# Straightforward transparent banking

Interim Report for the six months ended 30 June 2020

Secure Trust Bank

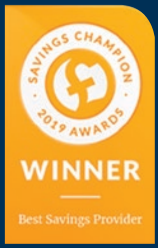
# About us

Secure Trust Bank ('STB') is an award-winning UK retail bank, providing savings accounts and lending services to over a million customers.

Born in 1952 in the West Midlands, we've had plenty of time to hone our craft.

# Safety. Security. Peace of mind. A bank you can trust.

www.securetrustbank.com




We like to keep it simple. We are a well-funded and capitalised UK retail bank, with a track record of successful performance across a diverse lending portfolio.

We use our market awareness and strong risk management discipline to remain agile, aligning our product mix to meet demand from our retail and business customers in attractive markets.

Profit before tax

**£5.1m**

2019: £18.1 million

Total assets

**£2,630.7m**

2019: £2,607.1 million

This Interim Business Report includes alternative performance measures that are not defined or specified under IFRS. Further information in respect of these measures is provided on page 18 with detailed explanations provided from page 62.

Contents

# Our business model
## How Secure Trust Bank does what it does

**We lend to business and personal customers, funded primarily by customer deposits.**

### 8 offices across the UK

1 Solihull
2 Cardiff
3 Manchester
4 Birmingham
5 Rotherham
6 Leeds
7 London
8 Reading


## Our divisions

### Business Finance

Read more on pages **26 to 27**

Secured lending to businesses, relatively lower yield and lower risk.

Lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in lending policies.

#### Real estate
Support to SMEs in providing finance principally for residential development and residential investment.

#### Commercial
A full range of invoice financing solutions to UK businesses including invoice discounting and factoring.

#### Asset
Funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

Asset Finance is currently closed to new business

### Consumer Finance

Read more on pages **28 to 31**

Secured and unsecured lending, ranging from low to higher yield and risk.

Underwriting technology is used to make lending decisions quickly, resulting in high customer satisfaction scores while using strong risk management to minimise bad debt.

#### Retail
Lending products for in-store and online retailers to enable consumer purchases.

#### Debt management
Collection of debt on behalf of a range of clients as well as for Group companies.

#### Motor
Fixed rate, fixed term hire purchase arrangements, predominantly on used cars.

#### Mortgages
Lending to individuals who wish to purchase a property or remortgage their current property.

Consumer Mortgages is currently closed to new business

### Savings

Read more on pages **32 to 33**

#### Savings
Customer deposits, from personal and business customers, available online and serviced using internet banking.

Deposit accounts are promoted to meet funding needs and to broadly match the maturity profiles of lending.

Deposits range from instant access to seven-year bonds, including Cash ISAs.

## What STB needs to operate

### Our people

The Group had 972 employees (full-time equivalent) at 30 June 2020, (30 June 2019: 956) most of whom are based at the head office in Solihull, West Midlands.

### Capital and liquidity

We need to ensure we have sufficient levels of capital and liquidity resources to support our growth and satisfy regulatory requirements.

Read more on pages **24 to 25**

### Risk management

Risk management is key to our success. As well as strong management of credit risk and of capital and liquidity resources, we closely manage market risk, operational risk, conduct risk and regulatory risk.

Read more on pages **34 to 36**

### Market awareness

We have built a management team with significant experience in our chosen markets as well as the wider macroeconomic and regulatory environment.

Read more on pages **04 to 09**

### Flexible business model

We have grown our lending portfolio across a diverse range of sectors, allowing us to be flexible and focus growth in the most attractive areas. Through carefully targeted lending products, the absence of large fixed overheads in the form of a branch network and a policy of not cross-subsidising loss-making products with profitable ones, we can offer competitive deposit interest rates and have been successful in attracting deposits from a wide range of customers.

Read more on pages **12 to 17**

## How STB connects with customers

### Phone

UK-based customer support is available for our lending and savings customers.

### Internet

Our savings products are applied for and serviced through a highly commended online banking service.

### Business partners

Motor lending is provided via UK motor dealers, brokers and internet introducers.

Real Estate and Commercial Finance business is sourced and supported both directly and via introducers.

### Retailers

We operate an online e-commerce service to retailers, providing finance to customers of those retailers through the V12 Retail Finance brand.

## The value we create for our stakeholders

### Our shareholders

We deliver returns to shareholders by:

- Earning interest, fee and commission income from our lending businesses
- Maintaining efficient funding and operational cost levels
- Controlling loan impairment levels through robust credit risk management

Read more in our Financial Review on pages **20 to 25**

### Business and retail

We make available a range of lending options to meet the demands of UK business, particularly from businesses needing working capital, house builders and motor dealers.

Our Retail Finance products enable retailers to offer credit facilities both in-store and online.

### Private consumers

Across all products, we aim to deliver high levels of customer satisfaction.

Lending products are designed to meet the needs of the consumer, be affordable and easy to apply for.

The savings range offers competitive, simple products covered by the Financial Services Compensation Scheme up to the specified limits.

### Wider stakeholders

The Group operates as a responsible business that benefits a wide range of stakeholders. Further details are provided in the Section 172 Statement.

Read more in the 2019 Annual Report

# Impact of COVID-19

# Demonstrating our resilience

The COVID-19 pandemic has had a profound effect on many people's lives, on livelihoods and businesses and on the world economy. The UK Government's response to lockdown large sections of society in order to reduce the risk of contagion and in order to protect healthcare services has inevitably had a major impact on the UK economy and consequently an impact on Secure Trust Bank's customers and markets and on its operations and working environment.

This section sets out a summary of the primary factors which have been and remain material to the Group's performance and to the risks that the Group faces.

## Government and regulatory response to the pandemic

In response to the pandemic, the UK Government, the PRA and the FCA launched a series of significant initiatives designed to support the economy. The measures are wide-ranging, with support being provided directly to borrowers, employees, large and small businesses and to banks as well as other financial firms.

In addition, the Government has made clear that there are additional Government support programmes and policies in the pipeline. At the end of June, the Prime Minister emphasised the theme of infrastructure spending, setting out plans to accelerate £5 billion of spending on various projects. A new Infrastructure Delivery Taskforce is to be set up and the Government will publish the delayed National Infrastructure Strategy in the autumn.

In the Chancellor's economic statement on 8 July, Government plans for steering the economy through the next stages of the coronavirus crisis were outlined. The statement set out additional stimulus measures, many of which were focused on averting large rises in unemployment. Of particular note were the £9 billion job retention bonus programme available to companies which take back furloughed workers, together with measures directed at the hospitality sector.

A summary of the key initiatives impacting Secure Trust Bank's markets and customers is set out below:

### Direct support for personal borrowers

At the onset of the crisis, the regulator announced proposals to support borrowers and the flow of consumer credit to customers. In April, the FCA issued new rules which provided temporary financial relief for those consumer credit customers who have been impacted by coronavirus. The rules included the offer by financial firms of a temporary payment freeze on loans and credit cards for up to three months and zero interest rate overdrafts to customers who already had an arranged overdraft on their main personal current account, again for three months.

More recently, the FCA has extended these proposals designed to support borrowers coming to the end of payment freezes or those who have not yet requested one. These proposals include the requirement to contact customers who have missed payments but can now afford to resume payments and agree a payment plan; the requirement to continue supporting customers who have already had a payment holiday and need further help; and the requirement to allow customers who have already have an arranged overdraft on their main personal current account, to extend the zero interest overdraft for a further three months.

The FCA requirement to give customers who are experiencing temporary financial difficulties a three month repayment freeze has been particularly relevant for the Group's Consumer Finance businesses. The direct impact of these initiatives on the Group is set out in the Consumer Finance section on page 28.

## The Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme is designed to support employers whose operations have been affected by the COVID-19 pandemic. The scheme is available to employers for a total of eight months, from March through to October 2020.

In June, the Government introduced a Flexible Furlough option with effect from 1 July. The changes introduce greater flexibilities and remove the requirement for a minimum furlough period. These changes are designed to support businesses as the economy moves out of lockdown and the focus shifts on getting employees back to work.

The Group has not placed any employees under furlough and has not taken advantage of the Job Retention Scheme.

From 1 August, a new taper is being introduced and employers will have to start contributing towards the costs of paying their furloughed staff. This employer contribution will gradually increase in September and October.

## Reduction of Bank Rate and new Term Funding Scheme

In March, the Monetary Policy Committee voted unanimously to reduce the Bank Rate to 0.1% (after an original reduction to 0.25%) and to introduce the Term Funding Scheme with additional incentives for SMEs (TFSME), financed by the issuance of central bank reserves.

The TFSME is intended to help banks pass on the reduction in the Bank Rate to their customers. Conceptually similar to other BoE facilities, the TFSME offers four-year funding to participants on rates at or close to Bank Rate against the provision of eligible collateral (subject to haircuts) by those participants. The objective is for additional lending to be made available for increased funding to the real economy, especially to Small and Medium-sized Enterprises.

The BoE expectation is that the TFSME will offer funding of at least 5% of participants' share of real economy lending. Its experience from the existing Term Funding suggests that the TFSME could provide in excess of £100 billion in term funding.

## The Coronavirus Business Interruption Loan Scheme

At the end of April, the Government launched two schemes designed to help businesses struggling with the impact of the lockdown restrictions, the Coronavirus Business Interruption Loan Scheme ('CBILS') and the Coronavirus Large Business Interruption Loan Scheme ('CLBILS').

The schemes are designed to provide liquidity to businesses impacted by COVID-19. This financial support is provided through accredited lenders listed on the Government's British Business Bank website and, in both instances, the Government will provide a guarantee of up to 80% of the value of each of the loans.

The CBILS is aimed at small to medium sized-businesses with an annual turnover of up to £45 million. It provides access to financial support (loans and other kinds of finance) up to £5 million for a term of up to six years. The CLBILS, meanwhile, is aimed at larger businesses with an annual turnover of over £45 million. It provides companies with access to loans of up to £25 million for a term of up to three years (firms with a turnover £250 million can apply for up to a £50 million).

The Group is a provider of CBILS and CLBILS, and further detail is provided in the Business Finance section on page 27.

## Prudential measures to support bank lending to the economy

At the start of the crisis in March, the Financial Policy Committee announced with immediate effect a reduction in the UK countercyclical capital buffer to 0% of banks' exposures to UK borrowers. The rate had been 1% and had been due to reach 2% by December 2020. Any subsequent increase will not take effect until March 2022 at the earliest. According to the Bank of England's statement in March, the release of the countercyclical capital buffer will support up to £190 billion of bank lending to businesses.

The PRA has also provided guidance that firms are able to make use of their bank capital and liquidity buffers as necessary to support the economy through the COVID-19 shock. In particular, the regulator emphasised that the use of the CRD IV combined buffer is not a breach of capital requirements and encouraged firms to do so, should this be needed in order to continue lending into the economy.

The regulators have also made clear that they expect banks to take a sensible approach to distributions in current market conditions. In March, the PRA set out its supervisory expectation that banks should not increase dividends or other distributions, such as bonuses, in response to these policy actions being taken. On 28 July 2020 the European Central Bank extended its recommendation not to pay dividends until January 2021 and reiterated the need for moderation in respect of variable remuneration. The Group is not proposing an interim dividend for 2020.

# Impact of COVID-19
continued

## Guidance on the application of regulatory capital and IFRS 9

In May, the PRA issued guidance on the application of regulatory capital and IFRS 9 requirements to granted or extended payment holidays. The PRA set out that it considers that eligibility for, and use of, COVID-19 related payment deferrals or extensions to those deferrals granted in accordance with the FCA's proposed guidance do not automatically result in a loan either being regarded as having suffered a significant increase in credit risk or being credit-impaired for expected credit loss ('ECL') purposes, or triggering a default under Capital Requirements Regulation.

As set out on page 24, the PRA has ratified Basel Committee proposals to increase the capital relief provided for impairment provisions, where these do not relate to accounts that have defaulted, arising in 2020 and 2021. This will significantly reduce the short-term impact of impairment charges driven by the pandemic on the Group's capital ratios.

## Regulatory relief and delays to regulatory initiatives

The financial regulators have provided temporary relief and supervisory forbearance in a number of areas. These do not particularly impact the Group, but include:

- Extension of regulatory reporting deadlines: the FCA has temporarily extended deadlines for a variety of regulatory returns.
- Pillar 3 disclosure delays: the PRA has offered a delay of up to one month in the submission of a range of regulatory returns, where the original deadline fell before 31 May 2020. Submission of audited financial statements can be delayed by up to two months.

The financial regulators have also signalled delays to a number of areas of policy development, in some cases delaying the deadline for responses from the industry. Such extensions will inevitably have an impact on the implementation dates of any new rules. The key delays impacting the Group are set out below:

- Operational resilience: the consultation papers on building operational resilience had been due to close for comments on 3 April. This deadline has now been extended to 1 October. Despite this extension, the impact of COVID-19 highlights the importance of operational resilience across the industry and to its regulators.
- Vulnerable customers: the publication of guidance on the fair treatment of vulnerable customers has been delayed from Q1 2020 and is likely to push back publication of final guidance. Nevertheless, across the industry there is an even greater focus on vulnerable customers as a result of COVID-19.
- Motor finance commission models: the final policy on rules relating to the banning of discretionary commission models and the introduction of additional information requirements was published in July 2020. These changes will not have a significant impact on the Group.
- Climate-related disclosures: proposals to enhance climate-related disclosures by listed issuers has been delayed from June 2020 to 1 October 2020, with implementation now planned for 2021.

## Impact of COVID-19 on the macroeconomy

According to the Office for National Statistics, the UK economy shrank by 2.2 % in the first three months of 2020, the sharpest decline in more than 40 years. This was followed in April, the first full month of lockdown, by a collapse in economic output of more than 20% and in May the economy grew by just 1.8%.

More recent economic sentiment has, however, been more upbeat, as clinical cases have declined and as certain industries emerge from lockdown. Retail sales in June increased by 13.9% when compared with May bringing the volume of retail sales to a similar level as before the coronavirus pandemic. The latest Business Impact of Coronavirus (COVID-19) Survey, relating to the first half of June showed that the proportion of businesses continuing to trade had risen to 92% (from 75% at the start of lockdown); overall footfall had risen to two-thirds of its level the same period a year ago; and businesses reported that 7% of their total workforce had returned from furlough over the preceding two weeks. However, the majority of trading businesses reported that turnover was below normal expectations for this time of year, with the arts, entertainment and recreation sector and the accommodation and food service activities sector particularly negatively affected. Moreover, nearly half of trading businesses said that capital expenditure had stopped or was lower than normal because of the coronavirus pandemic.

The Bank of England's chief economist, Andy Haldane, has made recent statements that the economy is recovering faster than previous estimates and that there were signs of a V-shaped economic recovery, with growth potentially rapidly rebounding from the steep downturn in activity. In particular, there is some evidence that the consumer sector, supported by job retention schemes, has been stronger than expected in Q2. The DIY and Household Goods sectors have been notably strong and there has been a sharp upturn in car and home sales, both of which had fallen significantly at the start of lockdown.

Relaxations in lockdown restrictions went ahead on 4 July, enabling places including pubs, restaurants, hotels and hairdressers to open, with the removal of further restraints implemented on 13 and 25 July. Nevertheless, restrictions remain significant and continue to constrain economic activity. Certain businesses are still unable to open and the social distancing rules, albeit relaxed, are still problematic for some key services industries, notably the 'face-to-face' sectors of the economy, including hospitality and the arts.

Under these circumstances, it is still not possible to know the trajectory that the economy will follow as and when all restrictions are lifted. In particular, the largest single risk to the economy recovering would be a significant increase in unemployment, which has to date been somewhat limited as a result of the Government's furlough scheme. As at the end of June, 9.3 million people had been furloughed as part of the job retention scheme, with more than 2.5 million self-employed workers claiming income support.

Forecasts for the macroeconomy remain inherently uncertain at this stage. Nevertheless, we do believe that it is reasonable to assume that the gradual easing of restrictions on movement should result in a rebound in economic activity in the second half of this year. The strength and shape of any rebound is highly dependent on the extent of continuing social distancing requirements and the levels of caution exercised by businesses and consumers, as well as the absence of a significant second wave of contagion.

# Our response to Customers

Demand for the Group's lending products has to date been affected by the actions that some of our introducers and customers have been required to take in response to Government directives. Our business planning assumed a scenario that the main stress event, including lockdown, would cause a significant reduction in demand but that, post-lockdown, demand for the Group's products would return gradually. As at the end of June 2020, we have seen the start of an easing of lockdown restrictions over much of the UK with demand for our products increasing although our lending risk appetite remains cautious as the impact on employment and demand becomes clearer over the second half of 2020.

## Consumer Finance

The Group's two main Consumer Finance businesses have been significantly impacted by COVID-19 as its retail and motor partners closed stores and dealerships in response to the Government's lockdown and social distancing requirements.

In our Retail Finance business, all but essential store-based retailing activity closed in late March. Consequently, footfall and sales were severely impacted and, in addition, some retailers faced challenges in the supply chain which impacted their ability to fulfil deliveries to their customers. Online activity remained strong, however, with sports and leisure sectors in particular showing higher than expected volumes after the introduction of social distancing measures. With the vast majority of motor dealers closing in March, our Motor Finance business took the decision to temporarily cease writing new lending in order to focus on supporting existing customers.

Both businesses rely on intermediaries (including brokers, motor dealers and retailers) to generate new business and, if certain partners had found themselves in difficulty during lockdown, there was a significant risk to Secure Trust Bank arising from the potential failure of intermediaries to deliver goods to customers or indeed delivered goods not meeting quality standards. To address this risk, from the initial lockdown period both our Retail and Motor Finance businesses have monitored the delivery of goods and to date they successfully managed these risks with no significant losses.

The Retail Finance business continues to monitor the retailers' performance closely and has seen an increase in demand as they begin to open their stores. Overall in the second quarter, new lending has been running at over 50% of pre-lockdown volumes, and new lending has been steadily building as stores have opened from 4 July. In Motor Finance, dealerships started to open in June 2020 and, at the beginning of July, we recommenced restricted Near-Prime lending initially through our largest introducers and we are targeting approximately one-third of the normal lending volumes in the near term.

In both our Retail Finance and Motor Finance businesses, our credit risk appetite remains cautious with acceptance levels lower than those in place pre-COVID-19.

The reductions in new business activity allowed the businesses to redeploy staff to customer services and collections in order to support an anticipated uplift in activity from customers impacted by COVID-19 and seeking payment deferrals. The businesses successfully managed through these peaks whilst moving to a mix of home working and COVID Secure office standards (see following page for more details) and implementing further customer self-serve options. Across the second quarter, the Motor Finance business granted either payment holidays or reduced payments to approximately 10,000 customers (approximately 18% of total customers) and the Retail Finance business granted payment holidays or reduced payments to approximately 20,000 customers (approximately 2.5% of total customers). Both businesses are expecting and have prepared for a second peak of activity

# Impact of COVID-19 continued

during July and August as the initial payment deferrals complete and some customers seek extensions or initial payment deferral support (through to 31 October) in line with the FCA's guidelines.

Following a promising first quarter where growth was significantly ahead of expectations, the Debt Managers (Services) Limited (DMS), business reduced its new portfolio acquisition activity in response to the pandemic and also reduced its outbound collections activity, instead shifting its focus onto servicing existing customers. Indeed, in order to support existing customers the business has reduced some volumes or prices with debt purchase clients where contracted flows are in place.

### Business Finance

New business in our SME lending businesses has also been adversely affected by lockdown and social distancing. The primary focus of the Real Estate Finance and Commercial Finance teams has been on supporting the existing customer base. In addition, the Commercial Finance business has been able to offer new CBILS and CLBILS facilities alongside its continued lending to existing clients. Overall, as their markets have slowed and with a disciplined focus on effective risk management, new business activity, utilisation rates and repayments have all reduced. Although the outlook remains uncertain, across all of our lending businesses we remain optimistic that customer demand will return to normal in reasonably short order.

In terms of asset values, the Real Estate Finance business has undertaken regular portfolio reviews, assessing all accounts in detail and contacting all Real Estate Finance clients to understand their position. A small number of accounts have payment holidays in place. The business is closely monitoring performance against covenants, and is in close dialogue with all affected customers in regards to any support they may need. Overall, given that loan-to-value ratios are capped there is solid headroom (30 June 2020 LTV was 57%) against the risk of any permanent declines in asset values.

### Deposit taking

The Group's deposit taking capability is highly resilient in a high stress situation given that it is centralised and automated and can be operated remotely. In the current environment, we have demonstrated this capability through our deposit raising activity.

Secure Trust Bank generates demand for its deposit products either directly through its website or through marketing activity through best buy tables with over half of customers referred via online aggregators. We are not aware of any threats to the ongoing viability of such aggregators and consequently we consider the risks to our deposit distribution channels to be low.

