loan-to-value ratios and short dated Commercial Finance lending secured across a range of assets, including debtors, stock and plant and machinery.
- For Consumer Finance, security is taken for Vehicle Finance lending and Retail Finance is unsecured, however positioned towards lower risk sectors. The majority of Retail Finance lending is interest free for consumers, with remaining consumer lending at fixed rates, which mitigates the direct impact of rising interest rates on affordability. Consumer Credit risk is assessed through a combination of risk scorecards, credit and affordability policy rules.
- Portfolio performance is tracked closely and reported via specialist management review meetings, into the Executive and Board Risk Committees, with ability to make changes to policy, affordability assessments or scorecards on an active basis.
- Although the Group does not routinely offer forbearance, it may offer temporary arrangements where appropriate. Further information can be found in Note 39.2 to the Financial Statements.
- Management monitors and assesses concentration risk for all lending against control limits. The diversification of lending activities and secured nature of larger exposures mitigates the exposure of the Group to concentration risk.
- The Group routinely monitors the credit ratings of the counterparties in relation to the Group's loans and advances to banks.

Change during the year – Heightened

During the second half of 2022, economic conditions deteriorated in the UK with price increases, particularly energy prices, leading to high levels of inflation and cost of living pressures for consumers. In addition to energy prices, businesses experienced supply chain and labour market pressures. Both consumers and businesses started to be impacted by rising interest rates at the end of the period.

The Group's lending portfolios performed well in 2022. Retail Finance arrears remained low by historical comparison as a result of a move into lower risk sectors, and whilst an increase was seen in Vehicle Finance, this reflected the return back to the market following the pandemic with overall provisions at an equivalent level to pre pandemic. Business Finance had low levels of provisions in the period, representing robust client selection and the secured nature of lending in these areas.

Overall rating for the year is driven by the uncertainty of the operating environment.

Liquidity and Funding risk

Description

Liquidity risk is the risk that the Group is unable to meet its liquidity obligations as they fall due or can only do so at excessive cost. Funding risk is the risk that the Group is unable to raise or maintain funds to support asset growth, or the risk arising from an unstable funding profile which could result in higher funding costs.

Mitigation

Liquidity and Funding risk is managed in line with the Group's Prudential Risk Management Framework and the Liquidity and Funding Risk policy. The framework defines:

- The governance arrangements for managing and reporting these risks;
- Risk appetite statements and associated thresholds and metrics; and
- The escalation process in the event of a breach of risk appetite.

The Group has a defined set of liquidity and funding risk appetite measures which are monitored daily and monthly.

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

In line with the Prudential Regulation Authority's ('PRA') self-sufficiency rule, the Group always seeks to maintain liquid resources which are adequate, both as to amount and quality, and managed 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 deposit withdrawal at acceptable cost;
- ability to fund asset growth; and
- otherwise, capacity to meet contractual obligations through unconstrained access to funding at reasonable market rates.

The Group conducts regular and comprehensive liquidity stress testing to identify sources of potential liquidity strain and to check that the Group's liquidity position remains within the Board's risk appetite and prudential regulatory requirements and limits.

Contingency funding plans

The Group maintains a Recovery Plan which sets out how the Group would maintain sufficient liquidity to remain viable during a severe liquidity stress event. The Group also retains access to the Bank of England liquidity schemes, including the Discount Window Facility.

Change during the year – Stable

Stress tests performed as part of the ILAAP confirmed that the Group has sufficient funds to meet all regulatory requirements and that there is no significant risk that liabilities cannot be met as they fall due. The rising interest rate environment has increased competitive pressures in deposit pricing and impacted customer behaviour. Despite this, the Group has maintained its liquidity ratios in excess of regulatory requirements throughout the year.

Capital risk

Description

Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support levels of growth.

The Group adopts a conservative approach to managing its capital. It annually assesses the adequacy of the amount and quality of capital held under stress 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 identified and capital resources maintained and allocated, such that regulatory requirements are met while maximising returns and supporting sustainable growth.

The Group manages its capital requirements on a forward-looking basis against minimum regulatory requirements and the Board's risk appetite to ensure capital resources are sufficient to support planned levels of growth.

The Group will take opportunities to increase overall levels of capital and to optimise its capital stack as and when appropriate. 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, taking into consideration the impact of known and anticipated future regulatory changes including the estimated impact of the re-introduction of the countercyclical capital buffer requirement. The PRA proposed increase to this buffer is explained on page 24 of the 2022 Annual Report and Accounts has been reflected in capital planning.

The Group also models various 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.

Further information on the Group's capital requirement is contained within the Pillar 3 disclosures which are published as a separate document on our website https://www.securetrustbank.com/investors/news-announcements/results-reports/pillar-3.

Change during the year – Stable

The Group continues to meet its capital ratio measures taking into consideration the increased requirements driven by planned growth and increasing regulatory requirements and continues to operate within agreed risk appetite. Details of the common equity tier 1 ratio, total capital ratio and leverage ratio are included in the Financial review on page 16 of the 2022 Annual Report and Accounts.

The 2022 ICAAP showed that the Group can continue to meet its minimum regulatory capital requirements, even under extreme stress scenarios. The COVID-19 pandemic demonstrated the benefit of the relatively short duration of the Group's lending portfolios. This feature of our balance sheet allows us to flex lending growth rates in response to changing economic conditions.

Market risk

Description

Market risk is the risk to the Group's earnings and/or value from unfavourable market movements such as interest rates and foreign exchange rates. The Group's market risk primarily arises from interest rate risk. Interest rate risk refers to the exposure of the Group's financial position, balance sheet and earnings to movements in interest rates.

The Group's balance sheet is predominantly denominated in GBP, although a small number of transactions are completed in US Dollars, Euros and other currencies in support of Commercial Finance customers. The Group has no significant exposures to foreign currencies and hedges any residual currency risks to Sterling.

Mitigation

The Group's principal exposure comes from the term structure of interest rate sensitive items and the sensitivity of the Group's current and future earnings and economic value to movements in market interest rates. The Group does not take significant unmatched positions through the application of hedging strategies and does not operate a trading book. The main contributors to interest rate risk are:

- the mismatch, or duration, between repricing dates of assets and liabilities; and
- customer optionality, for example, early repayment of loans in advance of contractual maturity dates.

The Group uses an interest rate sensitivity gap analysis which informs the Group of any significant mismatched interest rate risk positions that require hedging. This takes into consideration the behavioural assumptions for optionality as approved by ALCO. Risk positions are managed through the structural matching of assets and liabilities with similar tenors and the use of derivative instruments to hedge the residual unmatched position and minimise the Group's exposure to interest rate risk.

The Group has a defined set of market risk appetite measures which are monitored monthly. Interest rate risk in the banking book is measured from an internal management and regulatory perspective taking into consideration both an economic value and earnings-based approach.

The Group monitors its exposure to basis risk and any residual non-GBP positions. Processes are 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

Despite material increases in the Bank of England Base Rate in 2022 following a period of very low rates, the Group remained within risk appetite in respect of interest rate risk and market risk throughout the year.

The Group has made further enhancements to market risk management in 2022, including the implementation of a new Asset and Liability Management system.

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 risk, Change, Human Resources, Information Security and IT risk, including Cyber risk.

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 facilitate these 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; and
- an incident management process that defines how incidents should be managed and associated remediation, reporting and root-cause analysis.

The framework is designed to ensure 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, Executive Risk and Board Risk Committees.

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, the Group has focused on these thematic areas of Operational Risk in 2022:

- Supplier management –The Group recognises that it is important to manage suppliers effectively and has embedded a suite of standard controls for all its material suppliers to reduce the risk of operational impacts. The Group has implemented the regulatory requirements for Third-Party Risk Management.
- Operational and IT resilience – The Operational Risk Framework supports 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 implemented the regulatory requirements for operational resilience.
- 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.
- Hybrid working – The Group now permanently operates in a hybrid environment. To ensure alignment with the Financial Conduct authority's ('FCA') hybrid/ remote working expectations (published in October 2021), detailed risk and control assessments were performed to check control functions remained effective.

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. In 2022 the Group has continued to enhance these standards and has introduced several improvements to the control frameworks in place across its operational risks. Overall, the assessment is that the level of risk has remained stable.

Model risk

Description

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.

The Group has multiple models which are used, amongst other things, to support pricing, strategic planning, budgeting, forecasting, regulatory reporting, credit risk management and provisioning.

Model risk has been elevated to a principal risk following a review of the Group's Enterprise-Wide Risk Management Framework.

Mitigation

The Group has a Model Risk Management policy which governs its approach to model risk and sets out:

- Model risk appetite
- Model and model risk definitions
- Roles and responsibilities for model risk management

As required within its policy, the Group maintains a model inventory and a risk register incorporating specific model related risks.

Change during the year – Heightened

The Group, supported by the output of an Internal Audit review has taken steps to improve its approach to model risk management, including recruiting new roles and working with a specialist third party to support a refresh of its policy and established enhanced monitoring and reporting. This work will continue in 2023. This aligns with the expectation of an updated supervisory statement in H1 2023. Heightened status reflects increased internal focus and regulatory expectations.

Compliance and Conduct risk

Description

The risk that the Group's products and services, and the way they are delivered, result in poor outcomes for customers or markets in which we operate, or cause harm to the Group. This could be as a direct result of poor or inappropriate execution of our business activities or behaviour from our employees. This now incorporates regulatory risk which was presented as a separate principal risk in the 2021 Annual Report and Accounts.

Mitigation

The Group manages this risk through its Compliance and Conduct Risk Management Framework. The Group takes a principles-based approach which includes retail and commercial customers in our definition of 'customer', with coverage across all business units and both regulated and unregulated activities.

Risk management activities include horizon scanning of regulatory changes, oversight of regulatory incidents, and reporting against risk appetite metrics.

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 implementation of the Basel 3.1 standard, the Government's national data strategy and the PRA and FCA's transformation agendas related to data.

Key initiatives continuing into 2023 are the Consumer Duty (for which a Group project is in place to deliver the agreed implementation plan); changes to the Appointed Representatives regime; and confirmation of payee requirements.

Change during the year – Stable

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

Financial Crime risk

Description

The risk that the Group fails to prevent the facilitation of financial crime by not having effective systems and controls in line with regulatory requirements.

Mitigation

We operate in a constantly evolving financial crime environment, with the economic climate impacting the level and type of threat faced by the financial services industry by those attempting to take advantage of the period of uncertainty.

The Group has no appetite for failing to maintain effective, systems, resources and controls and robust oversight to mitigate the risk of the Group's products and services being used to facilitate financial crime.

The Group has a Financial Crime Framework designed to meet regulatory and legislative obligations which includes:

- Mandatory annual colleague training and awareness initiatives and regular reviews of our policies and standards.
- Horizon scanning and regular management information production and analysis conducted to identify emerging threats, trends and typologies as well as preparing for new legislation and regulation.
- Financial crime focused governance forums and risk committees providing senior management oversight, challenge and risk escalation.
- Participating in key industry forums (or associations) such as those hosted by UK Finance.

Change during the year – Stable

The Group appointed a new Head of Financial Crime and Money Laundering Reporting Officer in November 2022. The Group continued to enhance its Financial Crime Framework in 2022, recognising the evolving nature of financial crime risk, with measures including:

- Completion of annual Enterprise-Wide Risk Assessment and Money Laundering and Reporting Officer reports.
- Group-wide anti-bribery and corruption, facilitation of tax evasion and fraud standards have been implemented to enhance further the economic crime framework, and work to help ensure that sanctions risk is minimised.
- Specialist economic crime training has been provided to the Board and Executive and the internal financial crime awareness campaign under the banner of 'Spot the signs, stop the crimes' is regularly communicated across the Group.

Climate Change risk

Description

Climate change, and society's response to it, present risks to the UK financial services sector. While some of these risks will only fully crystallise over an extended period, there are some shorter-term risks reflective of the strategic responses from other organisations, governments and regulators.

