Secure Trust Bank Group

Interim Report
for the six months ended 30 June 2023

To help more consumers and businesses fulfil their ambitions

About us

We are an award-winning UK specialist bank, providing savings accounts and lending services to over a million customers. In 2022 the Group celebrated 70 years of helping consumers and businesses fulfil their ambitions.

Our approachable teams are based at our Solihull headquarters and offices in Cardiff, London, Manchester and Reading. We are making good progress towards our vision to be the most trusted specialist lender in the UK.

Our vision

To be the most trusted specialist lender in the UK

Our purpose

To help more consumers and businesses fulfil their ambitions

Our strategic pillars

- Grow
- Sustain
- Care

Our strategic priorities

- Simplify
- Enhance customer experience
- Leverage networks

Our strengths

- Specialist
- Expert
- Diverse
- Ambitious

Our values

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

www.securetrustbank.com

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Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under IFRS. Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report from page 50.

Prior year results and key performance indicators have been restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3.1 to the Interim Financial Statements (page 31).

'Secure Trust Bank PLC', 'STB' and the 'Group' refer to Secure Trust Bank PLC together with its subsidiaries.

Forward-looking statements

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

Measuring performance: Key performance indicators

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

	30 June 2023	30 June 2022	31 December 2022
Grow			
Loans and advances to customers (£million)	**3,158.5**	2,751.2	2,919.5
Why we measure this: Shows the growth in the Group's lending balances, which generate income			
Compound annual growth rate[1] (%)	**15.9**	16.7	15.6
Why we measure this: Shows the rate of growth in the Group's lending balances			
Net interest margin (%)	**5.4**	5.7	5.7
Why we measure this: Shows the interest margin earned on the Group's lending balances, net of funding costs			
Total return on average equity (%)	**6.8**	12.5	10.8[5]
Why we measure this: Measures the Group's ability to generate profit from the equity available to it			

Sustain			
Cost to income ratio[2] (%)	**56.9**	57.0	55.0
Why we measure this: Measures how efficiently the Group utilises its cost base to produce income			
Cost of risk[3] (%)	**1.5**	1.3	1.4
Why we measure this: Measures how effectively the Group manages the credit risk of its lending portfolios			
Common Equity Tier 1 ('CET 1') ratio (%)	**13.0**	14.0	14.0
Why we measure this: The CET 1 ratio demonstrates the Group's capital strength			

Care			
Customer Feefo ratings (Stars) (mark out of 5 based on star rating from 854 reviews (30 June 2022: 496 reviews, 31 December 2022: 990 reviews)	**4.6**	4.5	4.6
Why we measure this: Indicator of customer satisfaction with the Group's products and services			
Employee survey trust index score (%)[4] (based on 2022 all employee survey)	**N/A**	N/A	85
Why we measure this: Indicator of employee engagement and satisfaction			
Environmental intensity indicator[4] (tonnes of carbon dioxide equivalent per £1 million Group income)	**N/A**	N/A	2.8

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

Continuing businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only. Discontinued business includes the Debt Management business. Further details of discontinued business can be found in Note 6 of the Interim Financial Statements.

Further explanation of the financial key performance indicators is discussed in the narrative of the Financial review on pages 9 to 14, where they are identified by being in bold font. Further explanation of the non-financial key performance indicators is provided in the Managing our business responsibly (pages 37 to 49) and Climate-related financial disclosures sections on (pages 50 to 59) of the 2022 Annual Report and Accounts.

1. Compound annual growth rate is the annual growth rate calculated as the annualised compound growth in continuing loans and advances to customers since 31 December 2020.
2. A decrease in the cost to income ratio reflects an improving performance.
3. A decrease in the cost of risk reflects an improving performance.
4. Data is only collated on an annual basis.
5. Total return on average equity has been restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3.1 (page 31).

Chairman's statement

"STB is focused, resilient, disciplined and growing"

STB is building momentum as we scale our business and improve efficiency. As a result of robust credit discipline, our lending and savings books grew strongly during the first six months of the year.

The Group delivered a continuing profit before tax of £16.5 million (30 June 2022: £17.1 million) and we anticipate strong profit growth in the second half of 2023 as we benefit from the additional income from a larger balance sheet. The Board has approved an interim dividend of 16.0 pence per share (30 June 2022: 16.0 pence per share).

I would like to thank the Board for their support in helping the Group navigate through another challenging period. Consumer Duty regulations went live at the end of last month and I am especially grateful to Finlay Williamson for taking on the role as our Consumer Duty Board Champion.

High levels of inflation, a war in Europe and increasingly higher interest rates have all created unprecedented uncertainty and it is unsurprising that banks are not currently favoured as a sector by investors. STB is a well capitalised specialist lender with an established track record and a clear strategy to achieve growth. In the first half of the year, tangible book value per share increased by 2.0% to £17.46 (31 December 2022: £17.11). With our resilient, diversified business model and our proven agility, we are well placed to continue to scale the Group's businesses and deliver value for our shareholders.

Lord Forsyth
Chairman

8 August 2023

Chief Executive's statement

"Foundations in place for a significant improvement in profitability"

I am pleased with our positive operational performance during the first six months of the year. We have continued to build momentum, delivering strong new business volumes and loan book growth, allowing us to scale the Group in line with our ambitions. Project Fusion, our cost efficiency programme, is on track to deliver its target of £4 million in annualised savings[1] by the end of the year. We have strengthened our capital base via our recent £90 million Tier 2 bond issuance. Overall, we have laid the foundations for a strong 2023 and expect a significant improvement in our profitability during the second half of the year and in 2024.