We have direct access to our existing depositors and we have been able to implement an appropriate retention strategy to sustain deposits. As the asset side of the balance sheet has contracted, we have amended back book deposit interest rates in line with overall market rates.

## Operational Impact Assessment

The impact of the COVID-19 pandemic on the economy and the Group's operations continues to be subject to ongoing monitoring through the Group's Crisis Management Team (CMT) as well as via the Group and business unit Executive Committees, with appropriate escalation to the Board and supervisory authorities. The CMT is chaired by the Chief Operating Officer and includes as its members the Chief Risk Officer, Chief Technology Officer and HR Director.

In making their assessment of the potential impact of COVID-19 on operational activities, management have considered the immediate challenges using a one-year time horizon as well as the potential long-term impact. In April, management of each operating unit and function had separately identified, assessed and documented the key risks, assumptions, impact and contingency plans arising from COVID-19. Initially these were subject to daily oversight and monitoring by the Group CMT.

As the new ways of working have bedded down and become the new norm of operation, with controls embedded in the business operations, the frequency of this reporting has been extended with situational update reports now being produced on a weekly basis with reduced data requirements and reporting by exception. The Group CMT now meets on a weekly basis but remains ready should the situation change or a further response is required.

In addition to the points set out above, the main impacts of the COVID-19 pandemic on the Group's operations are summarised on the following page.

## Management of the supply chain

The Group has classified its suppliers into three categories:

- Tier 1 suppliers that deliver critical or important operational functions
- Tier 2 suppliers that provide an operational function that if failed, would impair operational performance and may result in customer detriment
- General Suppliers

All Tier 1 suppliers have provided us with their pandemic response plans and have confirmed they have adequate business continuity arrangements in place. Our supplier relationship managers are in frequent communication with all suppliers and are monitoring service levels as situations change. We conduct regular financial health checks on Tier 1 and Tier 2 suppliers with the objective of identifying any early warning indicators of disruption to service.

All business and functional leads have considered their key supplier dependencies and have identified how they would react should a supplier fail. While we have not identified the need to do so, our assessment is that switching some suppliers could lead to disruption of between three and six months depending on supplier, but disruption should be containable.

## Management of the working environment

In mid-March, staff were advised by line managers to work remotely where possible. Despite the fact that almost all staff have been identified as critical workers, the majority of our colleagues have been working from home since the commencement of lockdown with colleagues only attending our open offices where their activity could not be adequately performed remotely. In July, approximately 30% of Group staff currently working were office-based and around 70% were working remotely.

Our line managers have been focused on managing and supporting their teams during this period of isolation and homeworking and on maintaining staff morale. We continuously review colleague engagement and wellbeing and, at present, there are no indicators which would suggest that the revised approach is not working well. The results of our recent internal COVID survey were very positive particularly in relation to way the Group had responded to the pandemic and the support being given to colleagues.

All of the premises that are attended meet the Government's COVID Secure requirements. We are currently operating in six locations across nine physical offices. All the consumer business' offices remain open although staff numbers have been reduced significantly through homeworking. Office space has been reconfigured to meet the COVID Secure standards where homeworking is not possible.

While customers are being encouraged to use self-service functionality where available, this is not available in all businesses and is not suitable for more complex customer queries or the handling of complaints. We therefore do continue to rely on call-centre staff attending work to maintain continuity of operations.

Notwithstanding the changed internal environment and changes to our customers' circumstances, our operations teams have maintained good service levels throughout the period. There have been spikes at times in certain activities and we do expect further spikes in customer calls principally in relation to payment deferrals and forbearance. In anticipation, we have increased our capacity in all consumer collections teams.

We have made limited additional investments in technology to support our teams. For example, we have expanded our telephony solution to allow a number of operational agents to take calls and servicing customer accounts from home. The technology allows for call recording, live monitoring and supervisor take-over, and for payments to be taken in a PCI compliant manner. In addition, the introduction of Windows Virtual Desktop technology which started before the onset of the pandemic has brought widespread access to core IT applications and services through personalised desktop set ups via the Microsoft Azure cloud service. This has resulted in substantial benefits, enabling staff to meet their role requirements efficiently and in a secure manner while working remotely.

We believe at present the mix of office and home working is at the optimal level to maintain service during the pandemic. Although the likelihood of a full lockdown, where offices are required to close appears to be diminishing, the Group does have contingency plans in place that would provide for basic customer service functionality to be maintained for all businesses with all staff working from home.

The external environment and its impact on operations has been and remains subject to continuous review. Initially, all business and functional leaders were required to provide a daily situational report to the CMT, with details of mitigating action where required. As circumstances have become more stable, leaders now prepare situational reports on a weekly basis or on an exceptions basis, incorporating data required to compile the Group's Non Systemic Bank COVID-19 Report weekly submission to the PRA.

# Chairman's statement

Lord Forsyth
Chairman

"The Group's operational performance has proved resilient."

# Adapting to new conditions

**The first six months of 2020 has been a tale of two halves for STB. The positive momentum from 2019 was sustained in the first quarter putting the Group on track to achieve double digit earnings growth for the full year. The seismic impact of COVID-19 and lockdown in the second quarter meant that the safety of our colleagues, conservation of capital and minimising the impact of severe recession became our overriding priorities.**

Despite the unprecedented economic slowdown and the Group contracting its lending balances, we can report a statutory profit before tax for the first half of 2020 of £5.1 million and an adjusted profit before tax of £5.8 million.

The Group's operational performance has proved resilient. The impressive speed with which the business was transformed from being office-based to largely working from home was matched with continued excellent customer service standards. We were also delighted to report a rise in customer numbers during the period. Such a wholesale change in working practices presents challenges to all those affected and the Board and management team have focused on ensuring employees continue to feel engaged, positive and part of a team. This has spawned a range of new initiatives including the launch of STB Group Radio, an internal radio station, disc jockeyed by staff members to help maintain high levels of internal communications in a fun and interactive way.

All of the Group's offices have adapted to operate in a COVID secure manner and management are focused on supporting customers, colleagues and key business partners through this extraordinary and unprecedented period.

There are some encouraging signs emerging in the third quarter, with strong demand for Motor Finance and improvements in new business volumes in V12 Retail Finance. Nevertheless, it is still too early to be able to determine the impact of COVID on the full year results.

The Board will continue to conserve capital given the continuing uncertainty and, as expected, will not be proposing an interim dividend in respect of the first half of 2020.

This period has also seen changes in the composition of the Board with Paul Marrow stepping down at the Annual General Meeting in June. Paul's experience and wise counsel have been much valued over the years: we thank him for his contribution to the Group. I am grateful to Ann Berresford for stepping up to become the Senior Independent Director; Paul Myers who has taken over as Chairman of the Risk Committee; and Lucy Neville-Rolfe who has become the Chairman of our Group Employee Council and the nominated director for employee engagement. They have all begun their new roles with their customary enthusiasm and application. I am also pleased that shareholders overwhelmingly supported the new Directors' Remuneration Policy proposed at the Annual General Meeting. The Group's remuneration arrangements have evolved considerably in recent years and the new policy provides a suitable platform for the next three years. We look forward to Rachel Lawrence joining us as CFO in September.

Finally I would like, on behalf of the Board, to thank all colleagues at STB for their resilience, professionalism and pragmatism as we navigate these unprecedented circumstances and continue to serve our customers. Given the resources at our disposal, the talents of our people, the flexibility of our business model and our clear strategy, we remain well placed to tackle the challenges ahead and emerge from this period able to take advantage of future opportunities.

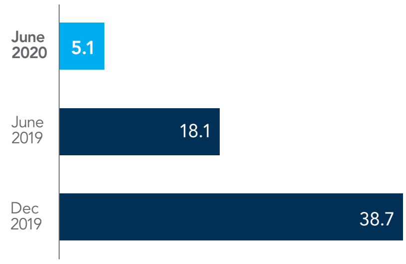
**Lord Forsyth**
Chairman

6 August 2020

## Financial highlights

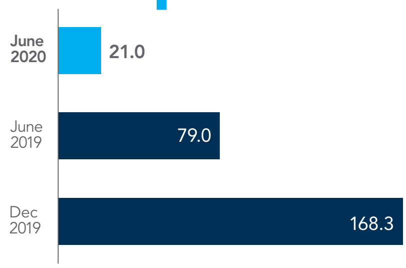
### Profit before tax

**£5.1m**




### Earnings per share

**21.0p**



# Chief Executive's statement


> I have been hugely proud of the way the whole STB team has responded to these unprecedented circumstances."

# Focusing on resilience and stability

## H1 results impacted by COVID

Earlier this year I was anticipating my 2020 interim report being rather upbeat highlighting that the Group's very strong start to 2020 had driven double digit growth in profit before tax for the first six months. Whilst this was the case after the first quarter, the COVID-19 pandemic fundamentally altered things in the second quarter necessitating a rapid change in emphasis.

COVID-19 triggered the invocation of the Group's various business continuity plans which worked very well, with minimal operational disruption.

The UK lockdown caused a material fall in new lending during the second quarter which, coupled with the short duration loan book, resulted in the income generating lending balances contracting for the first time in many years. This also weighed on top line revenue. Despite these factors and a conservative approach to loan impairment provisioning the Group has generated a statutory profit before tax for the first six months of 2020 of £5.1 million (2019: £18.1 million). Adjusted profit before tax was £5.8 million (2019: £18.8 million). Basic earnings per share was 21.0 pence (2019: 79.0 pence).

## Operational resilience and stability

Despite the challenges to our employees' lives presented by the pandemic, the Group is operating in an effective manner which is sustainable for a prolonged period, if required. Customer service standards remains strong as shown in FEEFO, where the Group has very high scores in absolute terms (90-95%) and relative to our peers.

I have been hugely proud of the way the whole STB team has responded to these unprecedented circumstances. We have been able to rapidly adjust to new working practices, staying COVID secure at all times, and maintain very high operational standards. I am extremely grateful for the can-do attitude and fortitude shown by my colleagues during the last few months and their ongoing determination to manage the situation as best we can.

We continue to deliver good customer outcomes in a friendly and professional manner and it is pleasing to note customer numbers grew by 14.8% to 1,660,541 (2019: 1,446,342).

## Healthy Capital and Liquidity positions

As expected our capital ratios have strengthened with Common Equity Tier one ratio of 13.5% as at 30 June 2020 compared to 12.7% at December 2019 and 12.8% at the same point last year. Our overall leverage ratio was 10.3% (December 2019: 9.8% and June 2019: 9.5%) and the total capital ratio was 15.9% (December 2019: 15.0% and June 2019: 15.2%). When taking account of the 2019 interim dividend, the CET 1 and total capital ratios for the period to 30 June 2019 would be 12.6% and 15.0% respectively.

When considering our capital ratios it remains important to note that as at 30 June 2020 the residual contractual average life of the Group's assets was less than two years. This dynamic means the Group can react rapidly and efficiently to sudden changes in market conditions. This has been the case in the second quarter when we boosted capital ratios by contracting consumer lending and continuing to generate profits. In just the same way as the lending balances can be quickly degeared, these can be quickly grown as lending conditions and risk adjusted yields improve. These ratios also take account of the capital relief provided in respect of IFRS 9 provision increases, as explained more fully on page 24.

The Group continues to fund its lending activities primarily from customer deposits. Our loan to deposit ratio was 118.9% at 30 June 2020 which compares to 113.8% at 30 June 2019. The Bank has continued broadly to match fund its customer lending with customer deposits. This strategy seeks to mitigate maturity transformation and interest basis risks.

The benefits of the Group's previous investment in new deposit products and our Treasury capabilities have become very evident in recent months. The strong demand for savings products, particularly cash ISAs, is allowing fixed term savings products to mature, with these being replaced by lower cost new deposits. This is helping to reduce the overall cost of funds as will be evident in the second half of 2020.

## Highlights of 2020 to date

- **Operations adjusted successfully to respond to COVID-19 and the lockdown**
- **Half-year profit delivered despite the impact of the pandemic**
- **Continued growth of customer numbers**
- **Customer satisfaction scores continue to be consistently over 90%**
- **Improved capital ratios and healthy liquidity position**
- **Motor Transformation Programme enables launch of prime products**
- **16th best large company for women to work for**


Growth in customer numbers

**up 14.8%**

(1,660,541)
2019: 1,446,342

feefo

Feefo customer satisfaction ratings

**90%+**

2019: 90%+

# Chief Executive's statement continued

We made a strategic decision to introduce interest rate hedging in the second half of 2019. One benefit is that the very significant falls in base rates have an immaterial impact on the Group notwithstanding the substantial surplus liquidity the Bank holds, in cash, at any one time.

Finally, the Group is in dialogue with the Bank of England about rolling some existing TFS funding into the new TFSME funding scheme. This will allow it to lock in this attractively priced funding until 2025.

## Operational progress

The Group investment into Motor Finance has continued as this part of the market has provided us with strong returns in the past and continues to offer lending opportunities in scale and with attractive gross margins. To recap, our Motor Transformation Programme offers dealers and brokers a one stop solution for wholesale and retail funding. The existing lenders in this space enjoy attractive returns on equity and we believe that the combination of the competitive funding costs provided via our banking licence and a new technology platform will allow us to gain market share and grow a sizable business in this space over the next five years. The programme is split into four phases and includes the provision of dealer wholesale and stocking finance (phases 1 and 2) and a wider motor proposition for consumers (phases 3 and 4). Phase 3 is the launch of prime products and is scheduled to go live in the coming weeks. One consequence of COVID-19 is that some of the large non-bank lenders in the prime part of the market have not been able to access new funding and those that can have seen very large increases in their funding cost. This competitive dynamic coupled with demand for motor finance supports a timely entry to this part of the market. However, given the economic uncertainty we will temper prime new business volumes until the outlook for credit risk and risk-adjusted yields improves.

We continue to invest in our operational and IT capabilities and cyber security remains a very high focus area. Operational resilience remains a key matter for regulatory scrutiny and as previously disclosed we have adopted a proactive approach which has stood us well when considering the operational and technological impact of COVID-19.

Staff engagement receives constant attention and it is gratifying to note that the annual Great Place to Work® survey saw the Group placed as the 27th best large company for people to work for and the 16th best large company for women to work for.

## Lending activities

The Group finished 2019 strongly and entered 2020 with good new business pipelines, particularly in Real Estate Finance. The conversion of these pipelines and good ongoing control of credit quality fuelled a strong overall performance for the Group in the first quarter. The lockdown in the last week in March, and our tightening of credit criteria, drove much lower new lending business in the second quarter allowing us to contract our lending balances, with the focus being in consumer credit. As a result overall net customer lending as at 30 June 2020 of £2,377.5 million is 4.4% higher than the same period last year (June 2019: £2,278.3 million) but 3.0% lower than the 31 December 2019 position of £2,450.1 million. 52.5% of these lending balances are in secured lending (30 June 2019: 50.1%).

The total volume of new loans written in the period was £488 million, representing a fall of 32% compared to the £712 million for the same period last year. We would expect new lending business to rebuild compared to that seen in the second quarter of 2020 and are already seeing higher volumes, particularly in V12 Retail Finance with retail sales recovering to pre-COVID levels in July.

Motor Finance balances of £289.0 million are 10.7% lower than as at 31 December 2019 (£323.7 million) and 3.6% lower than as at 30 June 2019 (£299.8 million). Retail Point of Sale lending balances of £647.7 million are 6.0% lower than as at 31 December 2019 (£688.9 million) and 3.6% lower than as at 30 June 2019 (£671.7 million). We have written no new consumer mortgage lending during 2020 and the lending balances of £94.6 million compares to £113.2 million this time last year (contraction of 16.4%) and £105.9 million as at 31 December 2019 (contraction of 10.7%.) Overall net lending to consumers has fallen by 6.4% in the first half of 2020 (£1,124.4 million) compared to the 2019 year end position of £1,200.9 million) and is 0.2% lower than the same period last year (£1,127.0 million).

In SME markets the Group has continued to support its customers, with finance being provided for developers to continue to build out inflight construction projects and, where appropriate, CBILS have been provided to Commercial Finance customers. As at 30 June 2020, Real Estate Finance lending balances have grown to £1,036.8 million from £879.0 million a year ago and £962.2 million as at 31 December 2019, representing 18.0% growth and 7.8% growth respectively. The loan book is performing well and remains heavily biased in favour of modestly leveraged residential investment lending. This is reflected in the portfolio composition, which in round terms is split 70%/30% in favour of investment lending versus development lending, with the overall portfolio loan to value remaining stable at circa 60%.

Invoice discounting is the Group's shortest duration loan account product. The lockdown served to heavily limit the activities of most trading businesses and therefore many have been unable to generate new invoices to raise finance against. The consequence of this is that the net lending in this area has contracted very materially, with some offset from new CBILS lending. Balances of £191.6 million are 23.9% lower than as at 31 December 2019 (£251.7 million) and 13.2% lower than as at 30 June 2019 (£220.7 million). With lockdown restrictions easing allowing businesses to resume trading and some financial sponsors eyeing opportunistic M&A, we expect a strong new business performance in the second half. It is noteworthy that we passed the milestone of having funded over £5 billion of customers' invoices since we started invoice finance operations in September 2014, with £2 billion being funded in the last 12 months.

Asset Finance lending balances have contracted as forecast as the book is in run-off. Balances were 54.1% lower at £19.4 million as at 30 June 2020 compared to £42.7 million a year ago.

Overall business lending balances of £1,247.8 million are broadly flat against the 2019 year end position of £1,241.6 million and 9.5% higher than as at 30 June 2019 (£1,142.4 million).

## Fee-based services

The OneBill service closed for new business in 2010, is running off in line with management's expectations and becoming increasingly immaterial. Customer numbers ended the period at 16,354 (2019: 17,514). Profits at our debt collection business, Debt Managers (Services) Limited, have continued to grow.

## Cost of Risk impacted by COVID-19

In overall terms the SME loan portfolios have performed as expected during the first half of 2020. The consumer books performed well in the first quarter. The second quarter's performance has been impacted by the FCA's decision to allow borrowers to take loan repayment holidays. The majority of our customers taking repayment holidays were not in distress at the time and it remains to be seen how many exit the holiday period and satisfactorily resume payments. At this very early stage, our experience here is broadly in line with our expectations but the situation has been further impacted by the FCA's decision to allow repayment holiday extensions to be requested up until the end of October 2020. The Group recognises that some of these customers will eventually default and we have factored this estimation into the IFRS 9 impairment charge for the first half of 2020. This is reflected in the cost of risk increasing from 1.4% as at 31 December 2019 to 2.9% for H1 2020.

We have made significant changes to our credit risk appetite and acceptance criteria during this period, especially in Consumer Finance which is most exposed to increases in bad debts in a recessionary environment. In consequence the quality of the new lending being written is, on average, higher than the existing book. This will help to mitigate credit pressures as the UK economy navigates the ongoing effects of COVID-19, particularly if there is a subsequent wave this winter and/or the absence of a trade deal with the EU weakens the economy further.

Our portfolios have also been impacted by customers taking advantage of payment holidays that we have offered following guidance from the Government and regulators. These modifications to contractual cash flows require us to reduce the carrying values of these portfolios, with Motor Finance materially impacted. This accounting treatment served to reduce earnings by £3.6 million for the first half of 2020. It is expected that this will be recovered over time and recognised as earnings in subsequent periods. Further information is provided on page 20.

"The Group finished 2019 strongly and entered 2020 with good new business pipelines, particularly in Real Estate Finance."

# Chief Executive's statement
continued

## Outlook

We have diverse businesses with good potential for long-term sustainable growth. The Group's medium-term strategy remains unchanged, albeit for obvious reasons our number one priority is to support colleagues, customers and business partners as we navigate the challenges arising from the COVID-19 virus outbreak. The benefits of a diversified business model with a short duration loan book have been evident over the last two and a half years.

Once the crisis has passed we plan to refocus the Group on the strategic priorities of:

1. Organic growth in responsible lending across a diverse portfolio of attractive segments
2. Continued investment in broadening our product offerings to customers
3. Pursuing M&A activity in line with our strategy
4. Optimising our capital and liquidity strategies
5. Continuing to target delivery of profit growth in the medium term to create shareholder value

In recent months base rates have fallen to near 0% and the market is now pricing in negative rates. The rates banks need to offer savers to attract new deposits have moved much lower as a result. This has served to significantly reduce the funding cost advantage previously enjoyed by the incumbent banks which, coupled with capital advantages, enables them to dominate key lending markets in the UK. It follows that the near eradication of a funding cost advantage increases the addressable market for the smaller specialist banks. With yield curves implying very low rates for a very long time, COVID-19 is likely to fundamentally alter the competitive dynamic in UK bank markets, potentially to the benefit of the smaller players.