Mitigation

The Group has now established processes to monitor our risk exposure to both the potential 'Physical' effects of climate change and the 'Transitional' risks from the UK's adjustment towards a carbon neutral economy. A Climate Change Working Group, reporting to the Executive Risk Committee, is in place and meets regularly with senior representation from across the Group. Stress testing work has been completed for our Vehicle Finance and Real Estate Finance businesses to test the resilience of our portfolios and strategies to manage the risks and opportunities of climate change. Further detail is provided within the Climate-related financial disclosures section of the Annual Report and Accounts (see pages 50 to 59 of the 2022 Annual Report and Accounts).

Change during the year – Stable

The Group's direct exposure to the physical impacts of climate change is relatively limited, given its footprint and areas of operation. However, it has established robust controls to manage the associated risks and will continue to develop our business plans in the future as the risks evolve. 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 page 51 of the 2022 Annual Report and Accounts.

Strategic and emerging risks

In addition to the principal risks disclosed above, the Board and Executive Committee regularly consider strategic and emerging risks, including key factors, trends and uncertainties which could impact the performance of the Group.

The key strategic risk identified by the Executive and reported through to the Risk Committee was the macroeconomic environment in the UK. The Group operates exclusively within the UK and therefore its performance is influenced by the performance of the UK economy. Weaknesses in economic position or outlook can impact the demand for the Group's products, returns that can be achieved and the level of impairments.

2022 saw rapid increases in inflation, driven principally by increases in energy costs as a result of the conflict in Ukraine and other supply chain and labour market issues. The Bank of England response to higher inflation has been to increase interest rates, with continued upward pressure into 2023 creating uncertainty for consumers and businesses.

The Group has taken proactive action to reflect these changes in lending parameters to continue to operate within its Credit risk appetite and maintain support for its customers.

Whilst material direct impacts have not yet been seen, the Group continues to monitor closely the macroeconomic environment to assess the impact of these changes on its customer and financial performance.

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 United Kingdom adopted international accounting standards. The Financial Statements also comply with International Financial Reporting Standards ('IFRSs') as issued by the IASB. The Directors have also chosen to prepare the parent Company Financial Statements under United Kingdom adopted international accounting standards. Under company law

the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework 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.

Responsibility statement

Each of the Directors who are in office at the date of this report and whose names and roles are listed on pages 61 to 63 of the 2022 Annual Report and Accounts 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 and performance, business model and strategy.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	**2022 £million**	Restated[1] 2021 £million
Income statement			
Continuing operations			
Interest income and similar income	4.1	203.0	163.9
Interest expense and similar charges	4.1	(50.4)	(27.7)
Net interest income	4.1	**152.6**	**136.2**
Fee and commission income	4.2	17.4	13.3
Fee and commission expense	4.2	(0.4)	(0.6)
Net fee and commission income	4.2	**17.0**	**12.7**
Operating income		**169.6**	**148.9**
Net impairment charge on loans and advances to customers	17	(38.2)	(5.0)
Gains on modification of financial assets	5	1.1	1.5
Fair value losses on financial instruments	6	(0.3)	(0.1)
Operating expenses	7	(93.2)	(89.4)
Profit before income tax from continuing operations		**39.0**	**55.9**
Income tax expense	9	(9.4)	(10.4)
Profit for the year from continuing operations		**29.6**	**45.5**
Discontinued operations			
Profit before income tax from discontinued operations	10	**5.0**	**0.1**
Income tax expense	10	(0.9)	–

Profit for the year from discontinued operations	10	**4.1**	**0.1**
Profit for the year		**33.7**	**45.6**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Revaluation reserve movements		0.1	0.5
Taxation		0.2	(0.1)
		0.3	**0.4**
Items that will be reclassified to the income statement			
Cash flow hedge reserve movements		(0.8)	(0.4)
Reclassification to the income statement		0.1	–
Taxation		0.2	0.1
		(0.5)	**(0.3)**
Other comprehensive income for the year, net of income tax		**(0.2)**	**0.1**
Total comprehensive income for the year		**33.5**	**45.7**
Profit attributable to equity holders of the Company		**33.7**	**45.6**
Total comprehensive income attributable to equity holders of the Company		**33.5**	**45.7**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per ordinary share	11.1	**180.5**	**244.7**
Diluted earnings per ordinary share	11.2	**174.7**	**239.4**
Basic earnings per ordinary share – continuing operations		**158.5**	**244.1**
Diluted earnings per ordinary share – continuing operations		**153.4**	**238.9**

1. Restated to reflect the disclosure of discontinued operations. See Note 10 for further details.

Consolidated statement of financial position

As at 31 December

	Note	**2022 £million**	2021 £million
ASSETS			
Cash and Bank of England reserve account		370.1	235.7
Loans and advances to banks	13	50.5	50.3
Debt securities	14	–	25.0
Loans and advances to customers	15,16	2,919.5	2,530.6
Fair value adjustment for portfolio hedged risk	18	(32.0)	(3.5)
Derivative financial instruments	18	34.9	3.8
Assets held for sale	19	–	1.3
Investment property	20	–	4.7
Property, plant and equipment	21	10.3	9.3
Right-of-use assets	22	1.5	2.2
Intangible assets	23	6.6	6.9
Current tax assets		–	0.8
Deferred tax assets	25	5.5	6.9
Other assets	26	13.4	11.9
Total assets		**3,380.3**	**2,885.9**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	27	400.5	390.8

Deposits from customers	28	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	18	(23.0)	(5.3)
Derivative financial instruments	18	26.7	6.2
Liabilities directly associated with assets held for sale	19	–	2.0
Current tax liabilities		0.8	–
Lease liabilities	29	2.1	3.1
Other liabilities	30	78.1	31.3
Provisions for liabilities and charges	31	2.5	1.3
Subordinated liabilities	32	51.1	50.9
Total liabilities		**3,053.4**	**2,583.5**
Equity attributable to owners of the parent			
Share capital	34	7.5	7.5
Share premium		82.2	82.2
Other reserves	35	(0.3)	1.0
Retained earnings		237.5	211.7
Total equity		**326.9**	**302.4**
Total liabilities and equity		**3,380.3**	**2,885.9**

Company statement of financial position

As at 31 December

	Note	**2022 £million**	2021 £million
ASSETS			
Cash and Bank of England reserve account		370.1	235.7
Loans and advances to banks	13	48.9	47.4
Debt securities	14	–	25.0
Loans and advances to customers	15,16	2,919.5	2,450.3
Fair value adjustment for portfolio hedged risk	18	(32.0)	(3.5)
Derivative financial instruments	18	34.9	3.8
Investment property	20	1.0	5.7
Property, plant and equipment	21	4.7	3.7
Right-of-use assets	22	1.3	1.5
Intangible assets	23	4.4	5.4
Investments in group undertakings	24	5.7	4.3
Current tax assets		–	1.5
Deferred tax assets	25	5.3	6.8
Other assets	26	15.1	99.8
Total assets		**3,378.9**	**2,887.4**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	27	400.5	390.8
Deposits from customers	28	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	18	(23.0)	(5.3)
Derivative financial instruments	18	26.7	6.2
Current tax liabilities		0.6	–
Lease liabilities	29	1.9	2.3
Other liabilities	30	85.9	43.8
Provisions for liabilities and charges	31	2.0	1.3

Subordinated liabilities	32	51.1	50.9
Total liabilities		**3,060.3**	**2,593.2**
Equity attributable to owners of the parent			
Share capital	34	7.5	7.5
Share premium		82.2	82.2
Other reserves	35	(1.1)	0.4
Retained earnings		230.0	204.1
Total equity		**318.6**	**294.2**
Total liabilities and equity		**3,378.9**	**2,887.4**

Consolidated statement of changes in equity

			Other reserves				
	Share capital £million	**Share premium £million**	**Cash flow hedge reserve £million**	**Revaluation reserve £million**	**Own shares £million**	**Retained earnings £million**	**Total £million**
Balance at 1 January 2021	**7.5**	**82.2**	**–**	**0.9**	**–**	**177.0**	**267.6**
Total comprehensive income for the year							
Profit for 2021	–	–	–	–	–	45.6	45.6
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.4)	–	–	–	(0.4)
Tax on cash flow hedge reserve movements	–	–	0.1	–	–	–	0.1
Revaluation during the year	_	_	–	0.5	–	–	0.5
Tax on revaluation reserve movements	–	–	–	(0.1)	–	–	(0.1)
Total other comprehensive income	**–**	**–**	**(0.3)**	**0.4**	**–**	**–**	**0.1**
Total comprehensive income for the year	**–**	**–**	**(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**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.7	33.7
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedge reserve movements	–	–	0.2	–	–	–	0.2
Revaluation during the year	–	–	–	0.1	–	–	0.1
Revaluation transfer	–	–	–	(0.8)	–	0.8	–
Tax on revaluation reserve movements	–	–	–	0.2	–	–	0.2
Total other comprehensive income	**–**	**–**	**(0.5)**	**(0.5)**	**–**	**0.8**	**(0.2)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**(0.5)**	**–**	**34.5**	**33.5**
Transactions with owners, recorded directly in equity							

Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**0.8**	**(0.3)**	**237.5**	**326.9**

Company statement of changes in equity

			Other reserves				
	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluatio n reserve £million	Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2021	**7.5**	**82.2**	**–**	**0.7**		**169.2**	**259.6**
Total comprehensive income for the year							
Profit for 2021	–	–	–	–	–	45.8	45.8
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.4)	–	–	–	(0.4)
Tax on cash flow hedges reserve movements	–	–	0.1	–	–	–	0.1
Total other comprehensive income	**–**	**–**	**(0.3)**	**–**	**–**	**–**	**(0.3)**
Total comprehensive income for the year	**–**	**–**	**(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**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.8	33.8
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedge reserve movements	–	–	0.2	–	–	–	0.2
Revaluation transfer	–	–	–	(0.8)	–	0.8	–
Tax on revaluation reserve movements	–	–	–	0.1	–	–	0.1
Total other comprehensive income	**–**	**–**	**(0.5)**	**(0.7)**	**–**	**0.8**	**(0.4)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**(0.7)**	**–**	**34.6**	**33.4**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0

Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**230.0**	**318.6**

Consolidated statement of cash flows

For the year ended 31 December

	Note	**2022 £million**	Restated[1] 2021 £million
Cash flows from operating activities			
Profit for the year		33.7	45.6
Adjustments for:			
Income tax expense	9	10.3	10.4
Depreciation of property, plant and equipment	21	1.2	1.3
Depreciation of right-of-use assets	22	0.7	0.7
Amortisation of intangible assets	23	1.4	1.5
Loss on disposal of property, plant and equipment, right of use assets and intangible assets		1.4	–
Impairment charge on loans and advances to customers		39.0	4.5
Share-based compensation	36	2.0	1.0
Revaluation gain	20,21,22	–	(0.4)
(Gain)/loss on disposal of loan books	10	(8.9)	1.4
Other non-cash items included in profit before tax		1.0	(1.1)
Cash flows from operating profits before changes in operating assets and liabilities		81.8	64.9
Changes in operating assets and liabilities:			
– loans and advances to customers		(497.1)	(238.4)
– loans and advances to banks		0.6	(1.9)
– other assets		(1.5)	6.0
– deposits from customers		411.4	110.7
– provisions for liabilities and charges		(1.1)	(0.7)
– other liabilities		45.6	(24.4)
Income tax paid		(7.0)	(12.6)
Net cash inflow/(outflow) from operating activities		**32.7**	**(96.4)**
Cash flows from investing activities			
Consideration on sale of loan books	10	81.9	60.4
Sale of investment property	20	3.3	–
Maturity and sales of debt securities		80.0	90.0
Purchase of debt securities		(80.0)	(90.0)
Purchase of property, plant and equipment and intangible assets	21, 23	(2.7)	(1.3)
Net cash inflow from investing activities		**82.5**	**59.1**
Cash flows from financing activities			
Drawdown of amounts due to banks		7.0	114.4
Purchase of own shares	35	(0.3)	–
Dividends paid	12	(10.7)	(11.9)
Repayment of lease liabilities	29	(1.0)	(0.9)
Net cash (outflow)/inflow from financing activities		**(5.0)**	**101.6**
Net increase in cash and cash equivalents		**110.2**	**64.3**
Cash and cash equivalents at 1 January		306.7	242.4
Cash and cash equivalents at 31 December	37	**416.9**	**306.7**

1. Cash and cash equivalents in the prior year have been restated from £303.0 million to £306.7 million. See Note 1.3 for further details.