Optimising for Growth: Our strategic priorities

We are using our credit discipline and operational agility to achieve our vision of becoming the most trusted specialist lender in the UK. Our strategic pillars to achieve this are built around Grow, Sustain and Care. Growth is a particularly important priority. Growth of our loan book and revenue will deliver a reduced cost to income ratio and support our return on equity target. We have defined our specialist lending segments and the continued simplification and streamlining of the Group's operating model will further enhance our cost efficiency. Combined, these initiatives underpin our confidence in delivering on all our medium-term targets.

Our Optimising for Growth framework has three core strategic priorities:

1. Simplify

Since the start of 2021, the Group has been simplified into a focused specialist lending business with four core lending segments. The sale of Debt Managers (Services) Limited's loan portfolio completed the simplification of the lending activities for the Group. The next phase of our simplification is around increased integration of shared services, the streamlining of operational processes and digitalisation of our business. Project Fusion, our cost efficiency programme, helps to mitigate ongoing cost inflation that the business faces. Combined, these initiatives give us high confidence in driving our cost income ratio to below 50% in the medium-term.

Project Fusion achieved £2 million of annualised savings[1] during 2022 and is on track to achieve the target of £4 million in annualised savings[1] by the end of 2023. In the property workstream, the Group moved to single sites in Solihull and Cardiff. In the digitalisation workstream, we have reduced the number of documents and letters printed and posted to customers and now deliver these through digital channels. In the operational efficiency workstream, the Group has successfully renegotiated a significant number of supplier contracts.

With a greater focus on cost discipline, we contained our period-on-period cost growth at 9.7%, despite the significant inflation in the UK economy, and maintained a broadly flat cost income ratio of 56.9% (30 June 2022: 57.0%).

2. Enhance customer experience

The Group has a long track record of achieving high customer satisfaction scores for our Consumer Finance and Savings businesses. We are proud of our performance but will not take it for granted. We will continue to strive to improve customer experience across all of our operations. The delivery of improved customer experience is a key element in driving our growth more cost efficiently.

1. Cost savings relative to operating expenses for the 12 months ended December 2021.

Feefo scores continue to rate highly at 4.6 stars out of 5 (30 June 2022: 4.5 stars out of 5). Our Vehicle Finance and Retail Finance teams were recognised by Feefo's 'Platinum Trusted Service Award', and our Savings team secured Feefo's 'Trusted Service Award'. Established in 2014, the Trusted Service Awards recognise brands that use the platform to collect verified reviews and receive exceptional feedback from their customers. The award is an independent seal of excellence, which recognises businesses that consistently deliver a world-class customer experience.

For the second year in a row, Vehicle Finance was also nominated for the Finance Provider of the Year Award at the Motor Trader Independent Dealer Awards 2023. Our Commercial Finance team took home the Asset-Based Lender of the Year Award at the recent Real Deals Private Equity Awards, the longest running and most prestigious Private Equity awards in Europe.

Our internal net promoter scores remain high for our Consumer Finance businesses and benchmark well against our industry. Our customer experience is increasingly digital, with over 75% of our Retail Finance customers registered for online account management.

Our preparations for the introduction of Consumer Duty at the end of July have seen a comprehensive review of our Consumer Finance and Savings products and customer experience. Consumer testing has been completed on our communications, and we have identified further opportunities to enhance these to improve our customer experience. Our products continue to offer good customer outcomes and represent fair value, which was initially assessed by an independent party, and we will continue to monitor and develop our products and services in line with developing best practice post-implementation.

We have raised record levels of deposits and retained funds on maturing products, and supported customers by increasing rates on managed rate products as the Bank of England Base Rate increased. Our deposits are entirely from retail customers and 96% of deposits are fully covered by the FSCS.

3. Leverage networks

The Group is built on the importance of strong relationships. We have relationships with a range of partners, retailers, car dealers, intermediaries, new business originators and advisers. The Group looks to further deepen these existing relationships to originate new business; to expand our product offering; and to take market share opportunities.

Within our Retail Finance business, a pilot of AppToPay has been launched with a focused group of existing retail partners, marking the Group’s entry into the digital Buy Now, Pay Later market. The product has been fully integrated into the suite of products offered by Retail Finance, so that no IT integration effort is required by our retail partners.

Our Retail Finance business is supported by over 1,400 retail partners. Loan book growth has been achieved from expanding our distribution and growth with existing partners. New business grew by 14.7% compared to the first half of 2022, resulting in lending balances of £1.2 billion.

A key strategic priority for Vehicle Finance has been the expansion of our distribution network to drive loan book growth. During 2023, the Group increased its Vehicle Finance dealer network to 680 from 560 at the end of 2022. Combined with the build out of the product portfolio in consumer lending and stock funding, the Group has seen the total loan book increase to £440.4 million from £373.1 million at year-end 2022, with £250.1 million of new business lending.

Our Business Finance businesses offer bespoke products and personalised relationships. In Commercial Finance, private equity groups, professional advisory firms and accountants are important relationships. Nearly two-thirds of our private equity clients have made more than one client introduction.

Enabled by technology

In recent years, the Group has invested in improving its technology infrastructure and IT platform, both to support enhanced customer experiences and drive operational efficiency. Major projects in the last couple of years have included our motor transformation project, AppToPay, and Open Banking payments. Since 2018, the Group has spent £16.4 million on strategic IT projects and has a modern, scalable environment to support our growth ambitions. Our technology platform will: unlock our ability to simplify the Group through digitalisation; allow us to deliver enhanced customer experiences; and to leverage our networks through ease of integration with third parties.

During the first half, the Group implemented a series of technology enhancements, including the completion of the project to replace our legacy collections platform for Vehicle Finance, launch of the pilot of AppToPay in Retail Finance, a workflow management tool for Commercial Finance and confirmation of payee within our Savings platform. We will commence the customer testing phase of our new digital Savings App in the next few months, with a wider rollout planned before the end of the year.