The Group's lending portfolio remains appropriately positioned for the current conditions and the short duration nature of the asset portfolio means the Group is able to react quickly to both opportunities and threats. The Group entered 2020 on the back of successful years in 2018 and 2019 and has delivered a profit before tax notwithstanding the very challenging environment in the first half of 2020.

With stronger capital and liquidity positions, we are now focused on supporting customers, colleagues and business partners as we navigate the COVID-19 induced economic challenges, and are prioritising the safeguard of capital and liquidity resources over balance sheet growth at this time. As the COVID-19 storm passes we will look to refocus on the pursuit of our strategic priorities.

**Paul Lynam**
Chief Executive Officer

6 August 2020

# Strategy

The Group's strategy is based on three strategic themes. Over 2020, the strategy has developed as we focus on our near to mid-term objectives.

## Grow

**To maximise shareholder value through strong lending growth by delivering great customer outcomes in both our existing and new markets.**

### Progress made in 2020

After continued strong growth in the first quarter, the onset of COVID-19 saw an immediate fall in demand for our products with key markets contracting, leading to a reduction in our balance sheet.

Further progress made by the Motor Transformation Programme has put us in a strong position to expand our Motor Finance lending as market conditions improve.

### Focus for remainder of the year

With certain markets now reopening, we are preparing for the return to growth of our balance sheet by carefully assessing the areas in which we will focus our initial activity. This includes taking advantage of the new market opportunities brought about by the Motor Transformation Programme, albeit initially with limited volumes.

### Performance measures

The key performance measures, shown on the following page, in respect of this theme show the growth of the lending book and the margin that the Group earns on this lending.

## Sustain

**To protect the reputation, integrity and sustainability of the Bank for all of our customers and stakeholders via prudent balance sheet management, investment for growth and robust risk and operational control. Controlled growth is one of the top strategic priorities for the Bank.**

### Progress made in 2020

In response to the pandemic and the subsequent lockdown, we had to swiftly adapt our working practices, to enable continued service to our customers in an operationally resilient manner. We also tightened credit criteria, to ensure our lending is responsible and does not expose the Group to undue risk in these very difficult conditions.

The reducing balance sheet has improved capital ratios and the liquidity position remains very healthy.

### Focus for remainder of the year

Our credit criteria will continue to remain tight until the extent of the economic impact of the pandemic is clearer. Additional underwriting processes have been developed and will be used to support Consumer Finance lending as volumes return.

### Performance measures

Measures in respect of the Sustain theme focus on the control of operational costs, funding costs and impairment losses. In addition, funding ratios are measured to ensure the Group is holding sufficient liquidity in relation to its loan books. Regulatory capital metrics demonstrate the Group's capacity to continue to grow while remaining well above regulatory limits.

## Love

**To ensure that the fair treatment of customers is central to corporate culture and that the Bank is a highly rewarding environment for all staff and one where they can enjoy progressive careers.**

### Progress made in 2020

Throughout the crisis, our main focus has been to support our colleagues, customers and business partners. Our teams have responded superbly to the challenge of new ways of working, and employee feedback shows continued high motivation and engagement.

We have been ranked 16th in the 2020 list of UK Best Workplaces for Women™ as well as being a UK Best Workplace™, the second year we have received both accreditations from Great Place to Work®.

### Focus for remainder of the year

We will continue to engage closely with our colleagues to ensure we are looking after their welfare while the crisis continues. We are also using the COVID-19 experience to shape working practices going forward, as it becomes possible to bring more employees back into our office locations.

### Performance measures

The Group's non-financial KPIs assess customer and employee satisfaction, as well as impacts on the environment. Only the customer satisfaction measure is updated at the half year, as the employee survey is annual and environmental impact is measured annually.

# Key performance indicators

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

The Remuneration Report, starting on page 82 of the Group's 2019 Annual Report and Accounts, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

These KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 62. In the narrative of this financial review, KPIs are identified by being in bold font.

## Margin ratios

### Net interest margin %


**Why we measure this**

Shows the interest margin earned on the Group's loan books, net of funding costs

### Net revenue margin %


**Why we measure this**

Shows the overall net margin earned on the Group's loan books, including fees and commissions

### Gross revenue margin %


**Why we measure this**

Shows the yield of the Group's loan books, including fee and commission income

## Cost ratios

### Cost of funds %


**Why we measure this**

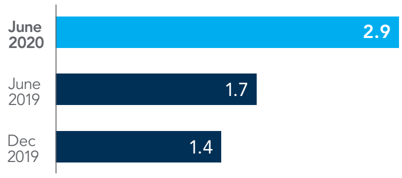
Measures the cost of the Group's customer deposits and other funding sources

### Cost to income ratio %


**Why we measure this**

Measures how efficiently the Group utilises its cost base to produce income

### Cost of risk %




**Why we measure this**

Measures how effectively the Group manages impairment losses

Delivering

## Growth

### Loans and advances to customers £m


**Why we measure this**

Shows the growth in the Group's lending balances, which generate income

## Funding ratios

### Loan to deposit ratio %


**Why we measure this**

Measures the adequacy of liquidity by comparing loan balances to customer deposits

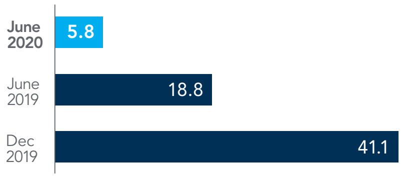
### Total funding ratio %


**Why we measure this**

Measures the adequacy of liquidity by comparing all funding held by the Group to loan balances

## Adjusted profit

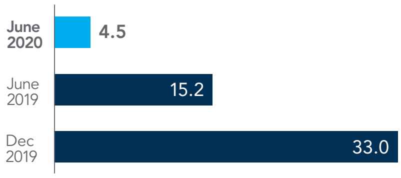
### Adjusted profit before tax million




**Why we measure this**

Adjusts profit to improve comparability of information between reporting periods

### Adjusted profit after tax million

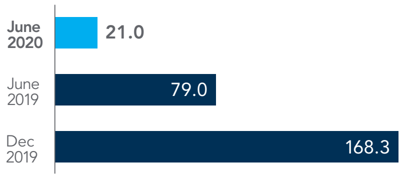



**Why we measure this**

Adjusts profit to improve comparability of information between reporting periods

## EPS

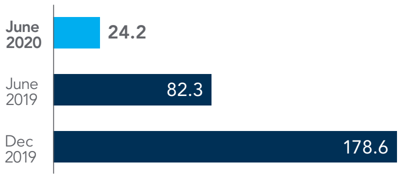
### Basic earnings per share pence




**Why we measure this**

Demonstrates the earnings attributable to each shareholder

### Adjusted basic earnings per share pence

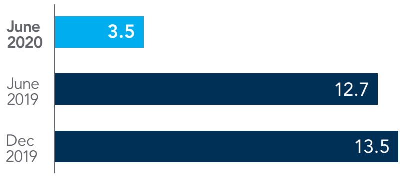



**Why we measure this**

Demonstrates the earnings attributable to each shareholder, adjusted to improve comparability of information between reporting periods

## Return ratios

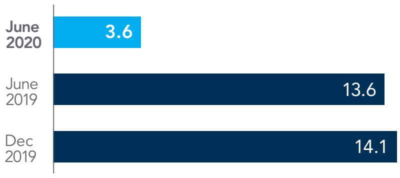
### Adjusted return on average equity %




**Why we measure this**

Measures the Group's ability to generate profit from the equity available to it

### Adjusted return on required equity %




**Why we measure this**

Relates profitability to the capital that the Group is required to hold

### Adjusted return on average assets %


**Why we measure this**

Demonstrates how profitable the Group's assets are in generating revenue

## Non-financial KPIs

### Customer FEEFO rating Stars


**Why we measure this**

Measures customer satisfaction: (mark out of 5 based on star rating from 550 reviews (June 2019: 1,156 reviews, December 2019: 1,754 reviews))

### Employee survey trust index score %


**Why we measure this**

Only measured annually 2019 score 79% (based on 2019 all staff survey

### Environmental intensity indicator


**Why we measure this**

Only measured annually 2019: 4.7 (tonnes carbon dioxide per £1 million Group income)

# Interim financial review

## Profit and earnings

Results for the period have been significantly impacted by the COVID-19 pandemic. The largest impact is in respect of impairment charges, particularly driven by forward-looking estimates which take account of the potential deterioration of the economy that the pandemic and subsequent lockdown will cause. The use of payment holidays also resulted in a material reduction in profit, which is disclosed separately in the Consolidated statement of comprehensive income on page 37. Adjustments to profit are explained in the appendix to the interim report on page 62.

The statutory profit for the first six months of the year fell by 71.8%, from £18.1 million to £5.1 million, while the **adjusted profit** before tax for the period fell by 69.1% from £18.8 million to £5.8 million.

Earnings per share reduced as a consequence, from 79.0 pence at June 2019 to 21.0 pence at June 2020 on a basic earnings per share basis and from 82.3 pence to 24.2 pence on an **adjusted basic earnings per share** basis. Detailed disclosures of earnings per ordinary share are shown in Note 7.

## Return measures

We measure **adjusted returns on average assets, average equity and required equity** as set out in the KPIs table on page 19. All of these return metrics have declined due to the reduced earnings.

The components of our profit are set out in the sections below.

## Impact of payment holidays

Although not included as an option within customer contracts, following regulatory guidance we have offered payment holidays to our Consumer Finance and Asset Finance customers. 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 revised net present value of future cash flows. The impact of this is a £3.1 million reduction in the net present value of Motor Finance loans and a further £0.5 million reduction in respect of other products.

## Interest, fee and commission income

Interest, fee and commission income is made up of interest income, which is predominantly earned on loans and advances to customers, and fee and

| Adjusted profit reconciliation | 30 June 2020 £million | 30 June 2019 £million | 31 Dec 2019 £million |
|---|---|---|---|
| Interest, fee and commission income | 108.2 | 103.5 | 212.3 |
| Interest, fee and commission expense | (23.3) | (22.1) | (46.8) |
| Operating income | 84.9 | 81.4 | 165.5 |
| Impairment losses | (31.5) | (17.8) | (32.6) |
| Operating expenses | (44.7) | (45.5) | (94.2) |
| Losses on modification of financial assets | (3.6) | – | – |
| **Profit before tax** | **5.1** | **18.1** | **38.7** |
| Adjustments to profit before tax (see below) | 0.7 | 0.7 | 2.4 |
| **Adjusted profit before tax** | **5.8** | **18.8** | **41.1** |
| Adjusted tax | (1.3) | (3.6) | (8.1) |
| **Adjusted profit after tax** | **4.5** | **15.2** | **33.0** |
| **Adjusted basic earnings per share (pence)** | **24.2** | **82.3** | **178.6** |
| **Statutory results** | | | |
| **Profit before tax** | 5.1 | 18.1 | 38.7 |
| Tax | (1.2) | (3.5) | (7.6) |
| **Profit after tax** | **3.9** | **14.6** | **31.1** |
| **Basic earnings per share (pence)** | **21.0** | **79.0** | **168.3** |

| Adjustments to profit before tax | | | |
|---|---|---|---|
| Fair value amortisation | 0.1 | 0.1 | 0.2 |
| Transformation costs | 0.4 | 0.6 | 1.0 |
| Revaluation deficit | – | – | 1.1 |
| Bonus expenses | 0.2 | – | 0.1 |
| **Adjustments to profit before tax** | **0.7** | **0.7** | **2.4** |

commission income, which consists principally of fees from the OneBill, Commercial Finance, Retail Finance and Motor Finance products and commissions earned on debt collection activities in DMS.

Interest income increased by 9.1% to £100.7 million (June 2019: £92.3 million). The reduction in new business brought about by the pandemic caused loans and advances to customers to fall from £2,450.1 million at year end to £2,377.5 million at 30 June 2020, though this remains 4.4% higher than the position at 30 June 2019 (£2,278.3 million). The used car market remained practically closed over the first months of the lockdown, meaning that we could not offer our products that carry the highest yield. This was the main factor in the **gross revenue margin** reducing to 8.9% (30 June 2019: 9.8%).

Fee and commission income reduced by 33.0% to £7.5 million (June 2019: £11.2 million). This is due to the fall in new business brought about by the pandemic.

## Interest, fee and commission expense

Interest, fee and commission expenses is made up of interest expense, which is incurred in respect of deposits from customers, subordinated liabilities and TFS borrowings, and fee and commission expense, comprising mainly fees and commissions on the Motor product, and commissions paid on debt collection activities in DMS.

Interest expense increased by 4.6% to £22.8 million for the period to 30 June 2020 (June 2019: £21.8 million), which is in line with the increase in loans and advances to customers over the same period, noted above. The Group's **cost of funds** continued to reduce, from 2.1% at June 2019 and 2.0% at December 2019 to 1.9%. The reduction in lending balances has reduced the need for us to retain previous levels of relatively high cost fixed rate funding as it matures, and we have also reduced the rates on certain tranches of notice account funding.

The Group's **net interest margin** reduced from 6.7% at 30 June 2019 to 6.4% at 30 June 2020, primarily due to the interruption to the markets in which Motor Finance operates as noted on the previous page.

## Financial highlights

Interest income

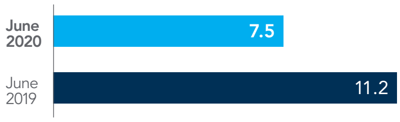
**£100.7m**


Interest expense

**£22.8m**

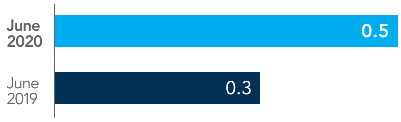

Fee and commission income

**£7.5m**



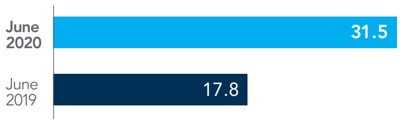

Fee and commission expense

**£0.5m**




Impairment losses

**£31.5m**




Operating expense

**£44.7m**

# Interim financial review continued

Fee and commission expense was £0.5 million (30 June 2019: £0.3 million).

## Operating income

Operating income increased by 4.3% to £84.9 million (30 June 2019: £81.4 million).

The **net revenue margin** for 2020 was 7.0% compared with 7.7% at 30 June 2019.

## Impairment losses

Impairment losses during the period were £31.5 million (June 2019: £17.8 million). A significant element of this increase in charge is driven by the input of forward-looking data into the Group's IFRS 9 models. The models use the correlation between macroeconomic variables, such as unemployment and house price indices, and historic credit losses to derive estimated future losses given a range of forecast variables. Given the potentially substantial economic downturn brought about by COVID-19, this forecast economic data drives a significant element of the overall provision charge. More detail is provided in Note 2.

The provision charge includes the impact of applying expert credit judgement, resulting in overlays being added to provision levels estimated using the Group's models. The economic impacts of the pandemic could be greater than those experienced in recent history, meaning that IFRS 9 models cannot rely on historic correlations between loss levels and economic variables. This has increased the necessity for overlays, as detailed in Note 9.

The actual increase in defaults experienced since the announcement of the lockdown has been modest. This position is obscured, however, by the take-up of payment holidays that the FCA has encouraged lenders to put in place. We have offered such holidays to our Consumer Finance customers, with 2.5% of Retail Finance and 18% of Motor Finance customers having taken up our offer by 30 June 2020. In line with regulatory guidance, we have not assumed that all such customers have defaulted or experienced a significant increase in credit risk; rather, the assumption that a certain proportion of these customers will default is covered by the forward-looking elements of our IFRS 9 models.

Prior to COVID-19, the Group's cost of risk had been reducing in line with the improvement in the quality of our Consumer Finance books. It reduced from 1.7% at 30 June 2019 to 1.4% at December 2019. At 30 June 2020, the cost of risk was 2.9% including the modification loss in respect of payment holidays; without it it would be 2.6%. Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 8 and 9.

## Operating expenses

Operating expenses decreased by 1.8% to £44.7 million (30 June 2019: £45.5 million). Although recruitment was substantially reduced once the COVID-19 outbreak took hold, employment costs were already being managed to a lower level due to increased efficiency in a number of business areas. Our response to the pandemic has also resulted in the majority of employees working from home, which has led to a reduction in travel and associated costs.

Following guidance published by HMRC in respect of VAT recoverable on hire purchase costs, the Group has accounted for an additional £1.7 million of recoverable VAT, primarily in respect of prior years. This has reduced operating expenses in the period.

The cost-to-income ratio improved compared to the equivalent period last year, at 52.7% from 55.9% at June 2019.

## Taxation

The **effective adjusted tax rate** has increased to 22.4% (30 June 2019: 19.1%).

The effective rate for the current period is increased by a deferred tax debit of £0.3 million. This arises from a reassessment of the rates that the deferred tax asset on the IFRS 9 transition adjustment would reverse out at over the next eight years and the share price at which share options will be exercised. The previous rates had assumed the level of corporation tax would reduce to 17% with effect from 1 April 2020 but the new rates are based on the rate remaining at 19%.

The tax rate reflects Bank Corporation Tax Surcharge of 8% on any taxable profits of Secure Trust Bank PLC in excess of £25.0 million in an accounting period. Future effective tax rates for the Group will be sensitive to the quantum of projected profits in the Bank and other Group companies. Current forecasts show that the effective tax rate is expected to increase by up to 3% over the forecast period, compared with the 2019 effective rate, as the effect of the banking surcharge becomes more significant.

## Distributions to shareholders

Given the continued uncertainty regarding the impact of the COVID-19 pandemic, and regulatory guidance, the Directors are not recommending the payment of an interim dividend (June 2019: 20 pence per share).

## Balance sheet

The assets of the Group decreased by 1.9% to £2,630.7 million in the six month period to 30 June 2020, driven by the fall in lending balances.

The liabilities of the Group decreased by 2.4% to £2,371.4 million over the same period, primarily driven by the pay back of amounts due to banks.

## Effective adjusted tax rate

| | **30 June 2020 Effective adjusted tax rate £million** | 30 June 2019 Effective adjusted tax rate £million | 31 December 2019 Effective adjusted tax rate £million |
|---|---|---|---|
| Tax | 1.3 | 3.6 | 8.1 |
| Profit before tax | 5.8 | 18.8 | 41.1 |
| Effective rate (%) | **22.4%** | **19.1%** | **19.7%** |

## Effective statutory tax rate

| | **30 June 2020 Effective statutory tax rate £million** | 30 June 2019 Effective statutory tax rate £million | 31 December 2019 Effective statutory tax rate £million |
|---|---|---|---|
| Tax | 1.2 | 3.5 | 7.6 |
| Profit before tax | 5.1 | 18.1 | 38.7 |
| Effective rate (%) | **23.5%** | **19.3%** | **19.6%** |

## Summarised balance sheet

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 109.6 | 101.9 | 105.8 |
| Debt securities | 35.0 | 110.0 | 25.0 |
| Loans and advances to banks | 42.0 | 67.3 | 48.4 |
| Loans and advances to customers | 2,377.5 | 2,278.3 | 2,450.1 |
| Derivative financial instruments | 5.9 | – | 0.9 |
| Other assets | 60.7 | 49.6 | 52.6 |
| | **2,630.7** | **2,607.1** | **2,682.8** |
| **Liabilities** | | | |
| Due to banks | 268.1 | 263.5 | 308.5 |
| Deposits from customers | 1,999.2 | 2,001.5 | 2,020.3 |
| Tier 2 subordinated liabilities | 50.7 | 50.5 | 50.6 |
| Derivative financial instruments | 7.2 | – | 0.6 |
| Other liabilities | 46.2 | 51.3 | 48.7 |
| | **2,371.4** | **2,366.8** | **2,428.7** |

## Loans and advances to customers

**Loans and advances to customers** include secured and unsecured loans and finance lease receivables. The loan book is split broadly equally between Consumer Finance lending, which represents approximately 47.5% of total lending (December 2019: 49%), and Business Finance lending which represents approximately 52.5% (December 2019: 51%).

Loan originations in the year, being the total of new loans and advances to customers entered into during the year, reduced significantly to £488 million (June 2019: £712 million) as the impacts of COVID-19 affected both the available markets for our products and our credit risk appetite. As in previous period, over half of the new business volume (£289.3 million) was generated by the Retail Finance business, and new business for this product has continued to run at over 60% of expected levels, driven particularly by online retailing. In contrast, the effective shut-down of the used car market saw Motor Finance new business levels reduce to £42.8 million.

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 8 and 9.

## Debt Securities

Debt Securities consist solely of sterling UK Government Treasury Bills. These are used primarily to provide collateral against Term Funding Scheme drawings with the Bank of England.

## Due to Banks

The amount due to banks consists primarily of drawings from the Bank of England Term Funding Scheme. The Group has drawn modest levels of this low cost source of funding to supplement customer deposit funding. The balance also includes £5 million of indexed long term repo ('ILTR') funding.