Company statement of cash flows

For the year ended 31 December

	Note	**2022 £million**	Restated[1] 2021 £million
Cash flows from operating activities			
Profit for the year		33.8	45.8
Adjustments for:			
Income tax expense		6.9	9.5
Depreciation of property, plant and equipment	21	0.7	0.8
Depreciation of right-of-use assets	22	0.4	0.5
Amortisation of intangible assets	23	1.1	1.2
Impairment charge on loans and advances to customers		37.8	2.7
Share-based compensation	36	1.6	0.8
Revaluation gain	20,21,22	–	(0.4)
Dividends received from subsidiaries		(14.0)	(4.8)
Loss on disposal of loan books	10	–	1.4
Other non-cash items included in profit before tax		1.1	(1.0)
Cash flows from operating profits before changes in operating assets and liabilities		69.4	56.5
Changes in operating assets and liabilities:			
– loans and advances to customers		(505.7)	(244.1)
– loans and advances to banks		0.6	(1.9)
– other assets	26	98.7	11.7
– deposits from customers		411.4	110.7
– provisions for liabilities and charges		(1.1)	(0.8)
– other liabilities		44.0	(19.4)
Income tax paid		(3.0)	(11.1)
Net cash inflow/(outflow) from operating activities		**114.3**	**(98.4)**
Cash flows from investing activities			
Consideration on sale of loan books	10	–	60.4
Sale of investment property	20	3.3	–
Purchase of subsidiary undertaking		(1.0)	–
Maturity and sales of debt securities		80.0	90.0
Purchase of debt securities		(80.0)	(90.0)
Purchase of property, plant and equipment and intangible assets	21, 23	(0.4)	(0.8)
Net cash inflow from investing activities		**1.9**	**59.6**
Cash flows from financing activities			
Drawdown of amounts due to banks		7.0	114.4
Purchase of own shares	35	(0.3)	–
Dividends paid	12	(10.7)	(11.9)
Repayment of lease liabilities	29	(0.7)	(0.7)
Net cash (outflow)/inflow from financing activities		**(4.7)**	**101.8**
Net increase in cash and cash equivalents		**111.5**	**63.0**
Cash and cash equivalents at 1 January		303.8	240.8
Cash and cash equivalents at 31 December	37	**415.3**	**303.8**

1. Cash and cash equivalents in the prior year have been restated from £300.1 million to £303.8 million. See Note 1.3 for further details.

Notes to the financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below, and if applicable, directly under the relevant note to the financial statements. 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 2022 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in the provision of banking and financial services.

1.2. Basis of presentation

The figures shown for the year ended 31 December 2022 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2022 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 2021 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, which 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.

1.3. Cash and cash equivalents prior year adjustment

During the year, the International Financial Reporting Interpretations Committee ('IFRIC') issued a clarification of IAS 7 Statement of cash flows. IFRIC clarified that restrictions on use of a demand deposit arising from a contract with a third party, does not result in the deposit no longer being treated as cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7.

In the prior year, £3.7 million (2020: £10.3 million) of Loans and advances to banks was excluded from Group and Company cash and cash equivalents. This comprised amounts over which the Group and Company had a contractual obligation with a third party to use the cash only for specified purposes. If the Group and Company were to use these amounts for purposes other than those agreed with the third party, the Group and Company would have been in breach of its contractual obligation. However, the terms and conditions did not prevent the Group and Company from accessing the amounts held. As the Group and Company could still access the amounts held, these amounts met the definition of cash. Accordingly, as a result of the IFRIC clarification above, cash and cash equivalents in the Cash flow statement have been restated as follows:

	2021			2020		
	As originally stated £million	Prior year adjustment £million	As restated £million	As originally stated £million	Prior year adjustment £million	As restated £million
Group						
Cash and cash equivalents	303.0	3.7	306.7	232.1	10.3	242.4
Company						
Cash and cash equivalents	300.1	3.7	303.8	230.5	10.3	240.8

The specific lines adjusted in the cash flow statement are Changes in operating assets: loans and advances to banks and Net cash flow from operating activities.

The effect on the current year is a increase in cash and cash equivalents of £0.9 million.

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 effective interest rate ('EIR'), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, 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 or 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 EIR 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 EIR 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
A critical judgement for 2022 is disclosed in Note 17.2. No critical judgements were identified in 2021.

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 17.1.

3. Operating segments

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

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

Accordingly, the results of all of the above businesses are now included in discontinued operations. As a result, going forward, the Group is now organised into four operating segments: Real Estate Finance, Commercial Finance, Vehicle Finance and Retail Finance.

Continuing operations
Consumer Finance

- Vehicle Finance: hire purchase lending for used cars 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 whereby funds are advanced and secured against dealer forecourt used car stock; sourced from auctions, part exchanges or trade sources.
- Retail Finance: a market leading online e-commerce service to retailers, providing unsecured lending products to prime UK customers to facilitate the purchase of a wide range of consumer products including bicycles, music, furniture, outdoor/leisure, electronics, dental, jewellery, home improvements and football season tickets.

Business Finance

- Real Estate Finance: lending secured against property assets to a maximum 70% loan-to-value ratio, on fixed or variable rates over a term of up to five years.
- Commercial Finance: lending is predominantly against receivables, typically releasing 90% of qualifying invoices under invoice discounting facilities. Other assets can also be funded either long or short-term and for a range of loan-to-value ratios alongside these services. Additional 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.

Other

- This principally includes interest receivable from central banks, interest receivable on derivatives and property rental income.

Discontinued operations

- Debt Management: a credit management services business which primarily invests in purchased debt portfolios from third parties, as well as fellow group undertakings. The Debt Management loan book was sold during 2022.
- Consumer Mortgages: 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.
- Asset Finance: lending to small and medium sized enterprises to acquire commercial assets, which was sold during 2021.
- Other: includes 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 (the funding and operation of finance leases through a disclosed agency agreement with RentSmart Limited), which was sold during 2022. Assets and liabilities in respect of the RentSmart business were included in Assets and liabilities held for sale as at 31 December 2021 (see Note 19 for further details).

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

Management review these segments by looking at the income, size and growth rate of the loan books, impairments and customer numbers.

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge on loans and advances to customers £million	Loans and advances to customers £million
31 December 2022					
Retail Finance	74.4	3.6	78.0	14.8	1,054.5
Vehicle Finance	46.6	1.4	48.0	21.3	373.1
Debt Management	5.3	4.1	9.4	0.8	–
Consumer Finance	126.3	9.1	135.4	36.9	1,427.6
Real Estate Finance	57.4	0.3	57.7	1.3	1,115.5
Commercial Finance	17.5	11.8	29.3	0.8	376.4
Business Finance	74.9	12.1	87.0	2.1	1,491.9
Other	7.1	0.3	7.4	–	–
	208.3	**21.5**	**229.8**	**39.0**	**2,919.5**
Of which:					
Continuing	**203.0**	**17.4**	**220.4**	**38.2**	**2,919.5**
Discontinued (Note 10)	**5.3**	**4.1**	**9.4**	**0.8**	**–**

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge/(credit) on loans and advances to customers £million	Loans and advances to customers[1] £million
31 December 2021					
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
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
Other	(2.2)	1.1	(1.1)	–	1.3
	180.0	**14.3**	**194.3**	**4.5**	**2,531.9**
Of which:					
Continuing	**163.9**	**13.3**	**177.2**	**5.0**	**2,451.0**
Discontinued (Note 10)	**16.1**	**1.0**	**17.1**	**(0.5)**	**80.9**

1. Includes Assets held for Sale of £1.3 million within Other and Discontinued.

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. Furthermore, no balance sheet items are allocated to segments other than loans and advances to customers.

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

	2022 £million	2021 £million

Loans and advances to customers	201.1	182.0
Cash and Bank of England reserve account	4.6	0.2
Debt securities	0.1	–
	205.8	182.2
Income/(expense) on financial instruments hedging assets	2.5	(2.2)
Interest income and similar income	**208.3**	**180.0**
Of which:		
Continuing	**203.0**	**163.9**
Discontinued (Note 10)	**5.3**	**16.1**

Deposits from customers	(38.4)	(27.3)
Due to banks	(5.7)	(0.3)
Subordinated liabilities	(3.4)	(3.4)
Other	(0.1)	–
	(47.6)	(31.0)
(Expense)/income on financial instruments hedging liabilities	(3.6)	1.8
Interest expense and similar charges	**(51.2)**	**(29.2)**
Of which:		
Continuing	**(50.4)**	**(27.7)**
Discontinued (Note 10)	**(0.8)**	**(1.5)**

Interest income and expense accounting policy
For all financial instruments measured at amortised cost, the EIR method is used to measure the carrying value and allocate interest income or expense. The EIR 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 EIR 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 EIR is calculated using estimated future cash flows, including expected credit losses.

The calculation of the EIR includes all fees received and paid that are an integral part of the EIR, 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 EIR 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 EIR 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 EIR 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

	2022 £million	2021 £million
Fee and disbursement income	19.8	12.5
Commission income	1.4	1.2

Other income	0.3	0.6
Fee and commission income	**21.5**	**14.3**
Of which:		
Continuing	**17.4**	**13.3**
Discontinued (Note 10)	**4.1**	**1.0**

Other expenses	(0.4)	(0.6)
Fee and commission expense (Continuing)	**(0.4)**	**(0.6)**

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 and damage charges made to customers and loan administration fees charged to dealers in respect of the Stocking Funding product.

Fee and commission accounting policy

Fees and commission income that is not considered an integral part of the EIR 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 EIR of a financial instrument are included in the EIR 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 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 customers, 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:

	2022 Vehicle Finance £million	**2022 Retail Finance £million**	**2022 Total £million**	2021 Vehicle Finance £million	2021 Retail Finance £million	2021 Total £million
Reduction in net present value						
At 1 January	1.4	0.2	1.6	2.5	0.6	3.1
Credit to the income statement	(0.9)	(0.2)	(1.1)	(1.1)	(0.4)	(1.5)
Balance remaining to be unwound at 31 December	**0.5**	**–**	**0.5**	**1.4**	**0.2**	**1.6**

Of the loan modification loss remaining, £0.3 million (2021: £0.9 million) relates to financial assets with a loss allowance based on lifetime Expected Credit Losses (‘ECL’).

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 EIR 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 EIR 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 EIR.

6. Fair value losses on financial instruments

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 see page 30 of the Group's Strategic Report in the 2022 Annual Report and Accounts.

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:

	2022 £million	2021 £million
Fair value hedges		
Fair value movement during the year – Interest rate derivatives	(10.6)	0.9
Fair value movement during the year - Hedged items	10.9	(0.8)
Ineffective portion of hedges	**0.3**	**0.1**

The loss recognised in other comprehensive income during the year is as follows:

	2022 £million	2021 £million
Cash flow hedges		
Fair value movement in year - Interest rate derivatives	0.8	0.4
Interest reclassified to the income statement during the year	(0.1)	–
Fair value loss recognised in other comprehensive income	**0.7**	**0.4**

Although the Group uses interest rate 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 net to zero over the life of the hedging relationship. All derivatives held by the Group have been highly effective in the year 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; 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 or other comprehensive income. 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).

7. Operating expenses

	2022 £million	2021 £million
Employee costs, including those of Directors:		
Wages and salaries	47.9	47.4
Social security costs	5.7	5.8
Pension costs	2.1	2.0
Share-based payment transactions	1.8	0.9
Depreciation of property, plant and equipment (Note 21)	1.2	1.3
Depreciation of lease right-of-use assets (Note 22)	0.7	0.7
Amortisation of intangible assets (Note 23)	1.4	1.5
Operating lease rentals	0.7	0.6
Other administrative expenses	40.6	43.8
Total operating expenses	**102.1**	**104.0**
Of which:		
Continuing	**93.2**	89.4
Discontinued (Note 10)	**8.9**	14.6

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:

	2022 £'000	2021 £'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	730	639
Fees payable to the Company's Auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	27	50
Other assurance services	110	110
	867	**799**

Other assurance services related to the Term Funding Scheme with additional incentives for SMEs audit, Interim independent review report and profit certification, and in 2022 a comfort letter in relation to the Tier 2 capital issuance.