Delivering market share gains in large addressable markets

With our four specialist lending segments, the Group operates in large addressable markets. Through our strategic decision to launch new products to increase the proportion of lower risk, prime customers our Consumer Finance businesses have expanded their addressable markets significantly in recent years. The Group believes it has significant market share opportunities to take advantage of, and it has demonstrated a strong track record of market share gain in recent years.

The Group has grown lending in all our businesses and achieved record new business volumes of £1.15 billion in the six months to June 2023 (30 June 2022: £1.12 billion).

At the end of the first six months, we delivered net lending growth of 8.2% (£239.0 million). Our Consumer Finance businesses contributed significantly to this growth, increasing by 13.5%, with Business Finance lending increasing by 3.1%.

Within our Retail Finance business, we have increased our market share for new business from 11.4% at the end of 2022 to 12.9%[2]. The planned exit of the second largest player from the market at the start of 2023 has provided new opportunities for the Group. Within our Vehicle Finance business, we have increased our market share for new business from 1.1% at the end of 2022 to 1.3%[3] on the back of improved distribution, despite the tightening of our credit criteria over the last 12 months.

Credit discipline

We recognised an impairment charge of £23.0 million (30 June 2022: £17.9 million). We have actively tightened our credit criteria in our Vehicle Finance business, which had a positive impact on the impairment charge. However, we also recognised one material loss of £7.2 million on a long-running problem debt case within Commercial Finance. The circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the portfolio. The Commercial Finance team has a long-term track record of excellent credit discipline and minimal impairments since that business was established in 2014. Arrears across Consumer Finance have remained stable and at lower levels than pre-pandemic times due to the higher mix of prime lending in our loan book.

2. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2023 based on January to May. Market share of 12.9% in 2023 (1 January 2022 to 31 December 2022: 11.4%): FLA total and Retail Finance new business of £3,838 million (1 January 2022 to 31 December 2022: £9,846 million) and £495.9 million (2022: £1,124.3 million) respectively.

3. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2023 based on January to May 2023, FLA total and Vehicle Finance total of £9,429 million (1 January 2022 to 31 December 2022: £23,472 million) and £119.2 million (1 January 2022 to 31 December 2022: £262.9 million) respectively.

Capital and liquidity strength

The Group strengthened its capital position during the year through the new issue of £90.0 million Tier 2 bonds with 2033 maturity, and subsequent buyback of the two £25 million Tier 2 bonds with maturity in 2028 and first call dates in 2023. We have maintained strong capital ratios during the period with a Common Equity Tier 1 ratio of 13.0% as at 30 June 2023 (30 June 2022: 14.0%), where we continue to utilise the transitional IFRS 9 provisions, albeit with the benefit tapering down by £9.3 million as we entered the year. Increases to the Countercyclical Buffer ('CCyB') at the end of 2022, and again in July 2023, to a level of 2%, have been incorporated within our capital management framework.

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

Environmental, Social and Governance ('ESG')

The Group continues to make progress against our ESG priorities. On Climate Action, the 'paper to digital' initiative continues at pace. Within Equity, Diversity and Inclusion, we continue to make progress towards our initial targets for Women in Finance. In Education and Skills, we have launched our MentorMe initiative, a mentoring programme within the Group, and continued to offer the 'Blazing my trail' programme, an extremely popular course, which supports employees to learn to be their authentic selves, improve self-confidence and plan their futures. For Customer Trust, our latest customer feedback report highlighted our strengths and areas for improvement. Fundraising activities have supported a number of charities, and many of our people have participated in volunteering.

Our people

We have once again been recognised as one of the UK's Best Workplaces™ by Great Place to Work®, the global authority on workplace culture, reaching our highest ranking of 12 out of 87 (large organisation category), surpassing last year's ranking of 29 out of 67. In addition, we were also ranked 12 out of 25 for Best Workplace for Wellbeing™, and 17 out of 89 companies for UK Best Workplace™ for Women.

Our recent colleague pulse survey highlighted 85% of colleagues continue to say that STB is a great place to work, and our Trust Outcome came out at 87%. It is pleasing to know how positively our colleagues feel about the organisation. I would like to thank them for all their hard work and commitment.

Outlook

We remain confident about the future, despite near-term uncertainties. We are committed to carefully navigating our businesses during these uncertain times and will continue to be flexible in how we react during this period of economic uncertainty. We will continue to monitor inflation and the impact the cost of living will have on our customers. Further increases in the Bank of England Base Rate are predicted and this will have a direct impact on product pricing. Despite these challenges, we have significant growth potential and will capture opportunities with our usual focus on disciplined risk management.

Our Optimising for Growth strategic priorities will support the delivery of our medium-term targets. We are well placed to realise our ambitions and have shown resilience and agility through the challenges of the last few years. During the first half of the year, we have laid the foundations for a strong 2023 and expect a significant improvement in our profitability during the second half of the year and in 2024.

David McCreadie
Chief Executive Officer

8 August 2023

About us

Our vision

To be the most trusted specialist lender in the UK

Purpose

To help more consumers and businesses fulfil their ambitions

Our strategic pillars

Grow	Sustain	Care
• Generate growth and attractive returns in specialist segments • Exploit digital capabilities to build scale and drive cost efficiency	• Create sustainable value through market expertise and deep customer knowledge • Utilise strong credit discipline, capital allocation and risk management capabilities	• Help customers with simple, clear and compelling products • Deliver consistently excellent customer care and swift outcomes

Always act with integrity and transparency, delivering value for all stakeholders

Our strategic priorities

Simplify	Enhance Customer Experience	Leverage Networks

Strengths

Specialist	Expert	Diverse	Ambitious
Focus on attractive returns in our core markets	Strong market expertise, relationships and digital capabilities	Diverse portfolios in consumer and business lending	Clear opportunities for growth and strategy for long-term value creation