## Deposits from customers

Customer deposits include term, notice and sight deposits, as well as the Group's OneBill product. Customer deposits reduced by 1.0% during the period to £1,999.2 million (31 December 2019: £2,020.3 million), in line with the reduction in lending balances.

## Tier 2 subordinated liabilities

Tier 2 subordinated liabilities represent two £25 million tranches of 6.75% Fixed Rate Callable Subordinated Notes, including interest accrued. Further details of the note issuances are provided in Note 14. The notes qualify as Tier 2 capital.

# Capital and liquidity

## Capital

The CET1 capital ratio is the ratio of CET1 capital divided by the total risk exposure. The total capital ratio is total capital divided by total risk exposure. The reduction in the Group's balance sheet, and consequently of the total risk exposure, has led to an increase in both of these ratios.

When taking account of the 2019 interim dividend, the CET1 capital ratio at 30 June 2019 was 12.6% and the total capital ratio was 15.0%. The ratios as at 31 December 2019 and 30 June 2020 do not take account of foreseen dividends as no dividends have been declared for those periods.

The Basel III leverage ratio is defined by the Capital Requirements Regulation as Tier 1 capital divided by on and off balance sheet asset exposure values, expressed as a percentage. The UK leverage ratio framework sets a minimum ratio of 3.25%. As shown in the table above, the Group's leverage ratio remains comfortably ahead of the minimum requirement.

## Capital resources

The Group has elected to adopt the IFRS 9 transitional rules. For 2020, this allows 70% (2019: 85%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible capital. The same relief is allowed in respect of increases in provisions since 1 January 2018, except where these provisions relate to defaulted accounts. Further information is provided in the Group's Pillar 3 report available at www.securetrustbank.com/investor-information.

### Capital

| | **30 June 2020 %** | 30 June 2019 % | 31 December 2019 % |
|---|---|---|---|
| CRD IV ratios | | | |
| CET1 capital ratio | **13.5** | 12.8 | 12.7 |
| Total capital ratio | **15.9** | 15.2 | 15.0 |
| Leverage ratio | **10.3** | 9.5 | 9.8 |

### Capital resources

| | **30 June 2020 %** | 30 June 2019 % | 31 December 2019 % |
|---|---|---|---|
| CET1 capital | **279.3** | 253.5 | 268.0 |
| Total Tier 2 capital | **50.0** | 49.3 | 50.0 |
| **Total capital** | **329.3** | **302.8** | **318.0** |
| **Total Risk Exposure** | **2,073.6** | **1,987.6** | **2,118.1** |

The Basel Committee proposed a number of mitigation measures for the capital regime in response to the COVID-19 pandemic. These were enacted by the EU on 24 June as Directive EU/2020/873 and were ratified by the PRA on 30 June. Certain of the measures apply from 27 June and are thus applied in this Interim Report. The measure with the most significant impact on these results is the increase in capital relief in respect of provisions raised in 2020 and 2021, excluding those provisions relating to defaulted accounts. For these provisions, 100% relief is allowed in 2020 and 2021, with the relief then phased out over the following three years on a straight-line basis (2022: 75%, 2023: 50%, 2024: 25%, 2025: 0%).

The Group's regulatory capital is divided into:

- CET1 which comprises shareholders' funds, after adding back the IFRS 9 transition adjustment and deducting intangible assets, both of which are net of attributable deferred tax
- Tier 2 capital, which is subordinated debt capped at 25% of the capital requirement.

Capital resources increased to £329.3 million (30 June 2019: £302.8 million), driven by retained earnings and the subordinated notes issued in 2018 becoming fully eligible as Tier 2 capital in the second half of 2019, as well as the impact of the IFRS 9 adjustments.

## Capital 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 Capital Requirements Regulation.

The Group's Individual Capital Adequacy Assessment Process ('ICAAP') includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities within the Group have complied during the year with all of the externally imposed capital requirements to which they are subject.

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 ICAAP. In addition, capital is held to cover generic buffers set at a macroeconomic level by the PRA. The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The countercyclical buffer was reduced by the PRA to 0% as part of its response to COVID-19.

## Capital requirements

| | 30 June 2020 £million | 30 June 2019 £million | 31 December 2019 £million |
|---|---|---|---|
| Total Capital Requirement | **207.6** | 198.8 | 212.0 |
| Capital conservation buffer | **51.8** | 49.7 | 52.9 |
| Countercyclical buffer | **–** | 19.9 | 21.1 |
| **Total** | **259.4** | 268.4 | 286.0 |

## Typical risk weighting

| | Weighting % |
|---|---|
| **Standard on-balance sheet risk weighting** | |
| Real Estate Finance: residential investment | 35 |
| Real Estate Finance: commercial investment | 100 |
| Real Estate Finance: development* | 150 |
| Commercial Finance** | 100 |
| Retail Finance | 75 |
| Motor Finance | 75 |
| Debt Management | 100 |
| Consumer Mortgages (up to 80% LTV) | 35 |

* The Group has entered into an ENABLE Guarantee with the British Business Bank, whereby the UK Government will take on a portion of the risk on a portfolio of loans to smaller business in return for a fee. When the Guarantee is triggered it will reduce the net risk weighting applied to Real Estate Finance development lending.

** A lower risk weighting than 100% is applied to Commercial Finance lending where the customer is a small to medium enterprise due to applying an 'SME factor'.

## Liquid assets

| | 30 June 2020 £million | 30 June 2019 £million | 31 December 2019 £million |
|---|---|---|---|
| Aaa – Aa3 | **144.6** | 211.9 | 130.8 |
| A1 – A3 | **10.2** | 62.2 | 3.8 |
| Baa2 | **26.7** | – | 39.5 |
| Unrated | **5.1** | 5.1 | 5.1 |
| **Liquidity exposures** | **186.6** | 279.2 | 179.2 |

## 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 set by the PRA
- Estimated credit losses calculated using IFRS 9 methodology, and the applicable transitional rules
- New business volumes
- The product mix of new business

We actively manage these last two factors in order to balance growth, profitability and conservation of capital. The short duration of the Group's lending has allowed us to manage down our balance sheet and thereby conserve capital while the impacts of the pandemic work through.

The variation in the risk weightings applied to the Group's key lending assets, as shown above, and the Group's willingness and ability to adapt its lending volumes and mix, provide significant flexibility in the Group's management of capital.

## Liquidity

At 30 June 2020 and throughout the period, the Group had significant surplus liquidity over the minimum requirements due to its stock of High Quality Liquid Assets ('HQLA'), in the form of the Bank of England Reserve Account and UK Treasury Bills. Total liquid assets were £186.6 million, broadly in line with the position at 31 December 2019. Using the regulatory definition for HQLA, the balance for these assets was £138.0 million.

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

- The Overall Liquidity Adequacy Requirement ('OLAR'), which is the Board's view of the Group's liquidity needs as set out in the Board approved Internal Liquidity Adequacy Assessment Process ('ILAAP')
- The Liquidity Coverage Ratio ('LCR'), which is a regulatory measure that assesses net 30 day cash outflows as a proportion of HQLA
- **Total funding ratio**, as defined in the Appendix to the interim report

Both the OLAR and LCR were maintained significantly higher than regulatory levels throughout the period. At 30 June 2020 – the **total funding ratio** was 108.4% (30 June 2019: 112.2%, 31 December 2019 107.5%). We have continued to manage our levels of customer deposit funding in line with the changes in our lending balances. In the second quarter of the year this has involved allowing deposit balances to reduce, both by use of pricing changes and by controlling our retention activity as tranches of fixed rate bonds mature.

Secure Trust Bank is a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework and has drawn £263.0 million under the Term Funding Scheme, this level being unchanged from that reported at 30 June 2019 and 31 December 2019.

The Group has no liquid asset exposures outside of the United Kingdom and no amounts that are either past due or impaired.

# Interim business review

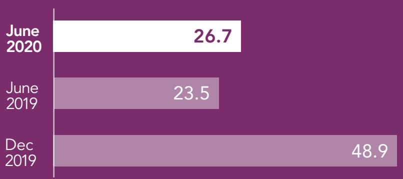
# Business Finance

Focused on supporting existing customers and maintaining very low impairment losses while the COVID-19 crisis continues.

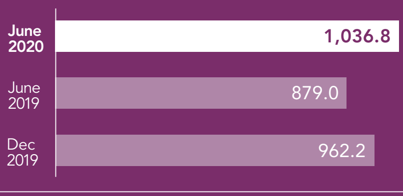
## Revenue and lending performance vs prior periods

### Real Estate Finance

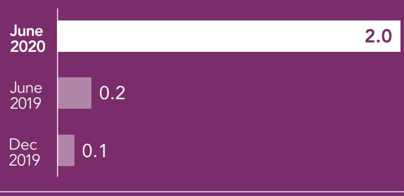
Lending revenue




Lending balance

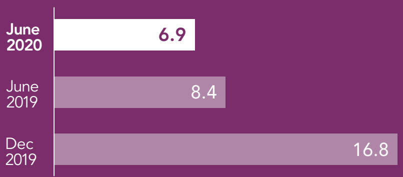



Impairment losses

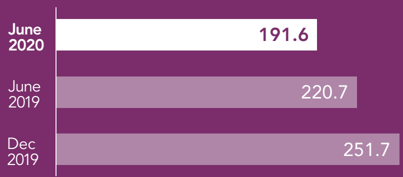



### Commercial Finance

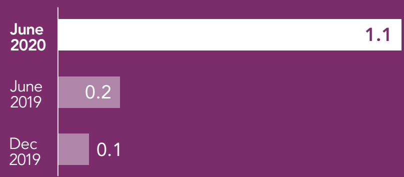
Lending revenue




Lending balance

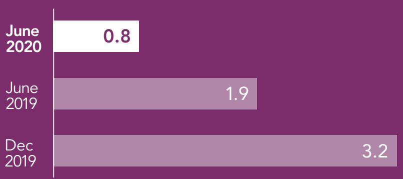



Impairment losses

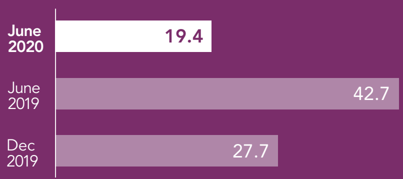



### Asset Finance

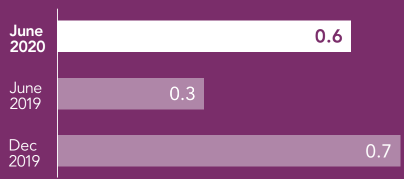
Lending revenue




Lending balance




Impairment losses




In the charts above, lending revenue and impairment losses for December 2019 are those for the full year.

## Real Estate Finance

### The division supports SMEs in providing finance principally for residential development and residential investment.

### 2020 performance

The business continued to show good momentum in Q1 2020 which then slowed following the impact of COVID-19 restrictions. This has limited new business activity, and the business has focused on supporting customers and maintaining strong risk management over the portfolio. Existing developments have continued to be funded, whilst the slowdown in the market has limited repayments. Overall balances have still grown by 7.8% in H1 2020 compared to December 2019, and are 18.0% higher than H1 2019, leading to overall revenues being 13.6% higher than H1 2019.

The impact of changes in macroeconomic factors has seen an increase in impairment charges in 2020. Low LTV ratios and close management focus on cases have helped mitigate these charges. At 30 June 2020, 11.6% of customers had been provided with a payment holiday, either in relation to capital or interest payments or both. These related to loans with exposures of £126 million.

### Looking forward

The immediate focus of the business will remain on effective risk management, and ensuring that we continue to support our customers. Our experienced team remains able to manage opportunities and threats in a timely manner, reflecting the necessary caution required by current conditions. We will manage our appetite in respect of new lending opportunities which arise as the economic conditions become clearer going forward.

## Commercial Finance

### Commercial Finance specialises in providing a range of invoice financing solutions to UK businesses including invoice discounting and factoring.

### 2020 performance

The Company grew its Commercial Finance business in Q1 2020, however the impact of COVID-19 on its clients has resulted in lower utilisation whilst collections on the balances have held up well. This has caused a decrease to total lending balances as at June 2020 and both income and return were lower than expected.

Lending to existing clients has been supplemented since April 2020 by lending under the Government's Coronavirus Business Interruption Loan Scheme ('CBILS') and Coronavirus Large Business Interruption Loan Scheme ('CLBILS'). In both cases the Government guarantees 80% of the facility. This has allowed us to provide additional support to our customers through the pandemic.

### Looking forward

As clients experience normal trading conditions post-lockdown, utilisation of existing facilities will increase and we expect related income and returns to feature. Commercial Finance will continue to offer CBILS and CLBILS facilities so resulting in additional lending, and further penetration of the existing market to new clients should result in further growth in H2 2020.

## Asset Finance

### Asset Finance provides funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

### 2020 performance

The portfolio has continued to reduce during 2020 and remains in run-off. The level of reduction was lower than expected in H1 2020 as a result of payment holidays which have been granted. Lending balances have however still reduced by 30% in H1 2020 and are down by 55% compared to H1 2019, with consequent impact on revenues. Impairments have increased in H1 2020 reflecting the heightened risk on parts of the portfolio from the changed economic conditions.

### Looking forward

We ceased originating Asset Finance business in 2018. We expect the book to continue to reduce in 2020, and will be monitoring the book carefully to limit where possible the impact of the changed economic conditions.

# Interim business review
continued

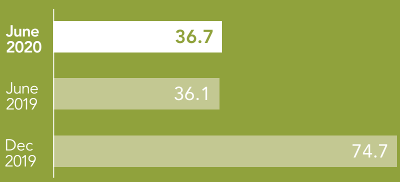
# Consumer Finance

The pandemic and subsequent lockdown have restricted markets, particular for Motor Finance, and required higher levels of impairment provision.

## Revenue and lending performance vs prior periods

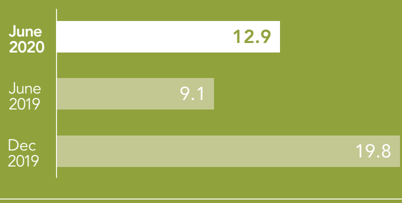
### Retail Finance

Lending revenue



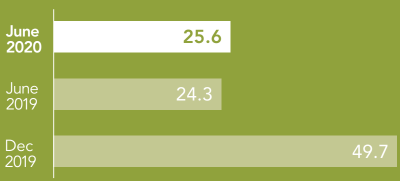

Lending balance


Impairment losses



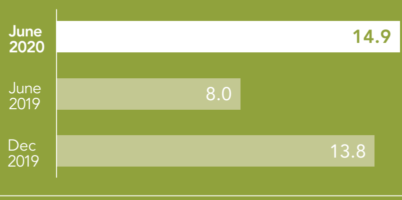

### Motor Finance

Lending revenue



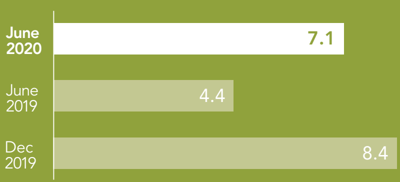

Lending balance


Impairment losses

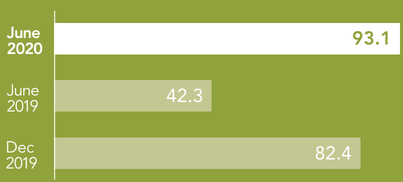



### Debt Managers (Services) Limited

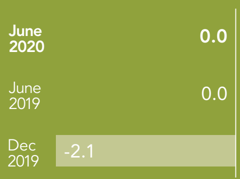
Lending revenue




Lending balance

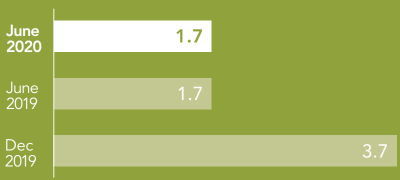



Impairment losses




### Consumer Mortgages

Lending revenue




Lending balance


Impairment losses


In the charts above, lending revenue and impairment losses for December 2019 are those for the full year.

## Retail Finance

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

### 2020 performance

The Retail Finance business has been heavily impacted by COVID-19 as its retailer partners implemented changes in response to social distancing requirements. Such changes included store closures (leading to lower sales volumes) along with reduced capability to fulfil goods delivered to customers as supply chains and warehousing were also impacted. Online sales performances were less impacted with sports and leisure sectors showing higher than expected volumes since social distancing measures were introduced.

As a result, new lending volumes reduced to £289.3 million (a decrease of 22% on the equivalent period last year). This has led to a reduction of 3.6% in lending assets, to £647.7 million in June 2020 (June 2019: £671.7 million).

In terms of the three largest sub-markets, sports and leisure was the only sector to see an increase in lending year-on-year, with the other largest sub-markets furniture and jewellery seeing a decrease. Despite the decrease in volumes, market share (based on Finance & Leasing Association new business values within retail store and online credit) has remained relatively stable.

Lending revenue increased by 1.7% to £36.7 million (June 2019: £36.1 million) linked to higher lending balances prior to the impact of COVID-19.

Impairment losses increased to £12.9 million (June 2019: £9.1million) and are mainly driven by increased provisioning under IFRS 9 for macroeconomic factors. We have granted payment holidays to approximately 2.5% of our customers, with 17,056 customers being in a payment holiday at 30 June 2020 representing a net lending balance of £21.2 million.

### Looking forward

The Group plans to maintain stable growth within its Retail Finance business as retailers emerge from the recent impacts of COVID-19 with the anticipation of customer demand returning to normal.

We will continue to invest in initiatives to further enhance systems capabilities, to ensure that quality of service to both retailers and customers is maintained or improved as well as generating operational efficiencies. This includes enhancements to telephony systems, customer application processes, and increased functionality for customers using our online portal to help them self-serve their needs.

# Interim business review
continued

## Motor Finance

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

### 2020 performance

The Motor Finance industry was significantly impacted by COVID-19 with used cars bought on finance by consumers through the point of sale down 63% in the three months to May 2020 over prior year*. The Motor Finance business took the decision to cease writing new business temporarily from March 2020 as a result of COVID-19 to focus on supporting existing customers. Hence new business volumes from consumers dropped from £89.0 million for the period to 30 June 2019 to £42.8 million for the period to June 2020.

In supporting its consumer customers with the impact of COVID-19 the Motor Finance business granted either payment holidays or reduced payments to customers, with 10,759 customers at 30 June 2020 being in a payment holiday, representing a net lending balance of £52.1 million.

Impairment losses for the period have increased from £8.0 million for the period to 30 June 2019 to £14.9 million for the period to June 2020; this includes the expected impact of customer defaults as a result of COVID-19.

The Motor Finance business also took the decision to cease writing new Used Vehicle Stocking loans in March 2020. However, the decision was taken to re-enter the market with enhanced credit criteria from June 2020. There were £1.2 million of Used Vehicle Stocking lending balances at the end of June 2020.

* Source: Finance and Leasing Association

### Looking forward

The Motor Finance business re-entered the near-prime consumer finance sector from July 2020 with a restricted number of introducers and restricted lending criteria. It is anticipated that as the economy recovers these credit restrictions will be lifted.

The Motor Finance business remains committed to expanding into the prime credit market under the V12 Vehicle Finance brand, to drive long-term receivables growth and sustainable return outcomes. A clear opportunity exists to deliver prime and near-prime products and services in the Motor lending market for an innovative and technology led funding provider.

A programme of work is underway to deliver a new platform and business transformation through 2020 with £7.8 million already invested since the programme started in 2018. As part of this programme the Motor Finance business is aiming to enhance system capabilities and to deliver a broader range of products.

Planned product development includes development of Prime Hire Purchase and PCP products and technology integrations with key providers of Dealer Management Systems and auction partners.

This is expected to improve the credit quality of the portfolio, drive business growth and deliver stable earnings. Alongside these initiatives, the business will continue to focus on the near-prime market sector through its existing introducer channel.

## Debt Managers (Services) Limited

### Debt Managers (Services) Limited ('DMS') is the Bank's debt collection business.

### 2020 performance

Q1 2020 saw performance ahead of that expected as a result of significant levels of growth in 2019.

The impacts of COVID-19 from late March has resulted in reduced outbound collections activity and a focus on servicing existing customers, and a slow down in new portfolio acquisition. The strong start to the year means that to date revenue and profit levels are in line with those expected.

### Looking forward

It is too early to say to what extent the reduced collections activity during the COVID-19 pandemic will impact the longer term collections performance, but following an initial decrease we expect collections levels to recover. The strong reputation of DMS in the industry means it is well placed take advantage of new business opportunities in the coming year, especially those presented by increased levels of defaults in the consumer lending market.

## Consumer Mortgages

### Lending to individuals to purchase a property or remortgage their current property.

### 2020 performance

The Group stopped originating new consumer mortgages in the first quarter of 2019. With the pipeline now extinguished, lending balances contracted over the period to £94.6 million, from £105.9 million at the year end.