8. Average number of employees

	2022 Number	Restated 2021 Number
Directors	8	8
Other senior management	28	29
Other employees	904	936
	940	**973**

The definition of management at 31 December 2022 has changed to include only senior management, whereas in the prior year management included senior management and all employees who had people management responsibilities. Accordingly the analysis of the prior year employee numbers has been restated on a consistent basis.

9. Income tax expense

	2022 £million	2021 £million
Current taxation		
Corporation tax charge – current year	8.4	11.2
Corporation tax charge – adjustments in respect of prior years	0.1	(0.5)
	8.5	10.7
Deferred taxation		
Deferred tax charge – current year	1.9	(0.7)
Deferred tax charge – adjustments in respect of prior years	(0.1)	0.4
	1.8	(0.3)
Income tax expense	**10.3**	**10.4**
Of which:		
Continuing	**9.4**	**10.4**
Discontinued (Note 10)	**0.9**	**–**

Tax reconciliation		
Profit before tax	44.0	56.0
Tax at 19.00% (2021: 19.00%)	8.4	10.6
Banking surcharge	0.1	1.4
Rate change on deferred tax assets	1.2	(1.5)
Prior year adjustments	–	(0.1)
Deferred tax assets not recognised	0.2	–
Other	0.4	–

Income tax expense for the year	10.3	10.4

There is a deferred tax charge in 2022 arising from a reassessment of the tax rates at which the deferred tax asset would reverse out in future periods, mainly arising from changes to the banking surcharge. The main component of the deferred tax asset is deferred tax on the IFRS 9 transition adjustment, which reverses on a straight-line basis over ten years commencing in 2018. The Finance Act 2022, enacted on 24 February 2022, included legislation, confirmed in the Autumn Statement, to reduce the banking surcharge to 3% on bank tax profits in excess of £100 million with effect from 1 April 2023.

The future tax rates used in 2021 had reflected the increase in Corporation Tax from 19% to 25% with effect from 1 April 2023 legislated in June 2021. Those rates had continued to assume banking surcharge of 8% on any taxable profits of Secure Trust Bank PLC in excess of £25 million in an accounting period.

Income tax 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.

10. Discontinued operations

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

On 11 March 2022 the Group announced that it had agreed to sell Debt Managers (Services) Limited's ('DMS') portfolio of loans to Intrum UK Finance Limited. The sale completed on 30 May 2022. As the Group has exited this market, the results have presented this as a discontinued business. As per the terms of the contract, the Group received £81.9 million, for the carrying value of the loan book at the date of sale of £71.8 million. Direct and indirect costs incurred in relation to the sale amounted to £4.0 million.

Income statement	**2022 £million**	2021 £million
Interest income and similar income	5.3	16.1
Interest expense and similar charges	(0.8)	(1.5)
Net interest income	**4.5**	**14.6**
Fee and commission income	4.1	1.0
Net fee and commission income	**4.1**	**1.0**
Operating income	**8.6**	**15.6**
Net impairment (charge)/credit on loans and advances to customers	(0.8)	0.5
Overall profit/(loss) on disposal of loan portfolios (see below)	6.1	(1.4)
Operating expenses	(8.9)	(14.6)
Profit before income tax from discontinued operations	**5.0**	**0.1**
Income tax expense	(0.9)	–
Profit for the year from discontinued operations	**4.1**	**0.1**
Basic earnings per ordinary share – discontinued operations	**22.0**	**0.5**
Diluted earnings per ordinary share – discontinued operations	**21.3**	**0.5**

	DMS 2022 £million	Consumer Mortgages 2021 £million	Asset Finance 2021 £million	Total 2021 £million
Consideration received	81.9	54.6	5.8	60.4
Carrying value of loan books disposed	(71.8)	(54.5)	(5.8)	(60.3)
Selling costs	(1.2)	(0.6)	(0.1)	(0.7)
Profit/(loss) on disposal of loan book (including selling costs)	**8.9**	**(0.5)**	**(0.1)**	**(0.6)**
Other closure costs	(2.8)	(0.8)	–	(0.8)
Overall profit/(loss) on disposal of loan portfolio(s)	**6.1**	**(1.3)**	**(0.1)**	**(1.4)**

Net cash flows	**2022 £million**	2021 £million
Operating	(82.6)	(58.2)
Investing	81.9	60.4
Financing	(0.1)	(0.1)
Net cash (outflow)/inflow	**(0.8)**	**2.1**

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:

	2022	2021
Profit attributable to equity holders of the parent (£million)	33.7	45.6
Weighted average number of ordinary shares (number)	18,672,650	18,637,444
Earnings per share (pence)	**180.5**	**244.7**

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:

	2022	2021
Weighted average number of ordinary shares	18,672,650	18,637,444
Number of dilutive shares in issue at the year-end	617,340	407,729
Fully diluted weighted average number of ordinary shares	**19,289,990**	**19,045,173**
Dilutive shares being based on:		
Number of options outstanding at the year-end	1,206,639	949,193
Weighted average exercise price (pence)	304	370
Average share price during the year (pence)	1,040	1,103
Diluted earnings per share (pence)	**174.7**	**239.4**

12. Dividends

	2022 £million	2021 £million
2022 interim dividend – 16.0 pence per share (paid September 2022)	3.0	–
2021 final dividend – 41.1 pence per share (paid May 2022)	7.7	–
2021 interim dividend – 20.0 pence per share (paid September 2021)	–	3.7
2020 final dividend – 44.0 pence per share (paid May 2021)	–	8.2
	10.7	**11.9**

The Directors recommend the payment of a final dividend of 29.1 pence per share (2021: 44.1 pence per share). The final dividend, if approved by members at the Annual General Meeting, will be paid on 25 May 2023 with an associated record date of 28 April 2023.

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 2022 £million	Group 2021 £million	Company 2022 £million	Company 2021 £million
Aaa	3.7	–	3.7	–
A1 - A2	41.6	45.2	40.0	42.3
Arbuthnot Latham & Co. Limited – Unrated	5.2	5.1	5.2	5.1
	50.5	**50.3**	**48.9**	**47.4**

None of the loans and advances to banks are either past due or impaired. Loans and advances to banks includes £3.7 million (2021: £2.6 million) which the Group and Company does not have access to and are therefore excluded from cash and cash equivalents. See Note 37.1 for a reconciliation to cash and cash equivalents.

14. Debt securities

Group and Company

Debt securities consisted solely of sterling UK Government Treasury Bills ('T-Bills'). The Group holds T-Bills from time to time for liquidity risk management purposes. 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 fell to £nil over the year, from £25 million.

All of the debt securities had a rating agency designation, based on Moody's long-term ratings of Aa3 at 31 December 2021. 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 2022 £million	Group 2021 £million	Company 2022 £million	Company 2021 £million
Gross loans and advances	2,997.5	2,598.1	2,997.5	2,511.2
Less: allowances for impairment of loans and advances (Note 17)	(78.0)	(67.5)	(78.0)	(60.9)
	2,919.5	**2,530.6**	**2,919.5**	**2,450.3**

The fair value of loans and advances to customers is shown in Note 43. Loans and advances to customers includes finance lease receivables of £371.2 million (2021: £284.6 million). See Note 16 for further details.

Group and Company

Retail Finance assets of £810.6 million (2021: £579.9 million) were pre-positioned under the Bank of England's liquidity support operations and Term Funding Scheme with additional incentives for SMEs and are available for use as collateral within the schemes.

The Real Estate Finance loan book of £1,115.5 million (2021: £1,109.6 million) is secured upon real estate, which had a loan-to-value of 58% at 31 December 2022 (2021: 56%).

Under its credit policy, the Real Estate Finance business lends to a maximum loan-to-value of:

- 70% for investment loans;
- 60% for residential development loans*;
- 65% for certain residential higher leveraged development loans*, which is subject to a overall cap on such lending agreed by management according to risk appetite; and
- 65% for 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.

£6.8 million of cash collateral has been received as at 31 December 2022 in respect of certain loans and advances (2021: £3.5 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 2022	Group 2021	Company 2022	Company 2021

	£million	£million	£million	£million
Gross investment in finance lease receivables:				
– Not more than one year	157.6	137.1	157.6	135.9
– Later than one year and no later than five years	365.6	253.2	365.6	252.9
	523.2	390.3	523.2	388.8
Unearned future finance income on finance leases	(152.0)	(105.7)	(152.0)	(105.5)
Net investment in finance leases	**371.2**	**284.6**	**371.2**	**283.3**
The net investment in finance leases may be analysed as follows:				
– Not more than one year	93.7	87.5	93.7	86.5
– Later than one year and no later than five years	277.5	197.1	277.5	196.8
	371.2	**284.6**	**371.2**	**283.3**

Finance lease receivables include Vehicle Finance loans to consumers, and in the prior year Asset Finance and the RentSmart loan books.

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 and 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 advances to customers £million**	**Provision coverage %**
31 December 2022						
Consumer Finance:						
Retail Finance	12.7	9.8	5.7	28.2	1,082.7	2.6%
Vehicle Finance:						
Voluntary termination provision	3.7	–	–	3.7		
Other impairment	7.3	16.4	17.0	40.7		
	11.0	16.4	17.0	44.4	417.5	10.6%
Business Finance:						
Real Estate Finance	0.3	1.1	2.0	3.4	1,118.9	0.3%
Commercial Finance	0.3	1.3	0.4	2.0	378.4	0.5%
	24.3	**28.6**	**25.1**	**78.0**	**2,997.5**	**2.6%**

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 advances to customers £million	Provision coverage %
31 December 2021						
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%
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%
	18.5	**20.0**	**29.0**	**67.5**	**2,598.1**	**2.6%**

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

	2022 £million	2021 £million
Expected credit losses: impairment charge	38.9	4.9
Charge in respect of off balance sheet loan commitments	0.2	(0.2)
Recoveries of loans written off	(0.1)	(0.2)
	39.0	**4.5**
Of which:		
Continuing	38.2	5.0
Discontinued (Note 10)	0.8	(0.5)

Total provisions above include expert credit judgements as follows:

	2022 £million	2021 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	0.7	(0.4)
Management judgement in respect of:		
Consumer Finance affordability	2.5	4.6
Vehicle Finance used car valuations	1.3	1.5
Uncertainty over the future impact of the COVID-19 pandemic	–	0.4
POCI adjustment (see below)	–	7.3
Other	(1.6)	(0.1)
Expert credit judgements over the IFRS 9 model results	**2.9**	**13.3**

The specific overlays for Business Finance have been estimated on an individual basis by assessing the recoverability and condition of the secured asset, along with any other recoveries that may be made.

For further details on Vehicle Finance used car valuations and Consumer Finance affordability, see Notes 17.1.5 and 17.2.1 respectively.

POCI adjustment

During 2022, the Group sold the Debt Management loan book (See Note 10). Prior to this the Group's debt management business purchased credit-impaired loans from the Company and other unrelated third parties. Under IFRS 9, these were classified as Purchased and Originated Credit-Impaired ('POCI') loans. As a practical expedient, income on POCI loans was 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 was 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 were recognised as an impairment gain or loss in the income statement. At 31 December 2021, reductions in credit quality resulted in a £7.3 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 2022	18.5	20.0	29.0	67.5
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(8.8)	46.3	–	37.5

– Transfer to stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to stage 1	2.3	(4.6)	-	(2.3)
Passage of time	(6.3)	(0.7)	(2.5)	(9.5)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.9	(8.2)
Other adjustments	2.4	–	–	2.4
Charge to income statement	6.6	8.6	23.7	38.9
Allowance utilised in respect of write-offs	(0.8)	–	(27.6)	(28.4)
31 December 2022	**24.3**	**28.6**	**25.1**	**78.0**

During the year £8.1 million was utilised in respect of the DMS book sale.