Values

Customer Focused	Risk Aware	Future Orientated	Teamwork	Ownership	Performance Driven
Because they are at the heart of everything we do	It keeps our customers and us safe and secure	Embracing change and implementing good ideas give us a competitive advantage	We achieve more when we work well together	Each of us need to take personal responsibility	We will only be the most trusted specialist lender in the UK by each of us taking personal accountability for our performance

Financial review

“Sustained balance sheet growth creates a platform for earnings expansion”

Income statement	30 June 2023 £million	30 June 2022 £million	Change %	31 December 2022 £million
Continuing operations				
Interest income and similar income	138.8	90.6	53.2	203.0
Interest expense and similar charges	(57.8)	(17.5)	230.3	(50.4)
Net interest income	**81.0**	**73.1**	**10.8**	**152.6**
Fee and commission income	8.1	8.1	-	17.4
Fee and commission expense	-	(0.2)	(100.0)	(0.4)
Net fee and commission income	**8.1**	**7.9**	**2.5**	**17.0**
Operating income	**89.1**	**81.0**	**10.0**	**169.6**
Net impairment charge on loans and advances to customers	(23.0)	(17.9)	28.5	(38.2)
Gains on modification of financial assets	0.2	0.7	(71.4)	1.1
Fair value gains/(losses) on financial instruments	0.9	(0.5)	(280.0)	(0.3)
Operating expenses	(50.7)	(46.2)	9.7	(93.2)
Profit before income tax from continuing operations	**16.5**	**17.1**	**(3.5)**	**39.0**
Income tax expense	(4.2)	(4.2)	-	(9.4)
Profit for the period from continuing operations	**12.3**	**12.9**	**(4.7)**	**29.6**
Discontinued operations:				
(Loss)/profit before income tax from discontinued operations	**(1.5)**	**7.6**	**(119.7)**	**5.0**
Income tax credit/(expense)	0.3	(1.4)	(121.4)	(0.9)
(Loss)/profit for the period from discontinued operations	**(1.2)**	**6.2**	**(119.4)**	**4.1**
Profit for the period	**11.1**	**19.1**	**(41.9)**	**33.7**
Basic earnings per share (pence) - Total	59.4	102.4	(42.0)	180.5
Basic earnings per share (pence) - Continuing	65.8	69.1	(4.8)	158.5

Selected Key Performance Indicators and performance metrics	£million	£million	Change %	£million
Total profit before tax	15.0	24.7	(39.3)	44.0
	%	%	Percentage point movement	%
Net interest margin (‘NIM’)	5.4	5.7	(0.3)	5.7
Yield	9.3	7.1	2.2	7.5
Cost of funds	3.9	1.4	2.5	1.9
Cost to income ratio	56.9	57.0	(0.1)	55.0
Cost of risk	1.5	1.3	0.2	1.4
Total return on average equity[1]	6.8	12.5	(5.7)	10.8
Common Equity Tier 1 (‘CET 1’) ratio	13.0	14.0	(1.0)	14.0
Total capital ratio[1]	15.2	16.2	(1.0)	16.1

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3.1 to the Interim Financial Statements (page 31).

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under IFRS. Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 50. In the narrative of this Financial review, key performance indicators are identified by being in bold font.

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

Continuing businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only. Discontinued business includes the Debt Management business. Further details of discontinued business can be found in Note 6 of the Interim Financial Statements.

The first half of 2023 saw a continued focus on growth whilst maintaining strong credit discipline and cost management. Growth has been targeting higher credit quality prime lending, particularly within our Consumer Finance business. Balance sheet growth has generated 10.0% increase in operating income, and this has been achieved with an 9.7% increase in costs. The Group achieved a profit before tax of £16.5 million (30 June 2022: £17.1 million), with CET 1 ratio remaining strong at 13.0%.

Earnings per share fell from 69.1 pence per share (30 June 2022) to 65.8 pence per share. **Total return on average equity** decreased from 12.5% (30 June 2022) to 6.8%. Return on average equity performance in H1 2022 was impacted by the one-off £6.1 million gain recognised on the sale of the Debt Managers (Services) Limited's loan portfolio. Excluding the gain/(losses) from discontinued operations, the continuing return on average equity for 30 June 2022 would be 8.4% compared to 7.5% for 30 June 2023.

Detailed disclosures of earnings per ordinary share are shown in Note 7 to the Interim Financial Statements. The components of the Group's profit are analysed in more detail in the sections below.

Operating income

The Group's operating income increased by 10.0% to £89.1 million (30 June 2022: £81.0 million). Net interest income on the Group's lending assets continues to be the largest component of operating income. This increased by 10.8% to £81.0 million (30 June 2022: £73.1 million), driven by growth in net lending assets, with average balances increasing by 16.3% to £3,005.6 million (30 June 2022: £2,584.2 million).

The Group's **net interest margin** decreased to 5.4% (30 June 2022: 5.7%), reflecting new Tier 2 capital, which reduced NIM by 20 bps in the period, but provides capital for growth, and the strategic shift towards lower yielding, lower risk lending in both our Business Finance and Consumer Finance divisions.

The Group's other income, which relates to net fee and commission income, remained at similar levels to the prior period.

Impairment charge

Impairment charges increased to £23.0 million (30 June 2022: £17.9 million). The charge was impacted by one material loss of £7.2 million relating to a long-running problem debt case within the Commercial Finance business, which was highlighted in the 2022 Annual Report and Accounts (Note 47.2). Circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the portfolio. Whilst it is disappointing to record a loss of this magnitude, the cost of risk since inception of the business in 2014, excluding this specific impairment charge has been 0.04% of average lending balances, and would be 0.6%, inclusive of this case. This loss in the period resulted in an increase in **cost of risk** to 1.5% (30 June 2022: 1.3%). Overall impairment provisions remain robust at £79.5 million (30 June 2022: £67.0 million) with an aggregate coverage level of 2.5% (30 June 2022: 2.4%).