Impairment charges remain immaterial, though approximately 30% of customers took advantage of payment holidays available to them. By 30 June 2020, the number of customers on payment holiday had reduced to 16%.

### Looking forward

We will continue to service our existing customers and manage the return to payments as payment holidays come to an end. There are no current plans to re-establish new business in this portfolio.

# Interim business review
continued

# Savings

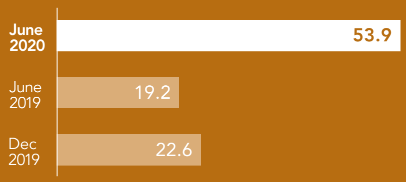
Stable funding base provided at reducing cost of funds, with high customer experience standards.

## Revenue and lending performance vs prior periods

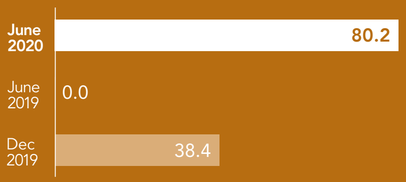
### Notice deposits


### Fixed term savings


### Sight/instant access




### Individual savings accounts



**The Group attracts funding primarily via retail savings, offering individuals competitive, simple products, applied for online and serviced through a highly commended internet banking service. These products offer UK-based online and telephone service and are backed by the protection provided by the UK Financial Services Compensation Scheme.**

## 2020 performance

With the challenges of COVID-19, we have maintained our access to funding, sustained high customer experience standards and sought to retain stable existing customers at lower cost.

Through the period, we have delivered significant change with both short-term tactical advantage and long-term benefit. This includes measures to keep our people safe in the Group's offices and establish working from home practices in line with Government guidelines. People engagement scores indicate high satisfaction with the measures taken and leadership shown.

We have retained customer loyalty and continued to focus on customer experience. We have maintained our strong customer review scores, making the Bank one of the best rated providers amongst Savings brands on TrustPilot.

Action has been taken through the first six months of this year to reduce both the value and our cost of funds. We have sought a balance of continuing to offer fair and competitive rates of interest to existing customers whilst reflecting reductions in market-wide funding costs.

Our ability to raise new funds remains robust. In the first six months of 2020, over 10,000 accounts were opened across new fund raising and retention. £270 million of new funds were raised – equivalent to £17 every second across 20,000 transactions, also evidencing the extent and scale of operations in the current environment.

This includes the continued establishment of our ISA product, with new funds of £43 million this year and total balances of over £80 million from launch in 2019. Access deposits, including those where customers mature onto the product, reached a balance of over £39 million at the half year, evidencing a trend from 2019 of successful ongoing product development into new markets.

100% of new savings applications were online. All customers register for internet banking as part of the application process and at the half year, nearly 42,000 customers were registered, representing 89% of the customer base. Our belief is that this is likely to be one of the highest penetration of internet banking registration amongst UK Specialist Banks. We have also introduced an online maturity process to offer fixed term customers a new product to stay with us.

This continues to benefit the Group's resilience with customers self-serving and, when raising queries, utilising secure messaging. Compared to December 2019, the use of the service by May of this year had increased nearly 240%. This, plus the introduction of a new telephony platform and remote working practices ensures our operations have adapted accordingly.

Over the last six months, operational challenges associated to COVID-19 have not had an effect on our control environment, with no fraud losses by any cause identified.

## Looking forward

In light of the ongoing external uncertainty, we have embedded a digitally focused, remote based operational model to continue to provide funds to the Bank's ongoing needs.

We have a stable customer base and proven capability to retain customers. Our products allow access to significant pools of liquidity in UK Savings markets and we continue to be able to open accounts. Our recently developed Access Account also remains ready to deploy.

In the second half of 2020, we intend to introduce further automation and resilience in our operations, enhance our efficiency and scalability and make it significantly easier for existing customers to open new products with us. This will continue to prepare the business and operation accordingly for a range of economic outcomes that are possible looking ahead.

Secure Trust Bank continues to be recognised by customers through its strong levels of review scores and independent external endorsement.

Longer term, in what will likely be a market where sustained low and compressed interest rates mean rates are less of a differentiator to attract and retain customers, building on our already strong customer experience is likely to only further increase in strategic importance.

Into 2021, we are therefore intending to continue to develop our customer proposition. This will include consideration of introducing a mobile app and utilising OpenBanking services. We will also review widening customer access to our products such as via Savings platforms.

# Risk management and principal risks

## Risk overview

On an ongoing basis, the Directors carry out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Details of the Group's risk management framework, including risk appetite statements, key policies and risk governance can be found on the Group's website: www.securetrustbank.com/our-corporate-information/risk-management.

## Changes to the Group's risk profile

Changes to the Group's risk profile since the position set out in the 2019 Annual Report and Accounts are set out in the following sections. Further context in respect of the COVID-19 pandemic can be found on pages 04 to 09.

## Credit risk

### Consumer Finance Credit Risk: Deteriorating

The Group made the strategic decision to temporarily withdraw the Motor Finance product in March 2020, while the country was in lockdown due to showrooms being closed and logistical companies not delivering or collecting vehicles. The Bank cautiously re-introduced the Motor Finance product at the end of June, writing limited volumes of business. As a result of this the business volumes are significantly down year-on-year. The arrears performance is being impacted by payment holidays granted to customers where forbearance has been requested. A number of macroeconomic models have been developed to produce a forward looking provision overlay to take account of increased impairments resulting from the expected economic downturn.

Whilst the Point of Sale Retail Finance business continued to lend throughout the first half of the year, volumes of new business were restricted following tightening of credit policy in light of the national lockdown due to COVID-19. As with the Motor Finance product, the arrears performance of the Retail Finance business is also impacted by payment holidays. The same approach has been implemented to determine a forward-looking overlay for those customers likely to roll into default as a consequence of the anticipated economic downturn resulting from the COVID-19 pandemic.

### Business Finance Credit Risk: Deteriorating

The Business Finance portfolio has seen a marginal decline in balances during the period, reflecting a very selective approach to new lending during the period, and a conscious decision to focus resources on risk management of the existing portfolios due to the uncertainties surrounding the potential impact of COVID-19.

The Real Estate and Asset Finance businesses saw a number of accounts going into arrears during the early stages of the UK's lockdown period, but these were largely resolved by the end of Q2, both through delayed payments and some forbearance measures being provided. Where granted, the Group's forbearance measures have involved full/partial payment holidays, granted for no more than six months. For the Real Estate Finance book specifically, the impact of these measures has not resulted in a material movement in the weighted average portfolio LTV.

Largely as a result of the forbearance measures granted, the expected credit losses allocated to the Business Finance portfolios have seen a minor uptick since year end. Management continues to monitor the portfolios closely in order to establish whether clients are expected to resume their debt repayments in line with their contractual obligations, or if additional forbearance will be required.

Our Commercial Finance business became an accredited CBILS lender in March, and subsequently became an accredited provider of CLBILS in June. The Group has provided CBILS and CLBILS loans to several of the Group's clients, partially offsetting a decline in exposures secured on debtor receipts, and continues to assess further applications under the schemes as they are received.

| Risk | Description |
|---|---|
| Credit Risk | The risk that a counterparty will be unable to pay amounts in full when due |
| Liquidity Risk | The risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset |
| Operational Risk | The risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above |
| Capital Risk | The risk that the Group will have insufficient capital resources to support the business |
| Market Risk | The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates |
| Conduct Risk | The potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff |
| Regulatory Risk | The risk that the Group fails to be compliant with all relevant regulatory requirements |

### UK withdrawal from European Union

The Group continues to monitor very closely the uncertain political and economic environment associated with the withdrawal from the EU. The expected impact on the Group is described in the Principal Risks and Uncertainties section of the 2018 Annual Report and Accounts, and the Group's view has not significantly changed since that assessment. The direct impact to the Group is limited, even in a no deal scenario. The most significant indirect impact continues to be in respect of credit risk, and the Group's ongoing analysis of the macroeconomic position and the performance of its own lending portfolios continues to suggest that the Group can withstand a disorderly exit.

## Liquidity risk: Improving

The Group has continued to use competitive interest rates to attract new fixed and variable rate deposits over terms ranging up to seven years. A moderate amount of borrowing under the Bank of England's Term Funding Scheme has also been used, with £263.0 million drawn up to 30 June 2020. All drawings will be repaid ahead of contractual maturity in February 2022.

The Overall Liquidity Adequacy Requirement is the Board's own view of the Group's liquidity requirement covering a 90-day stressed period and has been maintained significantly above regulatory levels throughout the period. The Liquidity Coverage Ratio ('LCR'), which assesses stressed outflows over a 30-day period as a proportion of High Quality Liquid Assets, was also significantly higher than the regulatory requirement throughout the period.

At 30 June 2020, the total funding ratio remained well within the Bank's risk appetite at 108.4% (30 June 2019: 112.2%, 31 December 2019: 107.5%). Definitions of this ratio, its calculation and the reasons for its use can be found in the Appendix to the interim report on page 64.

## Operational risk: Deteriorating

The Group's operational risk process and standards are defined and embedded through a formal Operational Risk Policy and Framework, which is aligned to the Basel Committee on Banking Supervision criteria for the sound management of operational risk. The objective of operational risk management is to:

- Identify and manage operational risks within acceptable levels and defined risk appetite statements/metrics/thresholds and to limit operational losses
- Develop a transparent risk culture that seeks to understand its risk profile, the incidents and losses they are incurring and to respond with proportionate and expeditious action to thematic areas of concern
- Develop consistent and robust policies and controls that are understood and embedded across all business areas

Key Risk themes of operational risk focus in 2020 include:

- **COVID-19** – in response to the COVID-19 crisis, the STB Group instigated its Crisis Management processes and has been closely managing and monitoring the operational impacts and risks over 2020 to date. A number of key changes to our operating model have been introduced to enable STB to continue to serve our customers across all our business units, protect our staff and ensure the continued success of our business. These have been closely monitored to ensure our control framework remains robust in managing all operational risks. This will continue to be a key area of focus as the implications of this pandemic evolve.
- **Operational resilience** – The Group continues to enhance the operational resilience of its important business services, in line with the regulatory timescales, where any disruption to the services could cause detriment to our customers and could affect the Group's financial stability. The Group's response to COVID-19 has shown that the Group has resilient operational capabilities during such events, particularly in relation to staffing, facilities and the automation of our processes.
- **Information communications technology (ICT) and security risks** – The Group recognises that threats to our ICT services and security are continuously evolving and can result in significant adverse risk to any financial institution's customers, operational capability and prudential viability. The Group continues to invest in and develop a robust framework of controls to identify, protect, respond to and recover from emerging cyber, supply chain and technology threats.
- **Supplier management** – The Group recognises the need to effectively manage and monitor its third party suppliers and as such, has invested in additional resource to strengthen our supplier governance capabilities and develop an enhanced control framework.

# Risk management and principal risks continued

## Capital risk: Improving

The Group's balance sheet, and consequently total risk exposure, has decreased since the beginning of the year due to the impact that COVID-19 has had on new business levels. As the Group has to date remained profitable, there has been no reduction to capital resources. Additional capital relief has been provided by the PRA in respect of IFRS 9 provisions. The result of the contraction and capital relief is that capital ratios have improved since the position noted at year end.

At 30 June 2020, the CET1 Ratio was 13.5% (30 June 2019: 12.8%, 31 December 2019: 12.7%) and the total capital ratio was 15.9% (30 June 2019: 15.2%, 31 December 2019: 15.0%). The Leverage Ratio was 10.3% (30 June 2019: 9.5%, 31 December 2019: 9.8%) on a Group consolidated basis. The Group continues to explore options to raise additional forms of capital as and when required.

## Market risk: Improving

Secure Trust Bank Group continues to maintain a broadly-matched asset and liability profile but is susceptible to movements in interest rates which can affect the Group's earnings and the overall value of its interest rate sensitive assets and liabilities where unmatched. Interest rate swaps are transacted against unmatched positions of any significance.

Interest rate risk in the banking book is monitored by reference to the following Board Risk Appetite measures:

- Earnings at Risk ('EaR')
- Market Value Sensitivity ('MVS'); and
- Economic Value of Equity ('EVE')

The Group remained within its market risk appetite across all measures throughout the year.

The Group has a small exposure to foreign exchange risk through its Commercial Finance lending, which is subject to hedging activities.

The Group does not operate a trading book.

## Conduct risk: Stable

Conduct Risk and control assessments are reviewed by the business units for self-attestations by first line risk owners.

Monthly review and challenge of Key Risk Indicators takes place in the business unit ExCo meetings, with the Group ExCo having oversight of the first line activities for assurance to senior management that the first line are identifying conduct risks when they arise and taking appropriate actions to mitigate them.

Training on Conduct Risk continues to be provided to new starters, with an eLearning module completed by all staff during the period.

## Regulatory risk: Stable

In the period, we have delivered changes to implement new regulatory guidance related to COVID-19 payment holidays in Retail Finance, Motor Finance and Mortgages.

The Group will continue to work on new and revised regulations and legislation that will come into force over the next 18 months and beyond, including further guidance related to COVID-19 and breathing space when the requirements are finalised.

# Consolidated statement of comprehensive income

| | Note | June 2020 Unaudited £million | June 2019 Unaudited £million | December 2019 Audited £million |
|---|---|---|---|---|
| **Income statement** | | | | |
| Interest income and similar income | 3 | 100.7 | 92.3 | 191.4 |
| Interest expense and similar charges | | (22.8) | (21.8) | (46.0) |
| **Net interest income** | | **77.9** | **70.5** | **145.4** |
| Fee and commission income | 3 | 7.5 | 11.2 | 20.9 |
| Fee and commission expense | | (0.5) | (0.3) | (0.8) |
| **Net fee and commission income** | | **7.0** | **10.9** | **20.1** |
| **Operating income** | | **84.9** | **81.4** | **165.5** |
| Impairment losses on loans and advances to customers | 9 | (31.5) | (17.8) | (32.6) |
| Losses on modification of financial assets | 5 | (3.6) | – | – |
| Operating expenses | | (44.7) | (45.5) | (94.2) |
| **Profit before income tax** | | **5.1** | **18.1** | **38.7** |
| Income tax expense | 6 | (1.2) | (3.5) | (7.6) |
| **Profit for the period** | | **3.9** | **14.6** | **31.1** |
| **Other comprehensive income** | | | | |
| Items that will not be reclassified to the income statement | | | | |
| Revaluation reserve | | – | – | 0.2 |
| Taxation | | – | (0.2) | (0.2) |
| **Other comprehensive income for the period, net of income tax** | | – | **(0.2)** | – |
| **Total comprehensive income for the period** | | **3.9** | **14.4** | **31.1** |
| | | | | |
| Profit attributable to: | | | | |
| **Equity holders of the Company** | | **3.9** | **14.6** | **31.1** |
| Total comprehensive income attributable to: | | | | |
| **Equity holders of the Company** | | **3.9** | **14.4** | **31.1** |
| | | | | |
| Earnings per share for profit attributable to the equity holders of the Company during the period (pence per share) | | | | |
| **Basic earnings per share** | 7 | **21.0** | **79.0** | **168.3** |
| **Diluted earnings per share** | 7 | **20.8** | **78.3** | **166.4** |

# Consolidated statement of financial position

| | Note | June 2020 Unaudited £million | June 2019 Unaudited £million | December 2019 Audited £million |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances at central banks | | 109.6 | 101.9 | 105.8 |
| Loans and advances to banks | | 42.0 | 67.3 | 48.4 |
| Loans and advances to customers | 8 | 2,377.5 | 2,278.3 | 2,450.1 |
| Debt securities | | 35.0 | 110.0 | 25.0 |
| Fair value adjustment for portfolio hedged risk | | 7.3 | – | (0.9) |
| Derivative financial instruments | 4 | 5.9 | – | 0.9 |
| Investment properties | | 4.8 | – | 4.8 |
| Property, plant and equipment | | 11.2 | 16.5 | 11.3 |
| Leasing right-of-use assets | | 3.4 | 4.0 | 3.6 |
| Intangible assets | | 8.5 | 9.2 | 9.0 |
| Current tax asset | | 1.0 | – | – |
| Deferred tax assets | | 6.6 | 7.8 | 7.5 |
| Other assets | | 17.9 | 12.1 | 17.3 |
| **Total assets** | | **2,630.7** | **2,607.1** | **2,682.8** |
| **LIABILITIES AND EQUITY** | | | | |
| Liabilities | | | | |
| Due to banks | 10 | 268.1 | 263.5 | 308.5 |
| Deposits from customers | 11 | 1,999.2 | 2,001.5 | 2,020.3 |
| Fair value adjustment for portfolio hedged risk | | 6.5 | – | (0.7) |
| Derivative financial instruments | 4 | 7.2 | – | 0.6 |
| Current tax liabilities | | – | 3.4 | 3.3 |
| Lease liabilities | | 4.3 | 4.9 | 4.5 |
| Other liabilities | | 34.5 | 42.1 | 40.9 |
| Provisions for liabilities and charges | 12 | 0.9 | 0.9 | 0.7 |
| Subordinated liabilities | | 50.7 | 50.5 | 50.6 |
| **Total liabilities** | | **2,371.4** | **2,366.8** | **2,428.7** |
| Equity attributable to owners of the parent | | | | |
| Share capital | 20 | 7.4 | 7.4 | 7.4 |
| Share premium | 20 | 82.2 | 81.2 | 81.2 |
| Revaluation reserve | | 1.1 | 0.9 | 1.1 |
| Retained earnings | | 168.6 | 150.8 | 164.4 |
| **Total equity** | | **259.3** | **240.3** | **254.1** |
| **Total liabilities and equity** | | **2,630.7** | **2,607.1** | **2,682.8** |

# Consolidated statement of changes in equity

| Unaudited | Share capital £million | Share premium £million | Revaluation reserve £million | Retained earnings £million | Total £million |
|---|---|---|---|---|---|
| **Balance at 1 January 2020** | **7.4** | **81.2** | **1.1** | **164.4** | **254.1** |
| **Total comprehensive income for the period** | | | | | |
| **Profit for the six months ended 30 June 2020** | **–** | **–** | **–** | **3.9** | **3.9** |
| **Total comprehensive income for the period** | – | – | – | **3.9** | **3.9** |
| Transactions with owners, recorded directly in equity | | | | | |
| Contributions by and distributions to owners | | | | | |
| Issue of ordinary shares | – | 1.0 | – | – | 1.0 |
| Share-based payments | – | – | – | 0.5 | 0.5 |
| Tax on share-based payments | – | – | – | (0.2) | (0.3) |
| **Total contributions by and distributions to owners** | – | **1.0** | – | **0.3** | **1.3** |
| **Balance at 30 June 2020** | **7.4** | **82.2** | **1.1** | **168.6** | **259.3** |
| **Unaudited** | | | | | |
| **Balance at 1 January 2019 (as restated)** | **7.4** | **81.2** | **1.1** | **147.3** | **237.0** |
| **Total comprehensive income for the period** | | | | | |
| **Profit for the six months ended 30 June 2019** | **–** | **–** | **–** | **14.6** | **14.6** |
| Tax on revaluation reserve | – | – | (0.2) | – | (0.2) |
| **Total other comprehensive income** | **–** | **–** | **(0.2)** | **–** | **(0.2)** |
| **Total comprehensive income for the period** | **–** | **–** | **(0.2)** | **14.6** | **14.4** |
| Transactions with owners, recorded directly in equity | | | | | |
| Contributions by and distributions to owners | | | | | |
| Dividends | – | – | – | (11.8) | (11.8) |
| Share-based payments | – | – | – | 0.6 | 0.6 |
| Tax on share-based payments | – | – | – | 0.1 | 0.1 |
| **Total contributions by and distributions to owners** | **–** | **–** | **–** | **(11.1)** | **(11.1)** |
| **Balance at 30 June 2019** | **7.4** | **81.2** | **0.9** | **150.8** | **240.3** |

# Consolidated statement of changes in equity continued

| Audited | Share capital £million | Share premium £million | Revaluation reserve £million | Retained earnings £million | Total £million |
|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **7.4** | **81.2** | **1.1** | **147.3** | **237.0** |
| **Total comprehensive income for the period** | | | | | |
| **Profit for the 12 months ended 31 December 2019** | **–** | **–** | **–** | 31.1 | 31.1 |
| Revaluation reserve | – | – | 0.2 | – | 0.2 |
| Tax on revaluation reserve | – | – | (0.2) | – | (0.2) |
| **Total other comprehensive income** | **–** | **–** | **–** | **31.1** | **31.1** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **31.1** | **31.1** |
| Transactions with owners, recorded directly in equity | | | | | |
| Contributions by and distributions to owners | | | | | |
| Dividends | – | – | – | (15.5) | (15.5) |
| Share-based payments | – | – | – | 1.2 | 1.2 |
| Tax on share-based payments | – | – | – | 0.3 | 0.3 |
| **Total contributions by and distributions to owners** | **–** | **–** | **–** | **(14.0)** | **(14.0)** |
| **Balance at 31 December 2019** | **7.4** | **81.2** | **1.1** | **164.4** | **254.1** |