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

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, the associated reduction in PDs and 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 represents 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:

	2022				2021			
	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	127.5	–	–	127.5	107.6	–	–	107.6

Good	962.4	28.5	–	990.9	915.8	26.6	–	942.4
Satisfactory	195.7	125.7	1.8	323.2	179.7	138.2	5.2	323.1
Weak	–	40.2	15.5	55.7	–	14.1	40.0	54.1
	1,285.6	**194.4**	**17.3**	**1,497.3**	**1,203.1**	**178.9**	**45.2**	**1,427.2**

Consumer Finance:								
Good	601.5	77.6	6.0	685.1	360.3	95.7	5.3	461.3
Satisfactory	495.3	60.5	9.3	565.1	338.5	63.3	7.1	408.9
Weak	197.4	38.2	14.4	250.0	167.6	34.8	11.4	213.8
Debt Management	–	–	–	–	–	–	86.9	86.9
	1,294.2	**176.3**	**29.7**	**1,500.2**	**866.4**	**193.8**	**110.7**	**1,170.9**

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

Company

The Company ECL by stage, gross balances and provision coverage as at 31 December 2022 is now the same as Group.
For the Company disclosure, see the Group table on page 142 of the 2022 Annual Report and Accounts.

	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 advances to customers £million	Provision coverage %
31 December 2021						
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%
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%
	18.6	**20.3**	**22.0**	**60.9**	**2,511.2**	**2.4%**

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 2022	18.6	20.3	22.0	60.9
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(8.8)	46.3	–	37.5
– Transfer to stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to stage 1	2.3	(4.6)	–	(2.3)
Passage of time	(6.4)	(1.0)	(1.8)	(9.2)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.0	(9.1)
Other adjustments	2.4	–	(0.2)	2.2
Charge to income statement	6.5	8.3	23.3	38.1

Allowance utilised in respect of write-offs	(0.8)	–	(20.2)	(21.0)
31 December 2022	**24.3**	**28.6**	**25.1**	**78.0**

	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
Matured 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**

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

Passage of time represent the impact of accounts maturing through their contractual life, the associated reduction in PDs and 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 represents 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. This is not applicable to loans and advances to customers, but the Group has assessed all its debt securities, which represents UK Treasury bills, to be low credit risk.

Stage 2 assets
Loans and advances to customers 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 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')
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 reflected in the modelled outcome.

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 ('EMV') 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 real estate 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 ECL. This is achieved by developing a number of potential economic scenarios and modelling ECLs 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 considers that the key drivers of credit risk and credit losses included in the macroeconomic scenarios are annual unemployment rate growth and 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
The impairment charge comprises of modelled ECLs and expert credit judgements. Where the ECL modelled output does not reflect the level of credit risk, judgement is used to calculate expert credit judgements, which are overlaid onto the output from the models.

Presentation of loss allowance
Loss allowances for ECLs and expert credit judgements 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 2022 or 31 December 2021.

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 potential impact of the current 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 determination of both the PD and LGD require estimation which is discussed further below.

17.1.1. 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 provided by external economic advisors, having previously being internally developed with regard to externally published scenarios. The scenarios and weightings applied are summarised below:

December 2022		**UK Unemployment Rate – Annual Average**				**UK HPI – movement from December 2022**			
Scenario	**Weightings**	**2023 %**	**2024 %**	**2025 %**	**5 Yr Average %**	**2023 %**	**2024 %**	**2025 %**	**5 Yr Average %**
Upside	20%	4.1	4.0	3.8	3.8	(5.2)	(6.3)	(2.0)	1.9
Base	50%	4.4	4.4	4.0	4.1	(8.4)	(11.4)	(9.2)	0.4
Downside	25%	5.4	6.5	7.1	6.5	(14.6)	(21.3)	(23.5)	(2.6)
Severe	5%	5.6	7.0	7.6	6.9	(19.2)	(28.8)	(34.3)	(5.2)

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

The sensitivity of the ECL allowance to reasonably possible changes in 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**	
	2022 £million	2021 £million	**2022 £million**	2021 £million
Vehicle Finance	0.6	0.2	0.4	0.2
Retail Finance	0.7	0.3	0.5	0.2

The sensitivity is immaterial for other lending products.

The Group recognised a total impairment charge of £39.0 million (2021: £4.5 million). Were each of the scenarios to be applied at 100%, rather than using the weightings set out above, the increase/(decrease) in ECL provisions would be as follows:

	2022				2021			
Scenario	**Vehicle Finance £million**	**Retail Finance £million**	**Business Finance £million**	**Total Group £million**	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(1.9)	(0.3)	(0.7)	(2.9)	(1.2)	(2.0)	(2.5)	(5.7)

Base	(1.5)	0.4	(0.4)	(1.5)	(0.4)	(0.4)	(1.9)	(2.7)
Downside	0.9	3.0	0.9	4.8	1.0	1.5	0.5	3.0
Severe	1.6	3.8	1.7	7.1	3.3	4.6	8.4	16.3

17.1.2. ECL modelled output: 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 £3.1 million (2021: a 15% change impacted the ECL allowance by £2.3 million).

A 15% change in the PD for Retail Finance would immediately impact the ECL allowance by £2.5 million (2021: a 30% change impacted the ECL allowance by £4.6 million).

The above sensitivities reflect the levels of defaults observed during the year.

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

17.1.3. ECL modelled output: 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% (2021: 20%) change in the LGD is considered reasonably possible due to delays in the vehicle collection process. A 20% (2021: 20%) reduction in the vehicle recovery rate assumption element of the LGD for Vehicle Finance would increase the ECL by £1.9 million (2021: £2.0 million). There has been no change in the vehicle recovery rate assumption in the ECL model in either the current or prior year.

17.1.5. ECJ: Vehicle Finance used car values
Since March 2021, we have observed an increase in used car prices of 17% (2021: 32%). This increase in used car prices has been incorporated into the modelled LGD reducing the ECL provision by £2.0 million (2021: £3.0 million). However, the Directors believe that used car prices will drop by 9% (2021: drop by 19%) and have applied an overlay for lower recoveries with an increased provision of £1.0 million for the year ended 31 December 2022 (2021: £1.5 million).

17.1.6. Sensitivities no longer presented
At December 2022 actual observed Vehicle Finance cure rates were used in the ECL model. As a result, at December 2022 this sensitivity was no longer applicable. Additionally the sensitivity of any reasonable change in the weighting of the scenarios used for the LGD on Real Estate Finance loans in stage 3 is no longer material.

17.1.7. 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.

17.2. Critical judgments

17.2.1. ECJ: Consumer Finance customer affordability
An additional PD estimate was applied at 31 December 2021 to reflect the heightened risk of lower customer affordability in the Consumer businesses due to the increased cost of living. A 15% uplift was applied to the ECL on loans identified as most likely to be impacted by increases in cost of living, which increased the ECL by £4.6 million. If the uplift factor was increased to 20%, the ECL would have been impacted by a further £0.9 million. At 31 December 2022, the methodology was changed to a new EMV model which used inflation as a driver of defaults with the difference between this model and our base models informing the expert credit judgement.

The expert credit judgement relating to Consumer Finance affordability reduced to £2.5 million at December 2022 from £4.6 million at December 2021. The Directors have deemed this a critical judgement given the uncertainty of the current economic environment and the effect that this could have on customer affordability. The Group is satisfied that it is reasonably estimating the level of provisioning required to capture expected defaults and the impacts of costs of living.

18. Derivative financial instruments

Group and Company
Interest rate derivatives 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 6. Notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

	Notional 2022 £million	**Assets 2022 £million**	**Liabilities 2022 £million**	Notional 2021 £million	Assets 2021 £million	Liabilities 2021 £million
Interest rate derivatives designated in fair value hedges						
In less than one year	689.8	3.9	(6.0)	382.1	0.3	(0.7)
More than one year but less than three years	718.5	15.4	(16.1)	564.6	2.9	(3.0)
More than three years but less than five years	274.9	15.5	(3.3)	194.3	0.4	(2.2)
More than five years	7.5	–	–	–	–	–
	1,690.7	**34.8**	**(25.4)**	**1,141.0**	**3.6**	**(5.9)**
Interest rate derivatives designated in cash flow hedges						
More than one year but less than three years	14.1	–	(1.1)	4.7	–	(0.1)
More than three years but less than five years	2.4	0.1	–	9.4	–	(0.2)
	16.5	**0.1**	**(1.1)**	**14.1**	**–**	**(0.3)**
Foreign exchange derivatives						
In less than one year	16.7	–	(0.2)	15.3	0.2	–
	1,723.9	**34.9**	**(26.7)**	**1,170.4**	**3.8**	**(6.2)**

In order to manage interest rate risk arising from fixed rate financial instruments, the Group reviews interest rate derivative 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 interest rate derivative 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) 2022 £million	**Accumulated amount of fair value adjustments in the hedged items Asset/(liability) 2022 £million**	Carry amount of hedged item Asset/(liability) 2021 £million	Accumulated amount of fair value adjustments in the hedged items Asset/(liability) 2021 £million
ASSETS				
Interest rate fair value hedges				
Loans and advances to customers				
Fixed rate Real Estate Finance loans	430.7	(22.3)	354.9	(2.1)
Fixed rate Vehicle Finance loans	110.5	(4.0)	86.3	(0.4)
Fixed rate Retail Finance loans	249.2	(5.7)	160.4	(1.0)
	790.4	(32.0)	601.6	(3.5)
Interest rate cash flow hedges				
Cash and Bank of England reserve account				
Bank of England reserve	16.5	N/A	14.1	N/A
	806.9	**(32.0)**	**615.7**	**(3.5)**
LIABILITIES				
Interest rate fair value hedges				
Deposits from customers				
Fixed rate customer deposits	(900.3)	23.0	(539.5)	5.3
	(900.3)	**23.0**	**(539.5)**	**5.3**

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 £0.2 million (2021: £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 2022				
Derivative financial assets				
Interest rate derivatives	34.9	(26.5)	(7.7)	0.7
	34.9	**(26.5)**	**(7.7)**	**0.7**
Derivative financial liabilities				
Interest rate derivatives	(26.5)	26.5	–	–
Foreign exchange derivatives	(0.2)	–	–	(0.2)
	(26.7)	**26.5**	**–**	**(0.2)**

	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 derivatives	3.6	(3.6)	–	–
Foreign exchange derivatives	0.2	–	–	0.2
	3.8	**(3.6)**	**–**	**0.2**
Derivative financial liabilities				
Interest rate derivatives	**(6.2)**	**3.6**	**2.7**	**0.1**

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 were required to be reclassified as 'Held for sale' on the face of the statement of financial position as they were 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. There was no provision held against the RentSmart loans, as the credit risk associated with those loans was retained by RentSmart Limited.

The business is not significant enough to be classified as discontinued operations, or to be disclosed as a separate operating segment in Note 3.

20. Investment property

	Group £million	Company £million
1 January 2021	4.3	5.3
Revaluation	0.4	0.4
At 31 December 2021	**4.7**	**5.7**
Disposal	(3.3)	(3.3)
Transfer to property, plant and equipment	(1.4)	(1.4)
At 31 December 2022	**–**	**1.0**

As at 31 December 2021 year end the Group's investment properties, which were let to third party occupiers, comprised:

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

Secure Trust House was sold during the year. Additionally, the Yorke House tenant vacated during the year, and as the Group and Company intends to occupy the property for its own use, the 50% of Yorke House that was included in investment properties was transferred to property, plant and equipment.

The Company's investment properties included 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.