During the second quarter of the financial year, the Group refreshed macroeconomic inputs to its IFRS 9 Expected Credit Loss ('ECL') models incorporating its external economic advisors latest UK economic outlook. The forecast economic assumptions within each IFRS 9 scenario, and the weighting applied, are set out in more detail in Note 10 to the Interim Financial Statements.

The Group has applied Expert Credit Judgements ('ECJ's') where management believes the IFRS 9 modelled output is not fully reflecting current risks in the loan portfolios. Further details of these ECJs are included in Note 10 to the Financial Statements.

Fair value gains/(losses) on financial instruments

During the period, the Group realised a gain of £1.2 million (30 June 2022: £nil) in relation to the buy-back of the 2018 Tier 2 debt. The Group also recognised a loss of £0.8 million (30 June 2022: £nil) relating to interest rate swaps being entered into ahead of hedge accounting becoming available, which will reverse to the income statement over the remaining life of the swaps. The Group has highly effective hedge accounting relationships, and as a result, recognised a small hedging ineffectiveness gain of £0.5 million (30 June 2022: £0.5 million loss).

Operating expenses

The Group's cost base increased in the period by 9.7% to £50.7 million (30 June 2022: £46.2 million), with the **cost income ratio** remaining flat at 56.9% (30 June 2022: 57.0%), despite the impact of inflation on operating expenses. The ratio reflects both the increase in operating income and the ongoing programme of initiatives that seek to achieve more efficient and effective operational processes, including digitalisation of processes, supplier and procurement reviews, organisational design and property management.

Taxation

The effective tax rate on continuing activities of 25.5%, increased compared with 2022 (30 June 2022: 24.6%). The effective rate is above the Corporation Tax rate of 23.5% reflecting a reduced deferred tax asset on future share option exercises. The total effective tax rate is 26.0% (30 June 2022: 22.7%).

Discontinued business

In May 2022, the Group disposed of the loan portfolio of Debt Managers (Services) Limited, realising an overall initial profit on disposal of £6.1 million in the first half of 2022. A further £1.5 million of wind-down costs have been incurred during the period.

Distributions to shareholders

The Board approved an interim dividend of 16.0 pence per share (30 June 2022: 16.0 pence per share).

Balance sheet

Summarised balance sheet	30 June 2023 £million	Restated[1] 30 June 2022 £million	Restated[1] 31 December 2022 £million
Assets			
Cash and balances at central banks	318.3	253.0	370.1
Loans and advances to banks	33.3	54.2	50.5
Debt securities	–	34.9	–
Loans and advances to customers	3,158.5	2,751.2	2,919.5
Fair value adjustment for portfolio hedged risk	(47.7)	(17.0)	(32.0)
Derivative financial instruments	50.3	17.7	34.9
Other assets[1]	38.2	40.8	36.8
	3,550.9	**3,134.8**	**3,379.8**
Liabilities			
Due to banks	409.3	400.3	400.5
Deposits from customers	2,648.9	2,290.9	2,514.6
Fair value adjustment for portfolio hedged risk	(33.7)	(15.2)	(23.0)
Derivative financial instruments	36.1	17.3	26.7
Tier 2 subordinated liabilities	92.9	51.0	51.1
Other liabilities	64.2	76.4	83.5
	3,217.7	**2,820.7**	**3,053.4**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3.1 to the Interim Financial Statements (page 31).

New business

Loan originations in the period, being the total of new loans and advances to customers entered into during the period, increased by 2.4% to £1,147.4 million (30 June 2022: £1,121.0 million).

New business volumes	30 June 2023	30 June 2022	Change %
Consumer Finance			
Retail Finance	613.5	535.0	14.7
Vehicle Finance	250.1	208.4	20.0
Business Finance			
Real Estate Finance	252.4	241.8	4.4
Commercial Finance	31.4	135.8	(76.9)
Total	**1,147.4**	**1,121.0**	**2.4**

Customer lending and deposits

Group lending assets increased by 8.2% to £3,158.5 million (31 December 2022: £2,919.5 million), surpassing £3 billion for the first time, primarily driven by strong growth in our Consumer Finance and Real Estate Finance business.

Consumer Finance balances grew by £192.7 million or 13.5%, driven by strong demand from strategic partner retailers in the first half of 2022.

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

Customer deposits include Fixed term bonds, ISAs, Notice and Access accounts. Customer deposits increased by 5.3% to £2,648.9 million (31 December 2022: £2,514.6 million). Total funding ratio of 109.8% decreased slightly from 31 December 2022 (112.5%). As set out on page 14, the mix of the deposit book has continued to change as the Group has adapted to the ongoing Base Rate changes, with a focus on meeting customer demand for Access products, and retaining stable funds, which is reflected in the increase in Fixed term bonds.

Investments and wholesale funding

As at the end of 2022, the Group held no debt securities (31 December 2022: £nil). Amounts due to banks consisted primarily of drawings from the Bank of England Term Funding Scheme with additional incentives for SMEs ('TFSME') facility.

Tier 2 subordinated liabilities

Tier 2 subordinated liabilities represents £90.0 million of 10.5-year 13.0% Fixed Rate Callable Subordinated Notes, which qualify as Tier 2 capital. The existing 2018 Notes were repurchased in February and March 2023.

Capital

Management of capital

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

Key factors influencing the management of capital include:

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

Capital resources

Capital resources increased over the period from £376.8 million to £383.5 million. The increase was primarily in CET 1 capital and was driven by total profit for the period of £11.1 million, offset by the 2023 interim dividend of £3.0 million, and the reduction in the IFRS 9 transitional adjustment of £9.3 million. In addition, the increase in Tier 2 was driven by the newly-issued £90.0 million subordinated debt, which will have increased utility over time as capital eligibility increases as a consequence of risk weighted asset growth.