# Consolidated statement of cash flows

| | Note | June 2020 Unaudited £million | June 2019 Unaudited £million | December 2019 Audited £million |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit for the period | | 3.9 | 14.6 | 31.1 |
| Adjustments for: | | | | |
| Income tax expense | | 1.2 | 3.5 | 7.6 |
| Depreciation of property, plant and equipment | | 0.7 | 0.6 | 1.2 |
| Depreciation of right-of-use assets | | 0.5 | 0.5 | 0.9 |
| Amortisation of intangible assets | | 1.0 | 1.0 | 1.9 |
| Impairment losses on loans and advances to customers | | 31.5 | 17.8 | 32.6 |
| Losses on modification of financial assets | | 3.6 | – | – |
| Share-based compensation | | 0.5 | 0.6 | 1.2 |
| Revaluation loss | | – | – | 1.1 |
| Lease interest charged | | 0.1 | 0.1 | 0.1 |
| Amortisation of subordinated liabilities issue costs | | 0.1 | 0.1 | 0.2 |
| Cash flows from operating profits before changes in operating assets and liabilities | | 43.1 | 38.8 | 77.9 |
| Changes in operating assets and liabilities: | | | | |
| – net decrease/(increase) in loans and advances to customers | | 37.5 | (267.2) | (453.8) |
| – net (increase)/decrease in other assets | | (2.0) | 9.9 | 4.6 |
| – net (decrease)/increase in deposits from customers | | (34.4) | 140.0 | 172.6 |
| – net increase in other liabilities | | 7.1 | 16.4 | 1.3 |
| Income tax paid | | (4.8) | (4.0) | (7.8) |
| **Net cash inflow/(outflow) from operating activities** | | **46.5** | **(66.1)** | **(205.2)** |
| Cash flows from investing activities | | | | |
| Redemption of debt securities | | 80.1 | 150.0 | 320.1 |
| Purchase of debt securities | | (90.1) | (110.3) | (195.4) |
| Purchase of investment property | | – | – | (1.6) |
| Purchase of property, plant and equipment | | (0.6) | (6.1) | (5.5) |
| Purchase of intangible assets | | (0.5) | (0.3) | (1.1) |
| **Net cash (outflow)/inflow from investing activities** | | **(11.1)** | **33.3** | **116.5** |
| Cash flows from financing activities | | | | |
| Net (decrease)/increase in amounts due to banks | | (40.0) | – | 45.0 |
| Issue of shares | 20 | 1.0 | – | – |
| Dividends paid | | – | (11.8) | (15.5) |
| Repayments of lease liabilities | | (0.6) | (0.7) | (1.1) |
| **Net cash (outflow)/inflow from financing activities** | | **(39.6)** | **(12.5)** | **28.4** |
| **Net decrease in cash and cash equivalents** | | **(4.2)** | **(45.3)** | **(60.3)** |
| Cash and cash equivalents at start of period | | 154.2 | 214.5 | 214.5 |
| **Cash and cash equivalents at end of period** | 20 | **150.0** | **169.2** | **154.2** |

Consistent with the 2019 Annual Report and Accounts, redemption and purchase of debt securities have been grossed up and moved from operating activities to investing activities as this better represents the nature of the underlying activity. June 2019 comparatives have also been restated on this basis.

# Notes to the interim report

## 1. Accounting policies

The principal accounting policies applied in the preparation of this interim report are set out below. These policies have been consistently applied to all the periods 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, Solihull, West Midlands, B90 4LH. The interim report as at and for the period ended 30 June 2020 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

### 1.2 Basis of presentation

The interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, and has been prepared in accordance with International Financial Reporting Standards, as adopted or early adopted by the Group and endorsed by the EU, the Companies Act 2006 applicable to companies reporting under IFRS and IAS 34 Interim Financial Reporting.

A copy of the statutory accounts for the year ended 31 December 2019 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The results for the periods ending 30 June 2020 and 30 June 2019 are unaudited. The results for the year ending 31 December 2019 are audited.

The interim report has been prepared under the historical cost convention, as modified by the revaluation of land and buildings. The interim report is presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

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

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts.

In assessing the Group as a going concern, the Directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the interim business report. The Group uses various short and medium-term forecasts to monitor future capital and liquidity requirements and these include stress testing assumptions to identify the headroom on regulatory compliance measures.

Given the uncertain economic conditions brought about by the COVID-19 pandemic, the Group has undertaken additional stress testing. Pages 50 and 51 of the 2019 Annual Report and Accounts provides details of the specific stress testing undertaken in May 2020 for the 31 December 2019 going concern assessment in the light of the pandemic. A range of scenarios was applied to assess capital and liquidity positions in adverse conditions. The Group has updated these assessments as at 30 June 2020, taking account of actual result to date and the passage of time, in order to demonstrate the continued adoption of the 'going concern' basis. This work has demonstrated that the Group continues to meet its capital and liquidity requirements in the stress scenarios considered.

The Group has continued to operate effectively over the pandemic, with the majority of employees working from home, and expects to continue to be able to do so as long as is necessary.

### 1.3 Accounting policies

The accounting policies applied in preparing the unaudited condensed interim report are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2019.

#### 1.3.1 Taxation

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

#### 1.3.2 Standards in issue but not yet effective

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

# 2. Critical judgements and estimates

## 2.1 Judgements

No critical judgements have been identified.

## 2.2 Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty are outlined below. The potential impact of COVID-19 has been considered in determining reasonably possible changes in key sources of estimation uncertainty which may occur in the next 12 months.

### 2.2.1 Impairment losses on loans and advances to customers

As discussed in Note 1.9 of the Group's Annual Report for the year ended 31 December 2019, ECLs are calculated by multiplying three main components: the PD, EAD and LGD. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information. The determination of both the PD and LGD require estimation which is discussed further below.

### 2.2.2 Probability of default ('PD')

As set out in Note 1.9 of the Group's Annual Report for the year ended 31 December 2019, Exogenous, Maturity, Vintage ('EMV') modelling is used in the production of forward-looking lifetime PDs in the calculation of ECLs. As the Group's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model ('ERM') to incorporate the effects of recession. Even using proxy series data, the potentially extreme economic impact brought about by COVID-19 cannot be accurately correlated to historic data, requiring the use of model overlays.

The portfolios for which external benchmark information represents a significant input into the measurement of expected credit loss ('ECL') are Real Estate Finance, Asset Finance and Commercial Finance. The benchmarks used for all three portfolios are Standard & Poor's Ratings and Bank of England UK Possessions as proxy data for ERM.

With the exception of the Motor Finance and Retail Finance portfolios, sensitivity to reasonably possible changes in PD is not considered to result in material changes in the ECL allowance. A 10% change in the PD for Motor Finance would immediately impact the ECL allowance by £1.7 million (June 2019: £1.8 million, December 2019: £2.0 million) and a 10% change in the PD for Retail Finance would immediately impact the ECL allowance by £2.2 million (December 2019: £2.3 million). At June 2019, the sensitivity to any reasonably possible change in PD was not considered to be material to the Retail Finance portfolio.

The ECL allowance held for the Business Finance, Consumer Mortgages and Other portfolios remains low. Reasonably possible changes in the PD for these portfolios are not considered to result in a material change in the ECL allowance.

### 2.2.3 Loss given default ('LGD')

The Group's policy for the determination of LGD is outlined in Note 1.9 of the Group's Annual Report for the year ended 31 December 2019.

With the exception of the Motor Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. For the Motor Finance portfolio a 20% change in the LGD is considered reasonably possible due to potential difficulties in the vehicle collection process and reduced asset values brought about by COVID-19. A 20% change in the vehicle recovery rate assumption element of the LGD for Motor Finance would impact the ECL allowance by £2.5 million (June 2019 £3.0 million, December 2019: £2.6 million).

### 2.2.4 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 in Note 1.9.

The macroeconomic scenarios used at 30 June 2020 were internally developed, having regard to externally published scenarios. The scenarios and weightings applied are summarised below:

| Scenario | Key assumptions | Weighting June 2020 |
|---|---|---|
| Low case | Peak unemployment of 6.9%. Peak to trough HPI reduction of 11% | 20% |
| Medium case | Peak unemployment of 9.0%. Peak to trough HPI reduction of 11% | 45% |
| Hard case | Peak unemployment of 10.7%. Peak to trough HPI reduction of 16% | 25% |
| Severe stress case | Peak unemployment of 12.0%. Peak to trough HPI reduction of 20% | 10% |

# Notes to the interim report continued

## 2. Critical judgements and estimates continued

| Scenario | Derivation | Weighting June 2019 and December 2019 |
|---|---|---|
| Benign case | Assumes macroeconomic variables will move with a more positive trajectory than the base case. | 10% |
| Base case | Derived from external consensus forecasts and used in the Group's strategic planning and budgeting processes. | 65% |
| Stressed case | Management's assessment, based on historic data, of an adverse scenario that could occur once every seven to eight years. | 20% |
| Deeper stress case | Based on the scenario used by the PRA for the ICAAP. This can be found on the Bank of England's website: www.bankofengland.co.uk | 5% |

The annual averages of the key assumptions in the June 2020 scenarios for each of the next two years are shown below:

| | Low case | | Medium case | | Hard case | | Severe case | |
|---|---|---|---|---|---|---|---|---|
| | Year one | Year two | Year one | Year two | Year one | Year two | Year one | Year two |
| Average unemployment | 6.2% | 4.9% | 8.0% | 5.6% | 9.4% | 6.0% | 11.0% | 6.8% |
| HPI movement | (6.0)% | (2.0)% | (6.0)% | (6.0)% | (12.0)% | (12.0)% | (9.0)% | (13.0)% |

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

| Increase in hard case (2019: stressed case) weighting by 5% and reduction in low case (2019: base case) | June 2020 £million | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Motor Finance | **0.2** | 0.1 | 0.1 |
| Retail Finance | **0.2** | 0.1 | 0.2 |
| Real Estate Finance | **0.1** | – | – |

| Increase in severe stress case (2019: deeper stress case) weighting by 5% and reduction in medium case (2019: base case) | June 2020 £million | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Motor Finance | **0.1** | 0.4 | 0.4 |
| Retail Finance | **0.2** | 0.8 | 0.7 |
| Real Estate Finance | **0.2** | – | – |

The sensitivity is immaterial for other lending products.

Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the impact on ECL would be as follows:

| Scenario | Motor Finance £million | Retail Finance £million | Total Group £million |
|---|---|---|---|
| Low case | 3.6 lower | 3.5 lower | 9.0 lower |
| Severe case | 3.3 higher | 4.3 higher | 15.6 higher |

### 2.2.5. Debt Management forecast collections

A +/-5.0% change in Debt Management forecast collections, which the Directors consider to be a reasonable possible change, would increase or decrease Loans and advances to customers by £4.4 million (December 2019: £4.0 million) respectively, resulting in a corresponding £4.4 million (December 2019: £4.0 million) increase or decrease in profit or loss.

## 3. Operating segments

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

### Business Finance

1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate.

2) Asset Finance: loans to small and medium-sized enterprises to acquire commercial assets.

3) Commercial Finance: invoice discounting and invoice factoring.

### Consumer Finance

4) Motor Finance: Hire purchase agreements secured against the vehicle being financed.

5) Retail Finance: Point of sale unsecured finance for in-store and online retailers.

6) Debt Management: Debt collection.

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

### Other

The 'Other' segment includes other products which are individually below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS 8.28 by reconciling operating segments to the amounts reported in the interim report.

Other includes principally OneBill (the Group's consumer bill management service, which has been closed to new customers since 2009) and RentSmart (principally the funding and operation of finance leases through a disclosed agency agreement with RentSmart Limited).

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

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

| | Interest income and similar income £million | Fee and commission income £million | Revenue from external customers £million | Impairment losses on loans and advances to customers £million | Loans and advances to customers £million | Loan commitments £million |
|---|---|---|---|---|---|---|
| **June 2020** | | | | | | |
| Real Estate Finance | 26.7 | – | 26.7 | 2.0 | 1,036.8 | 107.7 |
| Asset Finance | 0.8 | – | 0.8 | 0.6 | 19.4 | – |
| Commercial Finance | 3.8 | 3.1 | 6.9 | 1.1 | 191.6 | 65.1 |
| Business Finance | 31.3 | 3.1 | 34.4 | 3.7 | 1,247.8 | 172.8 |
| Retail Finance | 35.5 | 1.2 | 36.7 | 12.9 | 647.7 | 54.9 |
| Motor Finance | 25.2 | 0.4 | 25.6 | 14.9 | 289.0 | – |
| Debt Management | 6.8 | 0.3 | 7.1 | – | 93.1 | – |
| Consumer Mortgages | 1.7 | – | 1.7 | – | 94.6 | – |
| Consumer Finance | 69.2 | 1.9 | 71.1 | 27.8 | 1,124.4 | 54.9 |
| Other | 0.2 | 2.5 | 2.7 | – | 5.3 | – |
| | **100.7** | **7.5** | **108.2** | **31.5** | **2,377.5** | **227.7** |

# Notes to the interim report continued

## 3. Operating segments continued

| | Interest income and similar income £million | Fee and commission income £million | Revenue from external customers £million | Impairment losses on loans and advances to customers £million | Loans and advances to customers £million | Loan commitments £million |
|---|---|---|---|---|---|---|
| **June 2019** | | | | | | |
| Real Estate Finance | 22.6 | 0.9 | 23.5 | 0.2 | 879.0 | 129.3 |
| Asset Finance | 1.9 | – | 1.9 | 0.3 | 42.7 | – |
| Commercial Finance | 3.4 | 5.0 | 8.4 | 0.2 | 220.7 | 38.3 |
| Business Finance | 27.9 | 5.9 | 33.8 | 0.7 | 1,142.4 | 167.6 |
| Retail Finance | 34.2 | 1.9 | 36.1 | 9.1 | 671.7 | 30.4 |
| Motor Finance | 23.9 | 0.4 | 24.3 | 8.0 | 299.8 | 1.2 |
| Debt Management | 3.8 | 0.6 | 4.4 | – | 42.3 | – |
| Consumer Mortgages | 1.7 | – | 1.7 | 0.1 | 113.2 | – |
| Consumer Finance | 63.6 | 2.9 | 66.5 | 17.2 | 1,127.0 | 31.6 |
| Other | 0.8 | 2.4 | 3.2 | (0.1) | 8.9 | – |
| | **92.3** | **11.2** | **103.5** | **17.8** | **2,278.3** | **199.2** |

| | Interest income and similar income £million | Fee and commission income £million | Revenue from external customers £million | Impairment losses on loans and advances to customers £million | Loans and advances to customers £million | Loan commitments £million |
|---|---|---|---|---|---|---|
| **December 2019** | | | | | | |
| Real Estate Finance | 47.9 | 1.0 | 48.9 | 0.1 | 962.2 | 120.9 |
| Asset Finance | 3.2 | – | 3.2 | 0.7 | 27.7 | – |
| Commercial Finance | 7.5 | 9.3 | 16.8 | 0.1 | 251.7 | 48.7 |
| Business Finance | 58.6 | 10.3 | 68.9 | 0.9 | 1,241.6 | 169.6 |
| Retail Finance | 71.1 | 3.6 | 74.7 | 19.8 | 688.9 | 33.2 |
| Motor Finance | 48.7 | 1.0 | 49.7 | 13.8 | 323.7 | 0.5 |
| Debt Management | 7.3 | 1.1 | 8.4 | (2.1) | 82.4 | – |
| Consumer Mortgages | 3.6 | 0.1 | 3.7 | 0.1 | 105.9 | – |
| Consumer Finance | 130.7 | 5.8 | 136.5 | 31.6 | 1,200.9 | 33.7 |
| Other | 2.1 | 4.8 | 6.9 | 0.1 | 7.6 | – |
| | **191.4** | **20.9** | **212.3** | **32.6** | **2,450.1** | **203.3** |

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

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

## 4. Gains/losses from derivatives and hedge accounting

The Group holds interest rate swaps for risk mitigation purposes. For further information on the Group's risk management strategy for market risk refer to the Risk management and principal risks section on page 36. No comparatives are presented for the period ended June 2019 as the Group held no interest rate swaps during that period. Interest rate swaps are designated on initial recognition as measured at fair value through profit and loss. The tables below provide an analysis of the notional amount and fair value of derivatives held:

| | Notional £million | Assets £million | Liabilities £million | Changes in fair value used for calculating hedge ineffectiveness in the period £million |
|---|---|---|---|---|
| **June 2020** | | | | |
| Interest rate swaps designated as fair value hedges | 1,117.3 | 5.9 | (6.9) | – |
| Interest accruals on interest rate swaps | – | – | (0.3) | – |
| | **1,117.3** | **5.9** | **(7.2)** | **–** |

| | Notional £million | Assets £million | Liabilities £million | Changes in fair value used for calculating hedge ineffectiveness in the period £million |
|---|---|---|---|---|
| 31 December 2019 | | | | |
| Interest rate swaps designated as fair value hedges | 987.7 | 0.8 | (0.6) | – |
| Interest accruals on interest rate swaps | – | 0.1 | – | – |
| | **987.7** | **0.9** | **(0.6)** | **–** |

| | Notional £million | Assets £million | Liabilities £million |
|---|---|---|---|
| **June 2020** | | | |
| In not more than one year | 264.2 | 0.4 | (1.9) |
| In more than one year | 853.1 | 5.5 | (5.3) |
| | **1,117.3** | **5.9** | **(7.2)** |

| | Notional £million | Assets £million | Liabilities £million |
|---|---|---|---|
| 31 December 2019 | | | |
| In not more than one year | 214.5 | – | (0.1) |
| In more than one year | 773.2 | 0.9 | (0.5) |
| | **987.7** | **0.9** | **(0.6)** |

The notional amount represents the amount on which payment flows are derived and does not represent amounts at risk.

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

# Notes to the interim report continued

## 4. Gains/losses from derivatives and hedge accounting continued

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

| | Carrying amount of hedged item | | Accumulated amount of fair value adjustments on the hedged item | | | |
|---|---|---|---|---|---|---|
| | Assets £million | Liabilities £million | Assets £million | Liabilities £million | Balance Sheet line item | Change in fair value of hedged item for ineffectiveness assessment in the period £million |
| **June 2020** | | | | | | |
| **Interest rate fair value hedges** | | | | | | |
| Fixed rate Real Estate Finance loans | 300.0 | – | 5.3 | – | Loans and advances to customers | – |
| Fixed rate Motor Finance loans | 105.0 | – | 1.1 | – | Loans and advances to customers | – |
| Fixed rate Retail Finance loans | 95.5 | – | 0.7 | – | Loans and advances to customers | – |
| Fixed rate Consumer Mortgage loans | 9.8 | – | 0.2 | – | Loans and advances to customers | – |
| Fixed rate customer deposits | – | 607.0 | – | 6.5 | Deposits from customers | – |
| **Total** | **510.3** | **607.0** | **7.3** | **6.5** | | – |

| | Carrying amount of hedged item | | Accumulated amount of fair value adjustments on the hedged item | | | |
|---|---|---|---|---|---|---|
| | Assets £million | Liabilities £million | Assets £million | Liabilities £million | Balance Sheet line item | Change in fair value of hedged item for ineffectiveness assessment in the period £million |
| 31 December 2019 | | | | | | |
| Interest rate fair value hedges | | | | | | |
| Fixed rate Real Estate Finance loans | 296.8 | – | (0.6) | – | Loans and advances to customers | – |
| Fixed rate Motor Finance loans | 100.1 | – | (0.2) | – | Loans and advances to customers | – |
| Fixed rate Retail Finance loans | 66.0 | – | (0.1) | – | Loans and advances to customers | – |
| Fixed rate Consumer Mortgage loans | 9.2 | – | – | – | Loans and advances to customers | – |
| Fixed rate customer deposits | – | 515.6 | – | 0.6 | Deposits from customers | – |
| **Total** | **472.1** | **515.6** | **(0.9)** | **0.6** | | – |

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

Fair value gains and losses arising from derivatives and hedge accounting recognised in the Group income statement was £nil million.

Although the Group uses derivatives exclusively to hedge interest rate risk exposures, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. This arises from the application of accounting rules which do not reflect the economic reality of the business. Where such volatility arises it will trend back to zero over time.