The Company's investment property is stated at fair value as at 31 December 2022. The Directors have assessed the value of the investment property at the year-end through comparison to current rental yields on similar properties in the same area. This has resulted in no change in values since 31 December 2021. Movements in the fair value of investment property are recognised as 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 2021	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**
Additions	–	–	1.0	1.0
Disposals	–	(0.1)	(3.4)	(3.5)
Transfer from investment properties	1.4	–	–	1.4
At 31 December 2022	**8.3**	**–**	**6.9**	**15.2**
Accumulated depreciation				
At 1 January 2021	–	–	(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)**
Depreciation charge	(0.1)	–	(1.1)	(1.2)
Disposals	–	–	3.2	3.2
Revaluation	0.1	–	–	0.1
At 31 December 2022	**–**	**–**	**(4.9)**	**(4.9)**
Net book amount				
At 31 December 2021	**6.9**	**0.1**	**2.3**	**9.3**
At 31 December 2022	**8.3**	**–**	**2.0**	**10.3**

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

- the Registered Office of the Company;
- Yorke House, Arleston Way, Shirley B90 4LH; and

- 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 2021 and 1 January 2022	2.1	6.4	8.5
Additions	–	0.3	0.3
Disposals	–	(0.5)	(0.5)
Transfer from investment properties	1.4	–	1.4
At 31 December 2022	**3.5**	**6.2**	**9.7**
Accumulated depreciation			
At 1 January 2021	–	(4.0)	(4.0)
Depreciation charge	–	(0.8)	(0.8)
At 31 December 2021	**–**	**(4.8)**	**(4.8)**
Depreciation charge	–	(0.7)	(0.7)
Disposals	–	0.5	0.5
At 31 December 2022	**–**	**(5.0)**	**(5.0)**
Net book amount			
At 31 December 2021	**2.1**	**1.6**	**3.7**
At 31 December 2022	**3.5**	**1.2**	**4.7**

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 2022. The Directors have assessed the value of the freehold property at the year-end through comparison to current rental yields on similar properties in the same area. This has resulted in no change in values since 31 December 2021. An increase in the fair value of freehold property of £0.5 million was recognised in other comprehensive income at 31 December 2021 and its carrying value was adjusted accordingly. Movements in the fair value of freehold property are recognised in other comprehensive income, to the extent that any reductions do not exceed the initial increase.

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 £1.5 million (2021: £1.5 million) for the Group and £0.8 million (2021: £0.8 million) for the Company.

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

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Cost	8.6	7.1	3.0	1.6
Depreciation	(2.3)	(2.2)	(0.1)	(0.1)
Net book value	**6.3**	**4.9**	**2.9**	**1.5**

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 2021	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**
Additions	–	0.5	0.5	–	0.2	0.2
Disposals	(1.3)	(0.2)	(1.5)	–	(0.2)	(0.2)
At 31 December 2022	**3.1**	**0.6**	**3.7**	**3.1**	**0.2**	**3.3**
Accumulated depreciation						
At 1 January 2021	(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)**
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.4)	–	(0.4)
Disposals	0.8	0.2	1.0	–	0.2	0.2
At 31 December 2022	**(2.0)**	**(0.2)**	**(2.2)**	**(2.0)**	**–**	**(2.0)**
Net book amount						
At 31 December 2021	**2.2**	**–**	**2.2**	**1.5**	**–**	**1.5**
At 31 December 2022	**1.1**	**0.4**	**1.5**	**1.1**	**0.2**	**1.3**

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 2021	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**
Additions	–	1.7	–	1.7
Disposals	–	(1.8)	–	(1.8)
At 31 December 2022	**1.0**	**17.2**	**2.2**	**20.4**
Accumulated amortisation				
At 1 January 2021	–	(10.3)	(1.8)	(12.1)
Amortisation charge	–	(1.3)	(0.2)	(1.5)
At 31 December 2021	**–**	**(11.6)**	**(2.0)**	**(13.6)**
Amortisation charge	–	(1.2)	(0.2)	(1.4)
Disposals	–	1.2	–	1.2
At 31 December 2022	**–**	**(11.6)**	**(2.2)**	**(13.8)**
Net book amount				
At 31 December 2021	**1.0**	**5.7**	**0.2**	**6.9**
At 31 December 2022	**1.0**	**5.6**	**–**	**6.6**

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

	2022 £million	2021 £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 8% (2021: 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 2021	0.3	12.0	12.3

Additions	–	0.8	0.8
Transfer to cloud software development prepayments	–	(0.4)	(0.4)
At 31 December 2021	**0.3**	**12.4**	**12.7**
Additions	–	0.1	0.1
At 31 December 2022	**0.3**	**12.5**	**12.8**

Accumulated amortisation			
At 1 January 2021	–	(6.1)	(6.1)
Amortisation charge	–	(1.2)	(1.2)
At 31 December 2021	**–**	**(7.3)**	**(7.3)**
Amortisation charge	–	(1.1)	(1.1)
At 31 December 2022	**–**	**(8.4)**	**(8.4)**

Net book amount			
At 31 December 2021	**0.3**	**5.1**	**5.4**
At 31 December 2022	**0.3**	**4.1**	**4.4**

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

Cost and net book value	**2022 £million**	2021 £million
At 1 January	4.3	4.1
Addition - Investment in AppToPay Ltd	1.0	–
Equity contributions to subsidiaries in respect of share options	0.4	0.2
At 31 December	**5.7**	**4.3**

During the year the Group completed the acquisition of 100% of the issued share capital of AppToPay Ltd for £1.0 million. AppToPay Ltd is the owner of a proprietary technology platform, and the acquisition is complementary to the Group's existing Retail Finance proposition, which

supports our planned entry into the Digital Buy Now Pay Later market. In addition to this, an earn-out of a maximum of £0.2 million is payable in 2023, subject to certain performance conditions.

The Group has elected to use the optional practical expedient within IFRS 3 Business Combinations which allows a simplified assessment that a purchase is accounted for as an asset purchase as opposed to a business combination if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset. AppToPay Ltd's principal asset is a software development intangible asset. The resulting impact on the Group is an increase in intangible assets of £1.1 million. Since acquisition, the assets and liabilities have been transferred across to V12 Retail Finance Limited.

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	
AppToPay Ltd	Non-trading
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.

AppToPay Ltd, Debt Managers (Services) Limited, Secure Homes Services Limited, STB Leasing Limited, V12 Finance Group 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 following financial periods:

AppToPay Ltd	9 months ended 31 December 2022
Debt Managers (Services) Limited	Year ended 31 December 2022
Secure Homes Services Limited	Year ended 31 December 2022
STB Leasing Limited	18 months ended 30 June 2022 and 6 months ended 31 December 2022
V12 Finance Group Limited	Year ended 31 December 2022
V12 Personal Finance Limited	Year ended 31 December 2022

25. Deferred taxation

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Deferred tax assets:				
Other short-term timing differences	5.5	6.9	5.3	6.8
At 31 December	**5.5**	**6.9**	**5.3**	**6.8**

Deferred tax assets:				
At 1 January	6.9	6.6	6.8	7.1
Income statement	(1.8)	0.3	(1.8)	(0.4)
Other comprehensive income	0.4	–	0.3	0.1
At 31 December	**5.5**	**6.9**	**5.3**	**6.8**

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 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Other receivables	1.7	0.4	1.5	0.3
Amounts due from related companies	–	–	3.1	89.3
Cloud software development prepayment	4.7	4.8	4.7	4.8
Other prepayments and accrued income	7.0	6.7	5.8	5.4
	13.4	**11.9**	**15.1**	**99.8**

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. As a consequence of the sale of the DMS loan book, £81.9 million of the amounts due from related companies was repaid during the year.

27. Due to banks

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Amounts due under the Bank of England's liquidity support operations (Term Funding Scheme with additional incentives for SMEs)	390.0	390.0	390.0	390.0
Amounts due to other credit institutions	7.7	0.7	7.7	0.7
Accrued interest	2.8	0.1	2.8	0.1
	400.5	**390.8**	**400.5**	**390.8**

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

	2022 £million	2021 £million
Access accounts	178.1	101.7
Fixed term bonds	1,414.0	974.6
Notice accounts	500.7	771.9
ISAs	421.8	255.0
	2,514.6	**2,103.2**

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

29. Lease liabilities

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
At 1 January	3.1	3.9	2.3	2.9
New leases	0.5	–	0.2	–
Lease termination	(0.6)	–	–	–
Payments	(1.0)	(0.9)	(0.7)	(0.7)

Interest expense	0.1	0.1	0.1	0.1
At 31 December	**2.1**	**3.1**	**1.9**	**2.3**
Lease liabilities – Gross				
– No later than one year	0.7	0.9	0.7	0.7
– Later than one year and no later than five years	1.5	2.3	1.3	1.7
– More than five years	–	0.1	–	–
	2.2	3.3	2.0	2.4
Less: Future finance expense	(0.1)	(0.2)	(0.1)	(0.1)
Lease liabilities – Net	**2.1**	**3.1**	**1.9**	**2.3**
Lease liabilities – Gross				
– No later than one year	0.7	0.8	0.7	0.7
– Later than one year and no later than five years	1.4	2.2	1.2	1.6
– More than five years	–	0.1	–	–
	2.1	**3.1**	**1.9**	**2.3**

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

30. Other liabilities

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Other payables	68.1	18.3	65.0	14.9
Amounts due to related companies	–	–	12.4	17.9
Accruals and deferred income	10.0	13.0	8.5	11.0
	78.1	**31.3**	**85.9**	**43.8**

31. Provisions for liabilities and charges

	Group			**Company**		
	ECL allowance on loan commitments £million	**Other £million**	**Total £million**	**ECL allowance on loan commitments £million**	**Other £million**	**Total £million**
Balance at 1 January 2021	1.1	0.8	1.9	1.1	0.8	1.9
(Release)/charge to income statement	(0.2)	0.3	0.1	(0.2)	0.3	0.1
Utilised	–	(0.7)	(0.7)	–	(0.7)	(0.7)
Balance at 31 December 2021	**0.9**	**0.4**	**1.3**	**0.9**	**0.4**	**1.3**
Charge to income statement	0.2	1.9	2.1	0.2	1.4	1.6
Utilised	–	(0.9)	(0.9)	–	(0.9)	(0.9)
Balance at 31 December 2022	**1.1**	**1.4**	**2.5**	**1.1**	**0.9**	**2.0**

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 2022 and 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 1 to 2 years.

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

	2022 £million	2021 £million
Notes at par value	50.0	50.0
Unamortised issue costs	(0.1)	(0.3)
Accrued interest	1.2	1.2
	51.1	**50.9**

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 fixed dates.
- 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.

For details of post-balance sheet events relating to subordinated liabilities, see Note 47.

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 2022, the Group and Company had capital commitments of £1.5 million (2021: £nil).

33.3 Credit commitments

Group and Company
Commitments to extend credit to customers were as follows:

	2022 £million	2021 £million
Consumer Finance		
Retail Finance	97.2	83.6
Vehicle Finance	1.2	0.5
Business Finance		
Real Estate Finance	53.1	68.9

Commercial Finance	146.5	120.9
	298.0	**273.9**

34. Share capital

	Number	**£million**
At 1 January 2021	18,633,662	7.5
Issued during 2021	14,143	–
At 31 December 2021	18,647,805	7.5
Issued during 2022	43,629	–
At 31 December 2022	**18,691,434**	**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. Other reserves

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Cash flow hedge reserve	(0.8)	(0.3)	(0.8)	(0.3)
Revaluation reserve	0.8	1.3	–	0.7
Own shares	(0.3)	–	(0.3)	–
	(0.3)	**1.0**	**(1.1)**	**0.4**

35.1 Own Shares
An Employee Benefit Trust ('EBT') was established during the year. At 31 December 2022 the EBT held 37,501 shares (2021: nil) with a nominal value of £15,000 (2021: £nil) and a market value of £0.3 million (2021: £nil). These shares are held in trust for the benefit of employees who will be exercising their options under the Group's share options schemes. The trustee's expenses are included in the operating expenses of the Group.

Own shares accounting policy
The EBT qualifies for 'look-through' accounting, under which the EBT is treated as, in substance, an extension of the sponsoring entity, which is Secure Trust Bank PLC. Own shares represent the shares of the Parent Company, Secure Trust Bank PLC, that are held by the EBT. Own shares are recorded at cost and deducted from equity.