Capital	30 June 2023 £million	Restated[1] 30 June 2022 £million	Restated[1] 31 December 2022 £million
CET 1 capital, excluding IFRS 9 transitional adjustment	324.4	305.0	315.2
IFRS 9 transitional adjustment	2.4	8.5	11.7
CET 1 capital	326.8	313.5	326.9
Tier 2 capital	56.7	49.8	49.9
Total capital	**383.5**	**363.3**	**376.8**
Total risk exposure	**2,518.5**	**2,237.1**	**2,334.6**
Capital ratios			
CET 1 capital ratio	**13.0**	**14.0**	**14.0**
Total capital ratio	**15.2**	**16.2**	**16.1**
CET 1 capital ratio (excluding IFRS 9 transitional adjustment)	**12.9**	**13.7**	**13.6**
Total capital ratio (excluding IFRS 9 transitional adjustment)	**15.1**	**15.9**	**15.7**
Leverage ratio	**10.1**	**10.6**	**10.7**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3.1 to the Interim Financial Statements (page 31).

Capital requirements

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

	30 June 2023 £million	30 June 2022 £million	Restated[1] 31 December 2022 £million
Total Capital Requirement	**226.7**	211.9	210.1
Capital conservation buffer	**63.0**	55.9	58.4
Countercyclical buffer	**25.2**	–	23.3
Total	**314.9**	**267.8**	**291.8**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3.1 to the Interim Financial Statements (page 31).

The increase in lending balances through the first six months of the year resulted in an increase in risk weighted assets over the period, bringing the total risk exposure up from £2,334.6 million to £2,518.5 million. The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The countercyclical capital buffer rose from 0% to 1% of relevant risk exposures in December 2022, and remained at this level at the end of the period. The countercyclical capital buffer rose to 2% on 5 July 2023.

Liquidity

Management of liquidity

The Group uses a number of measures to manage liquidity risk. 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 High Quality Liquid Assets ('HQLA').
- Total funding ratio, as defined in the Appendix to the Interim Report.
- 'HQLA' are held in the Bank of England Reserve Account and UK Treasury Bills. For LCR purposes, the HQLA excludes UK Treasury Bills that are pledged as collateral against the Group's TFSME drawings with the Bank of England.

The Group met the LCR minimum threshold throughout the year and, with the Group's average LCR being 217.0% (based on a rolling 12 month-end average).

Liquid assets

We continued to hold significant surplus liquidity over the minimum requirements throughout the first six months of the year, managing liquidity by holding High Quality Liquid Assets ('HQLA') and utilising predominantly retail funding balances from customer deposits over the period. The Group held additional levels of liquidity at the end of 2022 (31 December 2022: £416.9 million) to support funding planned for Business Finance drawdowns in early 2023. These returned to more normal levels at the end of the period (30 June 2023: £347.3 million).

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

Liquid assets	30 June 2023 £million	30 June 2022 £million	31 December 2022 £million
Aaa – Aa3	**318.3**	285.6	370.1
A1 – A2	**29.0**	49.1	41.6
Unrated	**-**	5.1	5.2
Total	**347.3**	**339.8**	**416.9**

We continue to attract customer deposits to support balance sheet growth. The composition of customer deposits is shown in the table below:

Customer deposits	30 June 2023 %	30 June 2022 %	31 December 2022 %
Fixed term bonds	**54**	52	56
Notice accounts	**12**	30	20
ISA	**19**	14	17
Access accounts	**15**	4	7
Total	**100**	**100**	**100**

Business review

Consumer Finance

Retail Finance

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

- Helping consumers purchase lifestyle goods and services without having to wait.
- Supporting the growth of UK retailers by offering integrated finance options that drive sales.

	30 June 2023 £million	30 June 2022 £million	Movement £million	Change %	31 December 2022 £million
New business	**613.5**	535.0	78.5	14.7	1,124.3
Lending balance	**1,179.9**	916.2	263.7	28.8	1,054.5
Total revenue	**49.2**	35.9	13.3	37.0	78.0
Impairment charge	**8.9**	5.6	3.3	58.9	14.8

What we do

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

H1 2023 performance

- Strong lending growth, with an increase of 11.9% on balances at 31 December 2022, resulting from an increase in our market share of the retail store and online credit market[1].
- Extension of our footprint with key retail partners and the introduction of new retailer relationships as we leveraged our strong track record of systems integration.
- Lending and revenue growth has come mainly from interest-free lending into the furniture and jewellery sectors, which attracts a prime customer at a lower credit risk, but a lower net interest margin. At the end of the H1 2023, 86.2% (31 December 2022: 85.1%) of the lending book related to interest-free lending.
- We have consciously focused on primer sectors remaining cautious in response to the economic environment. As a result, whilst the impairment charge has increased compared to H1 2022, it remains in line with expectation and aligned to a growing lending balance and stable coverage levels.
- We anticipate further lending growth from our existing retail partners and our operational plans are focused on digitalisation of all key processes to improve the customer and our retail partners' experience.
- AppToPay was launched in April 2023 and will promote additional lending in the new digital Buy Now Pay Later markets using mobile application-based technology.

1. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2023 based on January to May. Market share of 12.9% in 2023 (2022: 11.4%): FLA total and Retail Finance new business of £3,838 million (1 January 2022 to 31 December 2022: £9,846 million) and £495.9 million (1 January 2022 to 31 December 2022: £1,124.3 million) respectively.