## 4. Gains/losses from derivatives and hedge accounting continued

All derivatives held by the Group have been highly effective in the period resulting in minimal hedge accounting ineffectiveness recognised in the income statement. Future ineffectiveness may arise as a result of:

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

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 |
|---|---|---|---|---|
| **June 2020** | | | | |
| Derivative financial assets | 5.9 | (5.9) | – | – |
| Derivative financial liabilities | (7.2) | 5.9 | 1.1 | (0.2) |

| | Gross amount reported on balance sheet £million | Master netting arrangements £million | Financial collateral £million | Net amounts after offsetting £million |
|---|---|---|---|---|
| 31 December 2019 | | | | |
| Derivative financial assets | 0.9 | (0.6) | (0.3) | – |
| Derivative financial liabilities | (0.6) | 0.6 | (0.1) | (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.

## 5. Loan modification losses

Although not included as an option within customer contracts, following regulatory guidance the Group has offered payment holidays to our Consumer Finance and Asset Finance customers. 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. The impact of this is a £3.1 million reduction in the net present value of Motor Finance loans and a further £0.5 million reduction in respect of other products.

Of the overall £3.6 million loan modification loss, £1.1 million relates to financial assets with a loss allowance based on lifetime ECL.

| **Financial assets (with loss allowance based on lifetime ECL) modified during the period** | **Total £million** |
|---|---|
| Gross loans and advances before modification | 426.3 |
| Less: allowances for impairments on loans and advances | (49.6) |
| | 376.7 |
| Loan modification loss | (1.1) |
| Net amortised cost after modification | 375.6 |

Interim Financial Statements

# Notes to the interim report
continued

## 6. Income tax expense

| | June 2020 £million | June 2019 £million | December 2019 £million |
|---|---|---|---|
| **Current taxation** | | | |
| Corporation tax charge – current period | 0.4 | 3.3 | 7.0 |
| Corporation tax charge – adjustments in respect of prior periods | – | – | (0.1) |
| | **0.4** | **3.3** | **6.9** |
| **Deferred taxation** | | | |
| Deferred tax charge – current period | 0.8 | 0.2 | 0.7 |
| Deferred tax charge – adjustments in respect of prior periods | – | – | – |
| | 0.8 | 0.2 | 0.7 |
| **Income tax expense** | **1.2** | **3.5** | **7.6** |

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

The main component of the deferred tax asset is deferred tax on the IFRS 9 transition adjustment, which reverses on a straight-line basis over 10 years commencing in 2018. The Company will incur the 8% corporation tax surcharge on banking company profits in excess of £25.0 million during this period, but the quantum of this is uncertain. Any changes in the forecast tax rate of the Company over this period could significantly affect the future tax charge.

Due to the uncertain economic environment, the Group has considered a number of scenarios that could impact 2020 performance due to COVID-19, which in turn would affect the rates at which deferred tax assets can be recognised. Any further adverse rate effect on the tax charge in 2020 is not expected to exceed £0.5 million.

## 7. Earnings per ordinary share

### 7.1 Basic

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

| | June 2020 | June 2019 | December 2019 |
|---|---|---|---|
| Profit attributable to equity holders of the parent (£ millions) | 3.9 | 14.6 | 31.1 |
| Weighted average number of ordinary shares (number) | 18,603,521 | 18,476,628 | 18,476,280 |
| **Earnings per share (pence)** | **21.0** | **79.0** | **168.3** |

### 7.2 Diluted

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

| | June 2020 | June 2019 | December 2019 |
|---|---|---|---|
| Weighted average number of ordinary shares | 18,603,521 | 18,476,628 | 18,476,280 |
| Number of dilutive shares in issue at the period end | 140,026 | 173,464 | 216,943 |
| **Fully diluted weighted average number of ordinary shares** | **18,743,547** | **18,650,092** | **18,693,223** |
| Dilutive shares being based on: | | | |
| Number of options outstanding at the period end | 454,265 | 659,802 | 598,065 |
| Exercise price (pence) | 472 | 498 | 528 |
| Average share price during the period (pence) | 1,162 | 1,303 | 1,390 |
| **Diluted earnings per share (pence)** | **20.8** | **78.3** | **166.4** |

## 8. Loans and advances to customers

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Gross loans and advances | 2,456.3 | 2,346.8 | 2,510.7 |
| Less: allowances for impairment on loans and advances (Note 9) | (78.8) | (68.5) | (60.6) |
| | **2,377.5** | **2,278.3** | **2,450.1** |

The fair value of loans and advances to customers is shown in Note 16.

## 9. Allowances for impairment of loans and advances

| | Not credit impaired | | Credit impaired | | | |
|---|---|---|---|---|---|---|
| | Stage 1: Subject to 12 month ECL £million | Stage 2: Subject to lifetime ECL £million | Stage 3: Subject to lifetime ECL £million | Total provision £million | Gross loans and receivables £million | Provision cover % |
| **June 2020** | | | | | | |
| Business Finance: | | | | | | |
| Real Estate Finance | 2.2 | 0.1 | 0.3 | 2.6 | 1,039.4 | 0.3% |
| Asset Finance | 0.3 | 0.3 | 1.5 | 2.1 | 21.5 | 9.8% |
| Commercial Finance | 0.9 | 0.6 | – | 1.5 | 193.1 | 0.8% |
| Consumer Finance: | | | | | | |
| Retail Finance | 13.2 | 11.0 | 4.5 | 28.7 | 676.4 | 4.2% |
| Motor Finance: | | | | | | |
| Voluntary termination provision | 5.8 | – | – | 5.8 | | |
| Other impairment | 6.6 | 16.0 | 17.3 | 39.9 | | |
| | 12.4 | 16.0 | 17.3 | 45.7 | 334.7 | 13.7% |
| Debt Management | – | – | (2.1) | (2.1) | 91.0 | (2.3%) |
| Consumer Mortgages | 0.2 | – | 0.1 | 0.3 | 94.9 | 0.3% |
| Other | – | – | – | – | 5.3 | 0.0% |
| | **29.2** | **28.0** | **21.6** | **78.8** | **2,456.3** | **3.2%** |

| | Not credit impaired | | Credit impaired | | | |
|---|---|---|---|---|---|---|
| | Stage 1: Subject to 12 month ECL £million | Stage 2: Subject to lifetime ECL £million | Stage 3: Subject to lifetime ECL £million | Total provision £million | Gross loans and receivables £million | Provision cover % |
| **June 2019** | | | | | | |
| Business Finance: | | | | | | |
| Real Estate Finance | 0.5 | 0.1 | 0.2 | 0.8 | 879.8 | 0.1% |
| Asset Finance | 0.1 | 0.1 | 1.8 | 2.0 | 44.7 | 4.5% |
| Commercial Finance | 0.3 | 0.1 | 0.5 | 0.9 | 221.6 | 0.4% |
| Consumer Finance: | | | | | | |
| Retail Finance | 9.9 | 10.0 | 4.4 | 24.3 | 696.0 | 3.5% |
| Motor Finance: | | | | | | |
| Voluntary termination provision | 6.7 | – | – | 6.7 | | |
| Other impairment | 3.9 | 13.0 | 16.5 | 33.4 | | |
| | 10.6 | 13.0 | 16.5 | 40.1 | 339.9 | 11.8% |
| Debt Management | – | – | – | – | 42.3 | 0.0% |
| Consumer Mortgages | 0.3 | – | – | 0.3 | 113.5 | 0.3% |
| Other | – | – | 0.1 | 0.1 | 9.0 | 1.1% |
| | **21.7** | **23.3** | **23.5** | **68.5** | **2,346.8** | **2.9%** |

# Notes to the interim report
continued

## 9. Allowances for impairment of loans and advances continued

| | Not credit impaired | | Credit impaired | | | |
|---|---|---|---|---|---|---|
| | Stage 1: Subject to 12 month ECL £million | Stage 2: Subject to lifetime ECL £million | Stage 3: Subject to lifetime ECL £million | Total provision £million | Gross loans and receivables £million | Provision cover % |
| December 2019 | | | | | | |
| Business Finance: | | | | | | |
| Real Estate Finance | 0.5 | – | 0.1 | 0.6 | 962.8 | 0.1% |
| Asset Finance | – | 0.1 | 1.7 | 1.8 | 29.5 | 6.1% |
| Commercial Finance | 0.3 | – | 0.6 | 0.9 | 252.6 | 0.4% |
| Consumer Finance: | | | | | | |
| Retail Finance | 10.0 | 11.1 | 4.4 | 25.5 | 714.4 | 3.6% |
| Motor Finance: | | | | | | |
| Voluntary termination provision | 6.8 | – | – | 6.8 | | |
| Other impairment | 3.7 | 12.9 | 10.2 | 26.8 | | |
| | 10.5 | 12.9 | 10.2 | 33.6 | 357.3 | 9.4% |
| Debt Management | – | – | (2.1) | (2.1) | 80.3 | (2.6%) |
| Consumer Mortgages | 0.3 | – | – | 0.3 | 106.2 | 0.3% |
| Other | – | – | – | – | 7.6 | 0.0% |
| | **21.6** | **24.1** | **14.9** | **60.6** | **2,510.7** | **2.4%** |

Total provisions above include expert credit judgements as follows:

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Specific overlays held against credit impaired secured assets held within the Business Finance portfolio | (1.2) | 0.9 | 0.5 |
| Future macroeconomic scenario overlay in respect of Motor Finance | 6.6 | – | – |
| Future macroeconomic scenario overlay in respect of Retail Finance | 4.2 | – | – |
| Planned enhancements to LGD elements of the IFRS 9 models | – | 0.9 | (0.8) |
| Management judgement in respect of PD elements of the IFRS 9 models | – | 0.3 | (0.8) |
| POCI adjustment (see below) | – | – | (2.1) |
| Other | – | 0.2 | (0.1) |
| Expert credit judgements over the Group's IFRS 9 model results | **9.6** | **2.3** | **(3.3)** |

The future macroeconomic scenario overlays are in respect of the application of forward looking data, as included in Note 2.2.4, for the Consumer Finance portfolios where the macroeconomic variables have not been input directly to the models. The specific overlays 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.

**POCI adjustment**
The Group's debt management business purchases credit-impaired loans from the Company and other unrelated third parties. Under IFRS 9, these are classified as Purchased and Originated Credit Impaired ('POCI') loans. Income on POCI loans is initially recognised by applying the original credit-adjusted EIR to the expected future cash flows arising from the POCI assets. The Group's accounting policy is to recognise POCI income by applying the original credit-adjusted EIR to the amortised cost of the assets. Expected changes in cash flows since the date of purchase are recognised as an impairment gain or loss in the income statement. At December 2019, improvements in credit quality resulted in a £2.1 million impairment gain.

Provisions included in 'Other' are in respect of various legacy products. This segment also includes loans of £5.2 million (June 2019: £8.5 million, December 2019: £7.2 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans.

## 9. Allowances for impairment of loans and advances continued

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

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Charge for impairment losses | 30.1 | 15.3 | 28.1 |
| Impairment losses in respect of off balance sheet loan commitments | 0.3 | – | – |
| Loans written off, net of amounts utilised | 1.3 | 2.7 | 5.3 |
| Recoveries of loans written off | (0.2) | (0.2) | (0.8) |
| | 31.5 | 17.8 | 32.6 |

Reconciliations of the opening to closing impairment allowance for losses on 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 provision £million |
| **June 2020** | | | | |
| At start of period | 21.6 | 24.1 | 14.9 | 60.6 |
| Increase/(decrease) due to change in credit risk | | | | |
| – Transfer to stage 2 | (6.6) | 21.3 | – | 14.7 |
| – Transfer to stage 3 | – | (12.2) | 16.8 | 4.6 |
| – Transfer to stage 1 | 1.5 | (3.2) | – | (1.7) |
| Passage of time | (1.5) | (2.4) | 1.1 | (2.8) |
| New loans originated | 6.1 | – | – | 6.1 |
| Derecognised loans | (1.2) | (1.4) | – | (2.6) |
| Changes to credit risk parameters | 10.4 | 1.8 | (0.4) | 11.8 |
| Other adjustments | – | – | – | – |
| Charge to income statement | 8.7 | 3.9 | 17.5 | 30.1 |
| Allowance utilised in respect of write offs | (1.1) | – | (10.8) | (11.9) |
| **At end of period** | **29.2** | **28.0** | **21.6** | **78.8** |

| | 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 |
| **June 2019** | | | | |
| At start of period | 20.3 | 23.9 | 22.9 | 67.1 |
| Increase/(decrease) due to change in credit risk | | | | |
| – Transfer to stage 2 | (2.5) | 16.6 | – | 14.1 |
| – Transfer to stage 3 | – | (11.5) | 15.0 | 3.5 |
| – Transfer to stage 1 | 0.6 | (1.4) | – | (0.8) |
| Passage of time | (5.9) | (2.0) | (1.2) | (9.1) |
| New loans originated | 8.8 | – | – | 8.8 |
| Derecognised loans | (0.9) | (2.2) | – | (3.1) |
| Changes to credit risk parameters | 0.5 | (0.1) | (0.8) | (0.4) |
| Other adjustments | 2.3 | – | – | 2.3 |
| Charge to income statement | 2.9 | (0.6) | 13.0 | 15.3 |
| Allowance utilised in respect of write offs | (1.5) | – | (12.4) | (13.9) |
| **At end of period** | **21.7** | **23.3** | **23.5** | **68.5** |

# Notes to the interim report continued

## 9. Allowances for impairment of loans and advances continued

| | 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 |
| **December 2019** | | | | |
| At start of year | 20.3 | 23.9 | 22.9 | 67.1 |
| Increase/(decrease) due to change in credit risk | | | | |
| – Transfer to stage 2 | (5.9) | 36.9 | – | 31.0 |
| – Transfer to stage 3 | – | (23.5) | 30.3 | 6.8 |
| – Transfer to stage 1 | 1.5 | (3.5) | – | (2.0) |
| Passage of time | (10.1) | (6.8) | (6.3) | (23.2) |
| New loans originated | 17.2 | – | – | 17.2 |
| Derecognised loans | (1.9) | (4.7) | (0.1) | (6.7) |
| Changes to model methodology | 0.7 | 1.2 | (0.2) | 1.7 |
| Changes to credit risk parameters | (1.1) | 0.6 | (0.1) | (0.6) |
| Other adjustments | 3.9 | – | – | 3.9 |
| Charge to income statement | 4.3 | 0.2 | 23.6 | 28.1 |
| Allowance utilised in respect of write offs | (3.0) | – | (31.6) | (34.6) |
| **At end of year** | **21.6** | **24.1** | **14.9** | **60.6** |

The table above has been prepared based on the monthly movements in ECL.

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

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

Changes to credit risk parameters represents 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 Motor voluntary termination provision.

Stage 1 write offs arise on the Motor accounts that have exercised their right to voluntarily terminate their agreements.

## 10. Due to banks

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Amounts due to other credit institutions | | | |
| Term Funding Scheme | 263.0 | 263.0 | 308.0 |
| Indexed long-term repos | 5.0 | – | – |
| Accrued interest | 0.1 | 0.5 | 0.5 |
| | **268.1** | **263.5** | **308.5** |

These are due for repayment between May 2021 and February 2022.

## 11. Deposits from customers

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Current/demand accounts | 53.9 | 19.2 | 22.6 |
| Term deposits | 1,865.1 | 1,982.3 | 1,959.3 |
| Individual savings accounts | 80.2 | – | 38.4 |
| | **1,999.2** | **2,001.5** | **2,020.3** |

The fair value of deposits from customers is shown in Note 16.

## 12. Provisions for liabilities and charges

| | Customer redress £million | Fraud £million | ECL allowance on loan commitment £million | Total £million |
|---|---|---|---|---|
| **June 2020** | | | | |
| At start of period | 0.2 | 0.4 | 0.1 | 0.7 |
| (Credited)/charged to income statement | (0.2) | (0.2) | 0.6 | 0.2 |
| **At end of period** | **–** | **0.2** | **0.7** | **0.9** |

| | Customer redress £million | Fraud £million | ECL allowance on loan commitment £million | Total £million |
|---|---|---|---|---|
| **June 2019** | | | | |
| At start of period | 0.8 | 0.1 | 0.4 | 1.3 |
| Credited to income statement | (0.4) | – | – | (0.4) |
| **At end of period** | **0.4** | **0.1** | **0.4** | **0.9** |

| | Customer redress £million | Fraud £million | ECL allowance on loan commitment £million | Total £million |
|---|---|---|---|---|
| **December 2019** | | | | |
| At start of period | 0.8 | 0.4 | 0.1 | 1.3 |
| Credited to income statement | (0.6) | – | – | (0.6) |
| **At end of period** | **0.2** | **0.4** | **0.1** | **0.7** |

### Customer redress provision

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

The Financial Conduct Authority announced a deadline for making these customer redress claims, giving consumers until 29 August 2019 to make a claim. The remaining provision for future claims has therefore been removed in this period.

### Fraud

The fraud provision relates to cases where the Bank has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately.

### 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. The majority of the £0.7 million allowance held at June 2020 relates to undrawn balances within Retail Finance. 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 June 2020, no provision was required for losses in excess of drawn amounts given the relative size of loan commitments.

## 13. Commitments

The Group's off balance sheet exposure to undrawn loan commitments at June 2020 was £227.7 million (June 2019: £199.2 million, December 2019: £203.3 million). Details of the split by business is given in Note 3.

# Notes to the interim report
continued

## 14. Subordinated liabilities

| | June 2020 £million | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Tier 2 capital | 50.0 | 50.0 | 50.0 |
| Unamortised issue costs | (0.5) | (0.7) | (0.6) |
| Accrued interest | 1.2 | 1.2 | 1.2 |
| | **50.7** | **50.5** | **50.6** |

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.

## 15. Capital

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

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

| | June 2020 £million (unaudited) | June 2019 £million (unaudited) | December 2019 £million (unaudited) |
|---|---|---|---|
| **Tier 1** | | | |
| Share capital | 7.4 | 7.4 | 7.4 |
| Share premium | 82.2 | 81.2 | 81.2 |
| Retained earnings | 168.6 | 150.8 | 164.4 |
| Revaluation reserve | 1.1 | 0.9 | 1.1 |
| IFRS 9 transition adjustment | 28.4 | 22.3 | 22.8 |
| Goodwill | (1.0) | (1.0) | (1.0) |
| Intangible assets net of attributable deferred tax | (7.4) | (8.1) | (7.9) |
| **CET1 capital before foreseen dividend** | **279.3** | **253.5** | **268.0** |
| Proposed dividend | – | (3.7) | – |
| **CET1 Capital** | **279.3** | **249.8** | **268.0** |
| **Tier 2** | | | |
| Subordinated liabilities | 50.7 | 50.5 | 50.6 |
| Less ineligible portion | (0.7) | (1.2) | (0.6) |
| **Total Tier 2 capital** | **50.0** | **49.3** | **50.0** |
| **Own Funds** | **329.3** | **299.1** | **318.0** |
| **Reconciliation to total equity:** | | | |
| IFRS 9 transition adjustment | (28.4) | (22.3) | (22.8) |
| Eligible subordinated liabilities | (50.0) | (49.3) | (50.0) |
| Goodwill and other intangible assets net of attributable deferred tax | 8.4 | 9.1 | 8.9 |
| Proposed dividend | – | 3.7 | – |
| **Total equity** | **259.3** | **240.3** | **254.1** |

The capital resources shown in the table above include profits for the period to June 2020. These profits are not yet approved by the regulator.

## 15. Capital continued

The transitional adjustment to capital arises from the Group making an election to phase in the impact of transitioning to IFRS 9 over a five-year period, by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five respectively to the initial IFRS 9 transition adjustment plus the movement in stage 1 and stage 2 impairment allowance from transition to the end of the reporting period.

The PRA ratified additional capital mitigation proposed by the Basel Committee, in response to COVID-19, with these measures coming into force from 27 June 2020. The new measures allow for the movement in stage 1 and stage 2 provisions arising in 2020 and 2021 to be fully added back in those years. This relief is then phased out over the following three years on a straight line basis (2022: 75%, 2023: 50%, 2024: 25%, 2025: 0%). At June 2020, the impacts of these adjustments amounted to the following:

| | **June 2020 £million (unaudited)** | June 2019 £million (unaudited) | December 2019 £million (unaudited) |
|---|---|---|---|
| Initial IFRS 9 transition adjustment | 25.8 | 25.8 | 25.8 |
| Movement in stage 1 and stage 2 impairment allowance from transition to December 2019 | 1.6 | 0.4 | 1.0 |
| | 27.4 | 26.2 | 26.8 |
| Percentage add back | 70% | 85% | 85% |
| | 19.2 | 22.3 | 22.8 |
| Movement in stage 1 and stage 2 impairment allowance during period ending June 2020 | 9.2 | – | – |
| Percentage add-back | 100% | – | – |
| | 9.2 | – | – |
| IFRS 9 transition adjustment | **28.4** | **22.3** | **22.8** |

## 16. Fair value of loans and advances to customers and deposits from customers

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

| | **Total carrying amount June 2020 £million** | **Fair value June 2020 £million** | Total carrying amount June 2019 £million | Fair value June 2019 £million | Total carrying amount December 2019 £million | Fair value December 2019 £million |
|---|---|---|---|---|---|---|
| Loans and advances to customers | **2,377.5** | **2,383.7** | 2,278.3 | 2,288.3 | 2,450.1 | 2,416.2 |
| Deposits from customers | **1,999.2** | **2,002.3** | 2,001.5 | 2,018.1 | 2,020.3 | 2,016.9 |

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

## 17. Share-based payments

The Group has five share-based payment schemes in operation:

- Share Option Scheme
- 2017 long term incentive plan
- 2017 sharesave plan
- 2017 deferred bonus plan
- 'Phantom' share option scheme

There has been no movement in the number of awards granted under the schemes during the period. A summary of the awards under each scheme as at December 2019 is set out in the 2019 Annual Report.