36. Share-based payments
At 31 December 2022 and 31 December 2021, the Group had four share-based payment schemes in operation:

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

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

	Outstanding at 1 January 2022 Number	**Granted during the year Number**	**Forfeited lapsed and cancelled during the year Number**	**Exercised during the year Number**	**Outstanding at 31 December 2022 Number**	**Vested and exercisable at 31 December 2022 Number**	**Vesting dates**	**Weighted average exercise price of options outstanding at 31 December 2022 £**	**Weighted average exercise price of options outstanding at 31 December 2021 £**
Equity settled									
2017 long term incentive plan	401,800	230,789	6,242	(27,479)	**611,353**	11,103	2023-2025	**0.40**	0.40

2017 Sharesave plan	542,446	111,833	(100,873)	(7,927)	**545,479**	11,492	2023-2025	**6.24**	6.17
2017 deferred bonus plan	19,686	38,344	–	(8,223)	**49,807**	–	2023-2025	**0.40**	0.40
	963,932	**380,966**	**(94,630)**	**(43,629)**	**1,206,639**	**22,595**		**3.04**	**3.65**
Weighted average exercise price	**3.65**	**2.66**	**8.57**	**1.34**	**3.04**				
Cash settled									
'Phantom' share option scheme	94,167	–	(16,000)	–	**78,167**	78,167	2019	**25.00**	25.00

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Expense incurred in relation to share-based payments	**1.8**	0.9	**1.4**	0.9

36.1. 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.

36.1.1 LTIP Restricted share award

54,427 (2021: 56,023) options were awarded during the year 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 2022	Awarded during 2021
Share price at grant date	£12.40	£11.73
Exercise price	£0.40	£0.40
Expected dividend yield	4.39%	5.49%
Expected stock price volatility	47.27%	46.27%
Risk free interest rate	1.47%	0.00%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£10.49**	**£9.94**

36.1.2 LTIP

176,362 (2021: 187,527) options were awarded during the year 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.

36.1. Long term incentive plan ('LTIP') continued

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.

All of the share options exercised during the year were exercised for shares. Of the share options exercised during the prior year, 13,317 were exercised for shares, and 530 were exercised for a cash alternative at a deemed market price of £11.90.

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 2022	Awarded during 2021
Share price at grant date	£12.40	£11.73
Exercise price	£0.40	£0.40
Expected dividend yield	4.39%	5.49%

Expected stock price volatility	46.87%	45.56%
Risk free interest rate	1.50%	0.11%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£7.43**	**£6.99**

36.2. 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.

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

	Awarded during 2022	Awarded during 2021
Share price at grant date	£9.62	£12.45
Exercise price	£8.10	£10.69
Expected stock price volatility	48.47%	53.84%
Expected dividend yield	4.39%	5.49%
Risk free interest rate	3.24%	0.74%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£3.14**	**£4.12**

36.3. Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

In 2022 and 2021, 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 2021	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**
Granted	12,779	12,779	12,786	38,344
Exercised	(5,727)	(2,496)	–	(8,223)
At 31 December 2022	**12,779**	**17,119**	**19,909**	**49,807**
Vested and exercisable	–	–	–	–

38,344 awards were made under this plan in April 2022, (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 2022 Awards vesting after one year	**Granted in 2022 Awards vesting after two years**	**Granted in 2022 Awards vesting after three years**
Share price at grant date	£12.40	£12.40	£12.40
Exercise price	£0.40	£0.40	£0.40

Expected dividend yield	4.39%	4.39%	4.39%
Expected stock price volatility	32.04%	42.03%	47.27%
Risk free interest rate	1.39%	1.46%	1.47%
Average expected life (years)	1.00	2.00	3.00
Original grant date valuation	**£11.47**	**£10.97**	**£10.49**

	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 20 21 Awards vesting after one years	Granted in September 20 21 Awards vesting after two years	Granted in September 20 21 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**

36.4 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. The options vested during 2019 and are exercisable for a period of 10 years after grant date.

As at 31 December 2022, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	2022	2021
Share price at reporting date	£7.50	£12.35
Expected stock price volatility	38.68%	45.30%
Expected dividend yield	4.39%	5.49%
Risk free interest rate	3.39%	0.55%
Average expected life (years)	2.21	3.34
Fair value	**£0.04**	**£1.06**

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

	2022 £million	2021 £million
Liability	–	**0.1**

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 are 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.

37. Cash flow statement

37.1. 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 2022 £million	Restated Group 2021 £million	**Company 2022 £million**	Restated Company 2021 £million
Cash and Bank of England reserve account	370.1	235.7	370.1	235.7
Loans and advances to banks (Note 13)	50.5	50.3	48.9	47.4
Debt securities	–	25.0	–	25.0
Less:				
Cash ratio deposit	(3.7)	(1.7)	(3.7)	(1.7)
Collateral margin account	–	(2.6)	–	(2.6)
	(3.7)	(4.3)	(3.7)	(4.3)
Cash and cash equivalents	**416.9**	**306.7**	**415.3**	**303.8**

Cash and cash equivalents in the prior year has been restated from £303.0 million in the Group and £300.1 million in the Company. See Note 1.3 for further details.

The Group and Company has no access to the cash ratio deposit or the collateral margin accounts, so these amounts do not meet the definition of cash and cash equivalents and accordingly they are excluded from cash and cash equivalents.

37.2. 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 (2021: £0.1 million) of lease liabilities interest expense, as shown in Note 29, and £0.2 million (2021: £0.1 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.

38. 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 Principal risks and uncertainties section beginning on page 25 of the 2022 Annual Report and Accounts.

Included within the principal financial risks inherent in the Group's business are credit risk (Note 39), market risk (Note 40), liquidity risk (Note 41), and capital risk (Note 42).

39. 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 small and medium size enterprises ('SME') to whom the Group primarily 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 27 of the 2022 Annual Report and Accounts for further details on the mitigation and change during the year of credit risk.

Group and Company
With the exception of loans and advances to customers, the carrying amount of financial assets represents the maximum exposure to credit risk. The 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**			
	£million	**<= 30 days past due £million**	**> 30 days past due £million**	**Total £million**	**Excl. purchased credit-impaired £million**	**Purchased credit-impaired £million**	**Total £million**	**Total gross loans and advances to customers £million**
31 December 2022								
Consumer Finance								
Retail Finance	987.4	85.4	3.8	89.2	6.1	–	6.1	1,082.7
Vehicle Finance	306.8	83.3	3.8	87.1	23.6	–	23.6	417.5
Business Finance								
Real Estate Finance	957.9	122.9	21.3	144.2	16.8	–	16.8	1,118.9
Commercial Finance	327.7	50.2	–	50.2	0.5	–	0.5	378.4
Total drawn exposure	**2,579.8**	**341.8**	**28.9**	**370.7**	**47.0**	–	**47.0**	**2,997.5**
Off balance sheet								
Loan commitments	298.0	–	–	–	–	–	–	298.0
Total gross exposure	**2,877.8**	**341.8**	**28.9**	**370.7**	**47.0**	–	**47.0**	**3,295.5**
Less:								
Impairment allowance	(24.3)	(23.9)	(4.7)	(28.6)	(25.1)	–	(25.1)	(78.0)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,852.4**	**317.9**	**24.2**	**342.1**	**21.9**	–	**21.9**	**3,216.4**

£16.1 million (2021: £50.3 million) of collateral in the form of property has been pledged as security for Real Estate Finance Stage 3 balances of £14.8 million (2021: £37.3 million). £11.2 million (2021: £8.9 million) of collateral in the form of vehicles has been pledged as security for Vehicle Finance Stage 3 balances of £6.6 million (2021: £5.0 million).

Group

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

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

Company

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

39.1. 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

	£million 2022	£million 2021
Central England	101.9	90.1
Greater London	689.7	619.7
Northern England	68.7	66.2
South East England (excl. Greater London)	189.5	258.7
South West England	20.4	30.7
Scotland, Wales and Northern Ireland	48.7	47.4
Gross loans and receivables	1,118.9	1,112.8

Allowance for impairment	(3.4)	(3.2)
Total	**1,115.5**	**1,109.6**

39.2. Forbearance

Consumer Finance

Throughout the year 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. As at the year end, the Consumer Finance business approximately had the following cases (by volume) in forbearance:

- Retail Finance 0.15% (2021: 0.12%); and
- Vehicle Finance: 0.16% (2021: 0.12%).

In respect of Vehicle Finance, 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 vehicle in order to sell it and clear the outstanding debt. Where the sale of the vehicle does not cover all of the remaining loan, normal credit collection procedures may be carried out in order to recover the outstanding debt, or the debt may be sold to a third party debt recovery agent or in certain circumstances the debt may be written off.

Real Estate Finance

Where clients provided evidence of payment difficulties, they were supported by being granted one or both of extensions to loan maturity dates and partial or full short-term payment holidays. A small number of clients who experienced difficulties in meeting their financial commitments were offered concessions (facility restructures) which Real Estate Finance would not have provided under normal circumstances. As at 31 December 2022, 1.3% of accounts were classed as forborne (2021: 1.4%). Where forbearance measures are not possible or are considered not to be in the client'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.

40. 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 30 of the 2022 Annual Report and Accounts 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 and hedges residual mismatch in accordance with risk appetites. 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:

	2022 £million	2021 £million
Market value sensitivity		
+200bp parallel shift in yield curve	1.8	2.7
-200bp parallel shift in yield curve	(1.9)	(2.7)
Earnings at risk sensitivity		

+100bp parallel shift in yield curve	1.2	1.4
-100bp parallel shift in yield curve	(1.2)	(0.4)

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.

41. 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 28 of the 2022 Annual Report and Accounts 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 2022						
Due to banks	400.5	438.7	10.6	10.2	417.9	–
Deposits from customers	2,514.6	2,565.0	956.7	1,030.0	577.2	1.1
Subordinated liabilities	51.1	53.4	0.8	52.6	–	–
Lease liabilities	2.1	2.2	0.2	0.5	1.5	–
Other financial liabilities	68.1	68.1	68.1	–	–	–
	3,036.4	**3,127.4**	**1,036.4**	**1,093.3**	**996.6**	**1.1**
Derivative financial liabilities	26.7	27.5	4.4	12.2	10.9	–
	3,063.1	**3,154.9**	**1,040.8**	**1,105.5**	**1,007.5**	**1.1**

	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**

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 2022						
Lease liabilities	1.9	2.0	0.2	0.5	1.3	–
Other financial liabilities	77.4	77.4	77.4	–	–	–

Non-derivative financial liabilities	**3,045.5**	**3,136.5**	**1,045.7**	**1,093.3**	**996.4**	**1.1**
Total	**3,072.2**	**3,164.0**	**1,050.1**	**1,105.5**	**1,007.3**	**1.1**

	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

42. 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 has Tier 1 and Tier 2 capital resources, 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 29 of the 2022 Annual Report and Accounts 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 page 16 of the Financial review in the 2022 Annual Report and Accounts.

Tier 2 capital comprises solely subordinated debt, excluding accrued interest, capped at 25% of the Pillar 1 and 2A requirements as set by the PRA.