Vehicle Finance

We help to drive more business in UK car dealerships:

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

	30 June 2023 £million	30 June 2022 £million	Movement £million	Change %	31 December 2022 £million
New business	**250.1**	208.4	41.7	20.0	401.7
Lending balance	**440.4**	332.6	107.8	32.4	373.1
Total revenue	**29.0**	22.3	6.7	30.0	48.0
Impairment charge	**4.9**	12.4	(7.5)	(60.5)	21.3

What we do

- We provide lending products that are secured against the vehicle being financed. The majority of vehicles financed are used cars sold by independent dealers.
- We also provide vehicle stock funding, whereby funds are advanced and secured against dealer forecourt used car stock; sourced from auctions, part exchanges or trade sources.
- Finance is provided via technology platforms, allowing Vehicle Finance to receive applications online from its introducers; provide an automated decision; facilitate document production through to pay-out to dealer, and manage in-life loan accounts.

H1 2023 performance

- In the first five months of 2023, new business volumes for point-of-sale finance for used cars in the UK (by value) was 10% lower than in the same period in 2022[1]. Over the same period, the Vehicle Finance business grew its share of this market from 1.1% to 1.3%.
- Prime Hire Purchase and Personal Contract Purchase products introduced in 2021 delivered £63.0 million of new business in the first half of 2023 (30 June 2022: £46.8 million). Lending balances from Prime products grew to £131.8 million or 29.9% of lending balances (31 December 2022: £90.4 million, 24.2%). Near Prime new business was £82.7 million (30 June 2022: £96.2 million), demonstrating the impact of us tightening our credit criteria. New business growth exceeded lending growth due to the short-term duration of Stock Funding.
- Revenues grew broadly in line with lending balances. However, the move towards Prime lending has resulted in an improvement in total arrears levels, and this coupled with IFRS 9 ECL models now reacting to credit tightening that took place in 2022, has resulted in a reduction in the impairment charge in the first half of 2023 compared with 2022.
- Stock Funding grew lending balances from £18.8 million in the first half of 2022 (5.7% of lending balances) to £30.0 million in 2023 (6.8% of lending balances). Stock Funding now represents 7.7% of Vehicle Finance revenues.
- As part of the continuing Motor Transformation Programme, we successfully delivered the second phase, which launched a new collection's platform for Prime lending. The final phase of the programme, to transition Near Prime lending and Prime lending on to one new 'rate for risk' based platform, will be the focus for the business in 2023.

1. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2023 based on January to May 2023, FLA total and Vehicle Finance total of £9,429 million (1 January 2022 to 31 December 2022: £23,472 million) and £119.2 million (1 January 2022 to 31 December 2022: £262.9 million) respectively.

Business Finance
Real Estate Finance

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

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

	30 June 2023 £million	30 June 2022 £million	Movement £million	Change %	31 December 2022 £million
New business	**252.4**	241.8	10.6	4.4	384.5
Lending balance	**1,221.8**	1,142.6	79.2	6.9	1,115.5
Total revenue	**35.1**	27.0	8.1	30.0	57.7
Impairment charge/(credit)	**2.2**	(0.2)	2.4	(1,200.0)	1.3

What we do

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

H1 2023 performance

- We have delivered a strong performance in difficult trading conditions amidst ongoing interest rate volatility. Lending balances increased, primarily driven by strong new business lending. Revenue growth reflected growth in average lending balances and rising interest rates. At 30 June 2023, 82% of the loan book provided lending for residential investment financing (31 December 2022: 85%).
- We have been working with our larger customers to take advantage of investment opportunities and re-finance their existing portfolios.
- Impairment charges have increased due to higher loan balances within IFRS 9 stage 3. This relates to a small number of loans all of which are appropriately provided for, given the level of collateral protection, and are subject to close monitoring and oversight.
- Secured loan book with an average loan-to-value of 56.4% (31 December 2022: 57.7%), slightly reducing the level of inherent risk to credit losses.
- The outlook for the second half of the year is uncertain across both development and investment markets due to the expected increase in the Bank of England Base Rate. We will continue to support our clients through this difficult market environment.

Commercial Finance

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

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

	30 June 2023 £million	30 June 2022 £million	Movement £million	Change %	31 December 2022 £million
New business	**31.4**	135.8	(104.4)	(76.9)	157.3
Lending balance	**316.4**	359.8	(43.4)	(12.1)	376.4
Total revenue	**18.2**	12.5	5.7	45.6	29.3
Impairment charge	**7.0**	0.1	6.9	6,900.0	0.8

What we do

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

H1 2023 performance

- Lending balances at June 2023 were 12.1% lower than June 2022. However, average lending balances were only 1.3% lower in the six months to 30 June 2023 than the six months to 30 June 2022. The month-end balances can be susceptible to changes in utilisation by larger clients and, indeed, two larger clients reduced their utilisation levels just prior to the end of the first half of 2023. We have maintained focus on supporting our existing customer base.
- Total revenue has grown in the first half of 2023, reflecting that lending balances are directly linked to the Bank of England Base Rate.
- The Group's lending under Government CBIL, CLBIL and RLS is now largely in run-off, and at 30 June 2023, the outstanding lending balances under these schemes totalled £20.3 million (31 December 2022: £28.9 million). Commercial Finance took the conscious decision not to participate in the UK Government's Bounce Back Loan Scheme, which closed in March 2021.
- The lack of growth in economic activity, rising inflation and cost pressures are, in general, adding financial stress across the SME market, and we have seen this reflected in our own customer base. We incurred an impairment charge of £7.0 million (30 June 2022: £0.1 million) largely due to one material loss of £7.2 million on a long-running problem debt case. Circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the portfolio. Excluding this specific impairment charge, the total write-off incurred between 2015 and 2023 has been 0.04% of average lending balances and would be 0.6%, inclusive of this write-off.

Savings

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

- Helping our customers save for special events such as a holiday, wedding or retirement.
- Providing our customers with a diverse range of products to choose from that offer fair value.