## 18. Related party transactions

There were no changes to the nature of the related party transactions during the period to June 2020 that would materially affect the position or performance of the Group. Details of the transactions for the year ended December 2019 can be found in the 2019 Annual Report.

# Notes to the interim report
continued

## 19. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. A formal Credit Risk Policy has been agreed by the Board whilst credit risk is monitored on a monthly basis by the Credit Risk Committees which review performance of key portfolios including new business volumes, collections performance, provisioning levels and provisioning methodology. A credit risk department within the Group monitors adherence to the Credit Risk Policy, implements risk tools to manage credit risk and evaluates business opportunities and the risks and opportunities they present to the Group whilst ensuring the performance of the Group's existing portfolios is in line with expectations.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits on the level of credit risk are approved periodically by the Board of Directors and actual exposures against limits monitored daily.

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 its exposures to credit risk as it considers this to be the most significant risk to the business.

Exposure to Consumer Finance credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, principally motor vehicles on Motor loans and a credit support balance provided by RentSmart. The assets undergo a scoring process to mitigate risk and are monitored by the Board.

For Real Estate Finance and Commercial Finance, lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in the lending policies. Prior to the closure of the book to new business, Asset Finance credit risk management was outsourced to Haydock, who operate in line with the Group's credit policies and risk appetite. The loans are secured against the assets lent against real estate, trade receivables and commercial plant and equipment, respectively.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. There are no direct exposures to non-UK countries.

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

| | Stage 1 | Stage 2 | | | Stage 3 | | | |
|---|---|---|---|---|---|---|---|---|
| June 2020 | £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 £million |
| Business Finance | | | | | | | | |
| Real Estate Finance | 959.8 | 41.3 | 13.1 | 54.4 | 25.2 | – | 25.2 | 1,039.4 |
| Asset Finance | 15.3 | 4.5 | – | 4.5 | 1.7 | – | 1.7 | 21.5 |
| Commercial Finance | 184.8 | 8.3 | – | 8.3 | – | – | – | 193.1 |
| Consumer Finance | | | | | | | | |
| Retail Finance | 580.6 | 88.0 | 2.5 | 90.5 | 5.3 | – | 5.3 | 676.4 |
| Motor Finance | 192.3 | 114.4 | 3.0 | 117.4 | 25.0 | – | 25.0 | 334.7 |
| Consumer Mortgages | 93.0 | – | 0.3 | 0.3 | 1.6 | – | 1.6 | 94.9 |
| Debt Management | – | – | – | – | 12.0 | 79.0 | 91.0 | 91.0 |
| Other | 5.3 | – | – | – | – | – | – | 5.3 |
| **Total drawn exposure** | **2,031.1** | **256.5** | **18.9** | **275.4** | **70.8** | **79.0** | **149.8** | **2,456.3** |
| Off balance sheet | | | | | | | | |
| Loan commitments | 227.7 | – | – | – | – | – | – | 227.7 |
| **Total gross exposure** | **2,258.8** | **256.5** | **18.9** | **275.4** | **70.8** | **79.0** | **149.8** | **2,684.0** |
| Less: | | | | | | | | |
| Impairment allowance | (29.2) | (24.8) | (3.2) | (28.0) | (23.7) | 2.1 | (21.6) | (78.8) |
| Provision for loan commitments | (0.7) | – | – | – | – | – | – | (0.7) |
| **Total net exposure** | **2,228.9** | **231.7** | **15.7** | **247.4** | **47.1** | **81.1** | **128.2** | **2,604.5** |

## 19. Credit risk continued

| June 2019 | Stage 1 £million | Stage 2 <= 30 days past due £million | Stage 2 > 30 days past due £million | Stage 2 Total £million | Stage 3 Excl. purchased credit impaired £million | Stage 3 Purchased credit impaired £million | Stage 3 Total £million | Total £million |
|---|---|---|---|---|---|---|---|---|
| Business Finance | | | | | | | | |
| Real Estate Finance | 814.4 | 56.9 | – | 56.9 | 8.5 | – | 8.5 | 879.8 |
| Asset Finance | 35.4 | 2.1 | 5.1 | 7.2 | 2.1 | – | 2.1 | 44.7 |
| Commercial Finance | 212.7 | 8.3 | – | 8.3 | 0.6 | – | 0.6 | 221.6 |
| Consumer Finance | | | | | | | | |
| Retail Finance | 605.4 | 81.5 | 4.0 | 85.5 | 5.1 | – | 5.1 | 696.0 |
| Motor Finance | 224.0 | 92.1 | 2.2 | 94.3 | 21.6 | – | 21.6 | 339.9 |
| Debt Management | – | – | – | – | 10.2 | 32.1 | 42.3 | 42.3 |
| Consumer Mortgages | 111.8 | – | 1.7 | 1.7 | – | – | – | 113.5 |
| Other | 9.0 | – | – | – | – | – | – | 9.0 |
| **Total drawn exposure** | **2,012.7** | **240.9** | **13.0** | **253.9** | **48.1** | **32.1** | **80.2** | **2,346.8** |
| Off balance sheet | | | | | | | | |
| Loan commitments | 199.2 | – | – | – | – | – | – | 199.2 |
| **Total gross exposure** | **2,211.9** | **240.9** | **13.0** | **253.9** | **48.1** | **32.1** | **80.2** | **2,546.0** |
| Less: | | | | | | | | |
| Impairment allowance | (21.7) | (19.2) | (4.1) | (23.3) | (23.5) | – | (23.5) | (68.5) |
| Provision for loan commitments | (0.4) | – | – | – | – | – | – | (0.4) |
| **Total net exposure** | **2,189.8** | **221.7** | **8.9** | **230.6** | **24.6** | **32.1** | **56.7** | **2,477.1** |

| December 2019 | Stage 1 £million | Stage 2 <= 30 days past due £million | Stage 2 > 30 days past due £million | Stage 2 Total £million | Stage 3 Excl. purchased credit impaired £million | Stage 3 Purchased credit impaired £million | Stage 3 Total £million | Total £million |
|---|---|---|---|---|---|---|---|---|
| Business Finance | | | | | | | | |
| Real Estate Finance | 910.2 | 33.7 | 2.8 | 36.5 | 16.1 | – | 16.1 | 962.8 |
| Asset Finance | 23.8 | 3.6 | 0.3 | 3.9 | 1.8 | – | 1.8 | 29.5 |
| Commercial Finance | 245.0 | 7.0 | – | 7.0 | 0.6 | – | 0.6 | 252.6 |
| Consumer Finance | | | | | | | | |
| Retail Finance | 624.1 | 80.3 | 4.5 | 84.8 | 5.5 | – | 5.5 | 714.4 |
| Motor Finance | 240.5 | 96.9 | 2.7 | 99.6 | 17.2 | – | 17.2 | 357.3 |
| Debt Management | – | – | – | – | 10.3 | 70.0 | 80.3 | 80.3 |
| Consumer Mortgages | 105.6 | – | 0.3 | 0.3 | 0.3 | – | 0.3 | 106.2 |
| Other | 7.6 | – | – | – | – | – | – | 7.6 |
| **Total drawn exposure** | **2,156.8** | **221.5** | **10.6** | **232.1** | **51.8** | **70.0** | **121.8** | **2,510.7** |
| Off balance sheet | | | | | | | | |
| Loan commitments | 203.3 | – | – | – | – | – | – | 203.3 |
| **Total gross exposure** | **2,360.1** | **221.5** | **10.6** | **232.1** | **51.8** | **70.0** | **121.8** | **2,714.0** |
| Less: | | | | | | | | |
| Impairment allowance | (21.6) | (19.8) | (4.3) | (24.1) | (17.0) | 2.1 | (14.9) | (60.6) |
| Provision for loan commitments | (0.4) | – | – | – | – | – | – | (0.4) |
| **Total net exposure** | **2,338.1** | **201.7** | **6.3** | **208.0** | **34.8** | **72.1** | **106.9** | **2,653.0** |

# Notes to the interim report
continued

## 19. Credit risk continued

### 19.1 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 loan and advances to customers and loan commitments by product is provided in Note 3.

The Group's Real Estate Finance and Consumer Mortgages are secured against UK property only. The geographical concentration of these business loans and advances to customer, by location of the security, is set out below:

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| **Real Estate Finance** | | | |
| Central England | 52.1 | 35.0 | 127.1 |
| Greater London | 628.0 | 546.0 | 601.8 |
| Northern England | 62.6 | 36.6 | 48.5 |
| South East England (excl. Greater London) | 264.1 | 224.1 | 160.8 |
| South West England | 14.8 | 10.3 | 12.8 |
| Scotland, Wales and Northern Ireland | 17.8 | 27.8 | 11.8 |
| Gross loans and receivables | 1,039.4 | 879.8 | 962.8 |
| Allowance for impairment | (2.6) | (0.8) | (0.6) |
| **Total** | **1,036.8** | **879.0** | **962.2** |
| **Loan-to-value** | **57%** | **58%** | **59%** |

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| **Consumer mortgages** | | | |
| Central England | 18.3 | 21.6 | 19.9 |
| Greater London | 11.5 | 14.7 | 13.5 |
| Northern England | 18.9 | 22.0 | 21.2 |
| South East England (excl. Greater London) | 31.9 | 36.9 | 35.3 |
| South West England | 9.5 | 12.1 | 11.0 |
| Scotland, Wales and Northern Ireland | 4.8 | 6.2 | 5.3 |
| Gross loans and receivables | 94.9 | 113.5 | 106.2 |
| Allowance for impairment | (0.3) | (0.3) | (0.3) |
| **Total** | **94.6** | **113.2** | **105.9** |
| **Loan-to-value** | **55%** | **58%** | **56%** |

Under its credit policy, the Real Estate Finance business lends to a maximum loan-to-value of 70% for investment loans and 60% for residential development loans and up to 65% for pre-let commercial development loans (based on gross development value), and the Consumer Mortgages business lent to a maximum of 90%.

## 20. Cash flow statement

### 20.1 Cash and cash equivalents

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Cash and balances at central banks (per the balance sheet) | 109.6 | 101.9 | 105.8 |
| Less : Cash ratio deposits | (1.6) | – | – |
| | 108.0 | 101.9 | 105.8 |
| Loans and advances to banks (per the balance sheet) | 42.0 | 67.3 | 48.4 |
| | **150.0** | **169.2** | **154.2** |

Cash ratio deposits are mandatory deposits with the Bank of England which are not available for use in the Group's day-to-day operations.

### 20.2 Issue of ordinary shares

On 24 January 2020, the Company issued 145,164 ordinary shares for a par value of £58,066 and total proceeds of £1,021,401. Accordingly, at June 2020 the Company had a total of 18,622,664 ordinary shares in issue (December 2019 and June 2019: 18,477,500).

# Appendix to the interim report: Alternative performance measures

## Key performance indicators

### (i) Margin ratios

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book, net revenue margin is calculated as operating income for the financial period as a percentage of the average loan book and gross revenue margin is calculated as interest receivable and similar income plus fee and commission income for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over seven or 13 months as appropriate for the financial period. The resulting margins for June 2020 are multiplied by 366/182 and margins for June 2019 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| **Net interest margin** | | | |
| Interest receivable and similar income | 100.7 | 92.3 | 191.4 |
| Interest expense and similar charges | (22.8) | (21.8) | (46.0) |
| Net interest income | 77.9 | 70.5 | 145.4 |
| **Net revenue margin** | | | |
| Net interest income | 77.9 | 70.5 | 145.4 |
| Net fee and commission income | 7.0 | 10.9 | 20.1 |
| Operating income | 84.9 | 81.4 | 165.5 |
| **Gross revenue margin** | | | |
| Interest receivable and similar income | 100.7 | 92.3 | 191.4 |
| Fee and commission income | 7.5 | 11.2 | 20.9 |
| Gross revenue | 108.2 | 103.5 | 212.3 |
| Opening loan book | 2,450.1 | 2,028.9 | 2,028.9 |
| Closing loan book | 2,377.5 | 2,278.3 | 2,450.1 |
| Average loan book | 2,439.5 | 2,135.0 | 2,252.4 |
| **Net interest margin** | **6.4%** | **6.7%** | **6.5%** |
| **Net revenue margin** | **7.0%** | **7.7%** | **7.3%** |
| **Gross revenue margin** | **8.9%** | **9.8%** | **9.4%** |

The margin ratios all measure the yield of the loan book.

### (ii) Cost ratios

Cost of risk is calculated as impairment losses on loans and advances to customers for the financial period as a percentage of the average loan book, cost of funds is calculated at interest expense for the financial period as a percentage of average loan book and cost to income ratio is calculated as operating expenses for the financial period as a percentage of operating income for the financial period. The resulting ratios for June 2020 are multiplied by 366/182 and margins for June 2019 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Impairment losses on loans and advances to customers | 31.5 | 17.8 | 32.6 |
| Loan modification losses | 3.6 | – | – |
| | 35.1 | 17.8 | 32.6 |
| Average loan book | 2,439.5 | 2,135.0 | 2,252.4 |
| **Cost of risk** | **2.9%** | **1.7%** | **1.4%** |
| Interest expense | 22.8 | 21.8 | 46.0 |
| Average loan book | 2,439.35 | 2,135.0 | 2,252.4 |
| **Cost of funds** | **1.9%** | **2.1%** | **2.0%** |
| Operating expenses | 44.7 | 45.5 | 94.2 |
| Operating income | 84.9 | 81.4 | 165.5 |
| **Cost to income ratio** | **52.7%** | **55.9%** | **56.9%** |

## Key performance indicators continued

The cost of risk measures how effective the Group has been in managing its impairment losses. The cost of funds measures the cost of money being lent to customers. The cost to income ratio measures how efficiently the Group is utilising its cost base in producing income.

**(iii) Return ratios**

Annualised adjusted return on average assets is calculated as the adjusted profit after tax for the financial period as a percentage of average assets, annualised adjusted return on average equity is calculated as the adjusted profit after tax for the financial period as a percentage of average equity and annualised adjusted return on required equity is calculated as the adjusted profit after tax for the financial period as a percentage of average required equity.

Further details of adjusted profit are given in Appendix Note (vi), and a reconciliation of adjusted profit after tax to statutory profit after tax is provided on page 20.

Average assets is calculated as the average of the monthly assets balances, over seven or 13 months as appropriate for the financial period, average equity is calculated as the average of the monthly equity balances over seven or 13 months as appropriate for the financial period and average required equity is calculated as the average of the monthly balances of total required equity over seven or 13 months as appropriate for the financial period. Total required equity is calculated as the equity required to achieve a CET1 ratio of 12%. The resulting returns for June 2020 are multiplied by 366/182 and margins for June 2019 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Adjusted profit after tax | 4.5 | 15.2 | 33.0 |
| Opening assets (after IFRS 16 transition adjustment – see below) | 2,682.8 | 2,448.6 | 2,448.6 |
| Closing assets | 2,630.7 | 2,607.1 | 2,682.8 |
| Average assets | 2,728.4 | 2,476.9 | 2,554.9 |
| Opening equity (after IFRS 16 transition adjustment – see below) | 254.1 | 237.0 | 237.0 |
| Closing equity | 259.3 | 240.3 | 254.1 |
| Average equity | 260.1 | 240.5 | 243.6 |
| Opening required equity | 251.8 | 217.8 | 217.8 |
| Closing required equity | 246.6 | 236.8 | 251.8 |
| **Average required equity** | 253.2 | 226.0 | 234.5 |
| **Annualised adjusted return on average assets** | **0.3%** | **1.2%** | **1.3%** |
| **Annualised adjusted return on average equity** | **3.5%** | **12.7%** | **13.5%** |
| **Annualised adjusted return on required equity** | **3.6%** | **13.6%** | **14.1%** |

A reconciliation of assets and opening equity to the balance sheet at 1 January 2019 is as follows:

| | Assets £million | Opening equity £million |
|---|---|---|
| Balance sheet assets | 2,444.3 | 237.1 |
| IFRS 16 transition adjustment | 4.3 | (0.1) |
| | **2,448.6** | **237.0** |

Return on average assets demonstrates how profitable the Group's assets are in generating revenue. Return on average equity is a measure of the Group's ability to generate profit from the equity available to it. Return on required equity relates profitability to the capital that the Group is required to hold.

# Alternative performance measures continued

## Key performance indicators continued

### (iv) Funding ratios

The loan to deposit ratio is calculated as the loan book, at the period end, divided by deposits from customers at the period end, and the total funding ratio is calculated as the total funding at the period end, being the sum of deposits from customers, borrowings under the Term Funding Scheme, Tier 2 capital and equity, divided by the loan book at the period end:

| | **June 2020 £million** | June 2019 £million | December 2019 £million |
|---|---|---|---|
| Loan book | 2,377.5 | 2,278.3 | 2,450.1 |
| Deposits from customers | 1,999.2 | 2,001.5 | 2,020.3 |
| Borrowings under the Term Funding Scheme and Index Long-Term Repos | 268.1 | 263.5 | 308.5 |
| Tier 2 capital (including accrued interest) | 50.7 | 50.5 | 50.6 |
| Equity | 259.3 | 240.3 | 254.1 |
| Total funding | 2,577.3 | 2,555.8 | 2,633.5 |
| **Loan to deposit ratio** | **118.9%** | **113.8%** | **121.3%** |
| **Total funding ratio** | **108.4%** | **112.2%** | **107.5%** |

The funding ratios measure the Group's liquidity.

### (v) Adjusted earnings per share

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

| | **June 2020** | June 2019 | December 2019 |
|---|---|---|---|
| **Adjusted profit attributable to equity holders of the parent (£ millions)** | 4.5 | 15.2 | 33.0 |
| Weighted average number of ordinary shares (number) | 18,603,521 | 18,476,628 | 18,476,280 |
| **Adjusted earnings per share (pence)** | **24.2** | **82.3** | **178.6** |

### (vi) Adjusted profit

Adjusted profit before tax was £5.8 million (June 2019: £18.8 million, December 2019: £41.1 million). Adjusted profit after tax was £4.5 million (June 2019: £15.2 million, December 2019: £33.0 million).

The Group uses adjusted profit for planning and reporting purposes, as it improves the comparability of information between reporting periods. The adjustments to profit relate to non-controllable items or other items that fall outside of the Group's core business activities.

Fair value amortisation relates to the acquisition of V12 Finance Group. The acquisition accounting required identifiable assets and liabilities to be adjusted to their fair value, and these adjustments are subject to amortisation.

Transformation costs for 2020 are made up mainly of the costs of the Motor Transformation Programme and the costs of potential M&A activity (June 2019: comprised principally the costs of the Motor Transformation Programme and the costs to date of setting up the Group's derivatives capability, December 2019: comprised principally costs of the Motor Transformation Programme and treasury development).

Bonus payments of £0.2 million (June 2019: £nil million, December 2019: £0.1 million) relate to a long term incentive plan that was set up for a small number of employees on the creation of the Commercial Finance business. The scheme is based on profits earned by that business up to the end of 2019, and is payable in 2020 and 2021.

The revaluation deficit of £1.1 million at December 2019 related to stamp duty and irrecoverable VAT incurred on the acquisition of a freehold property during the year.

# Directors' responsibility statement

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

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

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

**Paul Lynam**
Chief Executive Officer

**Lord Forsyth**
Chairman

6 August 2020

# Independent review report to Secure Trust Bank PLC

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2020 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and related Notes 1 to 20. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

## Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

**Deloitte LLP**
Statutory Auditor
Birmingham, UK

6 August 2020

# Board of Directors

**The Rt Hon Lord Forsyth of Drumlean PC, Kt**
Non-Executive Chairman

**Ann Berresford ACA**
Independent Non-Executive Director
(Senior Independent Director)

**Paul Lynam ACIB, AMCT, Fifs**
Chief Executive Officer

**Victoria Stewart**
Independent Non-Executive Director

**David McCreadie FCBI**
Independent Non-Executive Director

**Paul Myers ACIB**
Independent Non-Executive Director

**Baroness Lucy Neville-Rolfe DBE CMG**
Independent Non-Executive Director

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