	2022 £million (unaudited)	2021 £million (unaudited)
CET 1		
Share capital	7.5	7.5
Share premium	82.2	82.2
Retained earnings	237.5	211.7
Revaluation reserve	0.8	1.3
Own shares	(0.3)	–
IFRS 9 transition adjustments	11.7	13.9
Goodwill	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(5.6)	(4.3)
CET1 capital before foreseeable dividend	**332.8**	**311.3**
Foreseeable dividend	(5.4)	(7.7)
CET1 and Tier 1 capital	**327.4**	**303.6**
Tier 2		
Subordinated liabilities	49.9	50.9
Less ineligible portion	–	(3.9)
Total Tier 2 capital	**49.9**	**47.0**
Own funds	**377.3**	**350.6**
Reconciliation to total equity:		
IFRS 9 transition adjustments	(11.7)	(13.9)

Eligible subordinated liabilities	(49.9)	(47.0)
Cash flow hedge reserve	(0.8)	(0.3)
Goodwill and other intangible assets net of attributable deferred tax	6.6	5.3
Foreseeable dividend	5.4	7.7
Total equity	**326.9**	**302.4**

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

43. Classification of financial assets and liabilities

Group

	Total carrying amount £million 2022	**Fair value £million 2022**	**Fair value hierarchy level 2022**	Total carrying amount £million 2021	Fair value £million 2021	Fair value hierarchy level 2021
Cash and Bank of England reserve account	370.1	370.1	Level 1	234.0	234.0	Level 1
Loans and advances to banks	50.5	50.5	Level 2	52.0	52.0	Level 2
Debt securities	–	–		25.0	25.0	Level 1
Loans and advances to customers	2,919.5	2,895.6	Level 3	2,530.6	2,568.6	Level 3
Derivative financial instruments	34.9	34.9	Level 2	3.8	3.8	Level 2
Assets held for sale	–	–		1.3	1.3	Level 3
Other financial assets	1.7	1.7	Level 3	0.4	0.4	Level 3
	3,376.7	**3,352.8**		**2,847.1**	**2,885.1**	
Due to banks	400.5	400.5	Level 2	390.8	390.8	Level 2
Deposits from customers	2,514.6	2,494.0	Level 3	2,103.2	2,106.9	Level 3
Derivative financial instruments	26.7	26.7	Level 2	6.2	6.2	Level 2
Liabilities held for sale	–	–		2.0	2.0	Level 3
Lease liabilities	2.1	2.1	Level 3	3.1	3.1	Level 3
Other financial liabilities	68.1	68.1	Level 3	18.3	18.3	Level 3
Subordinated liabilities	51.1	43.5	Level 2	50.9	50.7	Level 2
	3,063.1	**3,034.9**		**2,574.5**	**2,578.0**	

All financial assets and liabilities at 31 December 2022 and 31 December 2021 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 2022	**Fair value £million 2022**	**Fair value hierarchy level 2022**	Total carrying amount £million 2021	Fair value £million 2021	Fair value hierarchy level 2021
At 31 December 2022						
Cash and Bank of England reserve account	370.1	370.1	Level 1	234.0	234.0	Level 1
Loans and advances to banks	48.9	48.9	Level 2	49.1	49.1	Level 2
Debt securities	–	–		25.0	25.0	Level 1
Loans and advances to customers	2,919.5	2,895.6	Level 3	2,450.3	2,487.1	Level 3
Derivative financial instruments	34.9	34.9	Level 2	3.8	3.8	Level 2
Other financial assets	4.6	4.6	Level 3	89.6	89.6	Level 3
	3,378.0	**3,354.1**		**2,851.8**	**2,888.6**	
Due to banks	400.5	400.5	Level 2	390.8	390.8	Level 2
Deposits from customers	2,514.6	2,494.0	Level 3	2,103.2	2,106.9	Level 3

Derivative financial instruments	26.7	26.7	Level 2	6.2	6.2	Level 2
Liabilities associated with assets held for sale	–	–		2.0	2.0	Level 3
Lease liabilities	1.9	1.9	Level 3	2.3	2.3	Level 3
Other financial liabilities	77.4	77.4	Level 3	32.8	32.8	Level 3
Subordinated liabilities	51.1	43.5	Level 2	50.9	50.7	Level 2
	3,072.2	**3,044.0**		**2,588.2**	**2,591.7**	

All financial assets and liabilities at 31 December 2022 and 31 December 2021 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 a 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 SONIA forward curve at the balance sheet date.

Subordinated liabilities

The fair value subordinated liabilities are 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.

44. 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.

No transactions were entered into with Key Management Personnel or their close family members during the current or prior year.

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

	2022 £million	2021 £million
Interest income and similar income	(26.2)	(21.0)
Gain on sale of defaulted debt	0.2	0.1
Operating expenses	(0.4)	(0.7)
Waiver of intercompany balance	(0.2)	–
Investment income	14.0	4.8
	(12.6)	**(16.8)**
Equity contribution to subsidiaries re. share-based payments	**0.4**	**0.2**

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

	Company 2022	Company 2021

	£million	£million
Amounts receivable from subsidiary undertakings	3.1	89.3
Amounts due to subsidiary undertakings	(12.4)	(17.9)
	(9.3)	**71.4**

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 80 of the 2022 Annual Report and Accounts.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' Remuneration Report beginning on page 80 of the 2022 Annual Report and Accounts. 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.

45. Immediate parent company and ultimate controlling party

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

46. 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**	**Average number of FTE employees**	**Profit before tax £million**	**Tax paid on profit £million**
31 December 2022	Secure Trust Bank PLC	Banking services	UK	208.3	940	44.0	7.0
31 December 2021	Secure Trust Bank PLC	Banking services	UK	194.3	973	56.0	12.6

47. Non-adjusting post balance sheet events

47.1 Subordinated liabilities

On 28 February 2023, the Group and Company issued £90.0 million 13.0% Fixed Rate Reset Callable Subordinated Notes due August 2033 (the 'New Notes'). The New Notes are treated as Tier 2 regulatory capital and are listed on the International Securities Market of the London Stock Exchange. This issuance is in line with the Group's funding strategy and supports the Group's stated medium-term growth ambitions.

The Group and Company redeemed all of its existing 6.75%. Fixed Rate Reset Callable Subordinated Notes due in 2028 in two tranches: £25.0 million on 28 February 2023; and £25.0 million on 20 March 2023.

47.2 Loans and advances to customers

Post year end, a dispute has arisen between a Business Finance client of the Group and its customer. As a result of this post balance sheet event, the client is now in default and the Group is evaluating its options to recover amounts due to it through its legal security and other such rights. Until this evaluation has been completed, the Group cannot reasonably quantify any cash shortfalls which could arise once better information is known.

Five-year summary (unaudited)

	2022 £million	Restated 2021 £million	Restated 2020 £million	Total 2019 £million	Total 2018 £million
Profit for the year					
Continuing operations					
Interest and similar income	203.0	163.9	173.1	191.4	169.2
Interest expense and similar charges	(50.4)	(27.7)	(39.4)	(46.0)	(35.5)
Net interest income	**152.6**	**136.2**	**133.7**	**145.4**	**133.7**
Net fee and commission income	17.0	12.7	10.8	20.1	17.9

Operating income	**169.6**	**148.9**	**144.5**	**165.5**	**151.6**
Net impairment charge on loans and advances to customers	(38.2)	(5.0)	(41.4)	(32.6)	(32.4)
Gains/(losses) on modification of financial assets	1.1	1.5	(3.1)	–	–
Fair value losses on financial instruments	(0.3)	(0.1)	–	–	–
Operating expenses	(93.2)	(89.4)	(81.8)	(96.8)	(84.5)
Profit before income tax	**39.0**	**55.9**	**18.2**	**36.1**	**34.7**
Discontinued operations					
Profit before income tax	5.0	0.1	0.9	–	–
Total profit before income tax	**44.0**	**56.0**	**19.1**	**36.1**	**34.7**

	Continuing 2022 £million	Continuing 2021 £million	Continuing 2020 £million	2019 £million	2018 £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	158.5	244.1	82.7	168.3	153.2

	2022 £million	2021 £million	2020 £million	2019 £million	2018 £million
Financial position					
Cash and Bank of England reserve account	370.1	234.0	181.5	105.8	169.7
Loans and advances to banks	50.5	52.0	63.3	48.4	44.8
Debt securities	–	25.0	–	25.0	149.7
Loans and advances to customers	2,919.5	2,530.6	2,358.9	2,450.1	2,028.9
Fair value adjustment for portfolio hedged risk	(32.0)	(3.5)	5.7	(0.9)	–
Derivative financial instruments	34.9	3.8	4.8	0.9	–
Other assets	37.3	44.0	47.0	51.4	51.2
Total assets	**3,380.3**	**2,885.9**	**2,661.2**	**2,680.7**	**2,444.3**
Due to banks	400.5	390.8	276.4	308.5	263.5
Deposits from customers	2,514.6	2,103.2	1,992.5	2,020.3	1,847.7
Fair value adjustment for portfolio hedged risk	(23.0)	(5.3)	4.7	(0.7)	–
Derivative financial instruments	26.7	6.2	6.1	0.6	–
Subordinated liabilities	51.1	50.9	50.8	50.6	50.4
Other liabilities	83.5	37.7	63.1	49.4	45.6
Total shareholders' equity	326.9	302.4	267.6	252.0	237.1
Total liabilities and shareholders' equity	**3,380.3**	**2,885.9**	**2,661.2**	**2,680.7**	**2,444.3**

The 2021 and 2020 profits for the year have been restated to reflect the disclosure of discontinued operations.

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures

All key performance indicators are based on continuing operations and continuing loans and advances to customers, unless otherwise stated.

(i) Continuing loans and advances to customers

A reconciliation of total loans and advances to customers to continuing operations loans and advances to customers is set out below:

	2022 £million	2021 £million	2020 £million
Loans and advances to customers	**2,919.5**	2,530.6	2,358.9
Assets held for sale – loan portfolios	–	1.3	–

Total loans and advances to customers	**2,919.5**	2,531.9	2,358.9
Less discontinued loans and advances to customers:			
Asset Finance (sold during 2021)	–	–	(10.4)
DMS (sold during 2022)	–	(79.6)	(81.8)
Consumer Mortgages (sold during 2021)	–	–	(77.7)
Other	–	(1.3)	(4.1)
Total discontinued operations loans and advances to customers	–	(80.9)	(174.0)
Continuing loans and advances to customers	**2,919.5**	**2,451.0**	**2,184.9**

(ii) Net interest margin ratio

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial year 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:

	2022 £million	2021 £million
Interest income and similar	203.0	163.9
Interest expense and similar charges	(50.4)	(27.7)
Net interest income	152.6	136.2
Opening loan book	2,451.0	2,184.9
Closing loan book	2,919.5	2,451.0
Average loan book	2,699.3	2,240.5
Net interest margin	**5.7%**	**6.1%**

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

(iii) Loans and advances to customers annual growth rate

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

	2022 £million	2021 £million
Loans and advances to customers as at 31 December	2,919.5	2,451.0
Loans and advances to customers as at 31 December 2020	2,184.9	2,184.9
Compound annual growth rate	**15.6%**	**12.2%**

The annual growth rate measures how quickly the loan book is growing, measured against a 2020 benchmark.

(iv) Total return on average equity

Annualised return on average equity is calculated as the total 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.

	2022 £million	2021 £million
Total profit after tax	33.7	45.6
Opening equity	302.4	267.6
Closing equity	326.9	302.4
Average equity	313.7	287.0
Return on average equity	**10.7%**	**15.9%**

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

(v) Cost to income ratio

Cost to income ratio is calculated as operating expenses for the financial year as a percentage of operating income for the financial year:

	2022 £million	2021 £million
Operating expenses	93.2	89.4
Operating income	169.6	148.9
Cost to income ratio	**55.0%**	**60.0%**

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

(vi) 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 year as a percentage of the average loan book

	2022 £million	2021 £million
Net impairment charge on loans and advances to customers	38.2	5.0
Gains on modification of financial assets	(1.1)	(1.5)
Total	37.1	3.5
Average loan book	2,699.3	2,240.5
Cost of risk	**1.4%**	**0.2%**

The cost of risk measures how effective the Group has been in managing the credit risk of its lending portfolios

(vii) Cost of funds

Cost of funds is calculated as the interest expense for the financial year expressed as a percentage of average loan book

	2022 £million	2021 £million
Interest expense and similar charges	50.4	27.7
Average loan book	2,699.3	2,240.5
Cost of funds	**1.9%**	**1.2%**

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

(viii) Funding ratio and loan to deposit 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 with additional incentives for SMEs, Tier 2 capital and equity, divided by total loans and advances to customers at the year-end. The loans to deposit ratio is calculated as total loans and advances to customers at the year-end divided by deposits from customers at the year end:

	2022 £million	2021 £million
Deposits from customers	2,514.6	2,103.2
Borrowings under the Bank of England's liquidity support operations - Term Funding Scheme with additional incentives for SMEs (including accrued interest)	392.8	390.1
Tier 2 capital (including accrued interest)	51.1	50.9
Equity	326.9	302.4
	3,285.4	2,846.6
Total loans and advances to customers	2,919.5	2,531.9
Funding ratio	**112.5%**	**112.4%**
Loan to deposit ratio	**116.1%**	**120.4%**

The funding ratio and loan to deposit ratio measure the Group's excess of funding which provides liquidity.

(ix) Profit before tax pre impairments

Profit before tax pre impairments is profit before tax, excluding impairment charges and gains on modification of financial assets.

	2022	2021

	£million	£million
Profit before income tax	39.0	55.9
Excluding:		
Net impairment charge on loans and advances to customers	38.2	5.0
Gains on modification of financial assets	(1.1)	(1.5)
Profit before tax pre impairments	**76.1**	**59.4**

Profit before tax pre impairments measures the operational performance of the business.