	30 June 2023 £million	30 June 2022 £million	Movement £million	Change %	31 December 2022 £million
Fixed term bonds	**1,410.0**	1,182.4	227.6	19.2	1,414.0
Notice accounts	**324.3**	696.8	(372.5)	(53.5)	500.7
ISAs	**505.2**	310.8	194.4	62.5	421.8
Access accounts	**409.4**	100.9	308.5	305.7	178.1
	2,648.9	2,290.9	358	15.6	2,514.6

What we do

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

H1 2023 performance

- H1 2023 saw continued increases in the Bank of England Base rate, which has impacted the rates offered within the savings market. During the period, we have raised over £0.7 billion of new deposits and retained £0.3 billion at maturity.
- Our deposit base is made up of retail customers and 96% of total deposits are fully covered by FSCS.
- We have continued to grow Access balances since introducing the product last year, with it proving a popular customer choice given the ongoing increases in the Base Rate. In part due to the growth of the Access market, with continued repricing offering savers increasingly competitive returns without sacrificing immediate access to funds. We have seen a corresponding decrease in demand for Notice products.
- The higher-rate market environment has demonstrated the importance of competitive ISA products for those with higher balances looking to maximise returns, with plans to continue growth of these balances during H2 2023.
- The introduction of six, nine and 18-month fixed-rate terms has supplemented our existing one-year product, with customer preference remaining within shorter-dated product terms.
- Savings have continued to deliver improvements to the customer experience during the year. Confirmation of Payee has been enhanced in H1 2023, with services for inbound payments now included alongside support for verification of customers' external accounts. This gives customers the reassurance that they are depositing funds to the correct account and further simplifies the account opening and funding journey.
- Customers have continued to adopt a more digital-first approach, with 95% registered for internet banking. We continue to offer customers paperless communications where this suits their needs, and plan to further digitalise our account communications during H2 2023. Development of our digital proposition through the launch of a mobile app will see the customer testing phase and wider roll out of this service during H2 2023.

Market review

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

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

Economic review

Economic growth, as measured in quarterly UK Gross Domestic Product ('GDP'), remained low in the first quarter of 2023, at just 0.1%[1]. Economists' base case forecasts indicate recession will be avoided in 2023 as the UK economy has so far showed greater resilience than expected. However, growth is expected to be constrained below 0.5%, with consumer spending being affected by increasingly tighter fiscal and monetary policy.

Inflation continues to weigh heavily on the UK economy. Whilst falling from the peak of 11.1%[1] in October 2022 to 7.9%[1] in June 2023, first quarter inflation data showed unexpected increases in core inflation and services inflation. The Bank of England has responded with further Base Rate hikes to a new 15-year high of 5.25%. Financial markets have responded strongly to recent inflation data, and the Bank of England's likely response, and currently price in the Base Rate of interest reaching 5.75% in Q1 2024. The compounding increases in the real cost of living will continue to adversely impact on consumers' disposable incomes and challenge the affordability of household bills and consumers' appetite for discretionary spending.

Employment levels remain high at 76.0%[1]. Unemployment continues to remain at a low level of 4.0%[1] with an increase recorded in Q2 2023 ahead of expectations, and vacancies in the labour market falling to circa 1.0 million[1] as employers hold back on recruitment to control costs in an uncertain economic environment. Given the continued pressures on employers from borrowing and energy costs, unemployment may rise further by the end of 2023. Wage growth was 6.9% in March to May 2023, and ahead of expectations, which has further fuelled inflation.

As anticipated, impacts of tighter credit and higher interest rates has started to soften transaction volumes and prices in the housing market. Lenders have reported lower mortgage approvals and negative net lending in early 2023. Given the increase in swap rates, linked to the latest inflation figures and monetary policy decisions, the pressure on the housing market is unabating. 2023 is likely to see a perfect storm of high new borrowing and refinancing rates and large numbers of customers exiting cheap fixed rate mortgage deals. Economists therefore continue to predict a peak-to-trough fall in house prices of circa 10% in the near term.

Outlook

The Base Rate of interest is expected to continue to rise in 2023 and peak at 5.75% in late Q1 2024, albeit recent volatility in the swap markets has at times implied rates as high as 6.25%. The UK economy is expected to grow only modestly through 2023. House prices are expected to continue to fall after a long period of growth, and unemployment is expected to rise a little from its current low levels. The full impact of high interest rates and inflation has not yet been seen on consumers' household incomes, therefore the balance of risks to the UK remains skewed to the downside.

1. Source: Office for National Statistics, latest data as at 30 June 2023, unless otherwise stated.

Government and regulatory

This has been another eventful period for Government and regulatory announcements that potentially impact the Group. The key announcements are set out below.

Prudential regulation

In November 2022, the PRA issued CP16/22 'The PRA consults on proposals for implementation of the Basel 3.1 standards' setting out its proposed changes to regulatory requirements, which are expected to become effective on 1 January 2025. The proposals set out changes to the regulatory environment, including significant changes to the capital requirements for credit risk and operational risk. The guidance also proposes allowing those firms that are eligible for the Simpler Regime to apply for a waiver not to adopt Basel 3.1 and instead remain on the current UK Capital Requirements Regulation regime until the capital rules applicable to the Simpler Regime are launched.

In February 2023, the PRA issued CP4/23 'The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms', adding further proposals for a strong and simple prudential framework. This sets out the proposed liquidity related rules for the new regime, with a proposed implementation date of 1 July 2024. The capital rules are the subject of a further consultation, expected in H1 2024, however the PRA have indicated that the Basel 3.1 rules will be the starting point for designing the Simpler Regime requirements. The implementation date for the Simpler Regime capital requirements is still to be announced but is expected to be after 2025. The Group has undertaken an impact analysis of the CP16/22 proposals to understand the potential impact under the proposed full rules and will decide whether it will adopt the full rules, or defer and adopt the Simpler Regime, when required to do so.

During May 2023, the PRA issued PS5/23 'Model risk management principles for banks' setting out stronger governance expectations for model governance to address observed shortcomings within the industry. A new supervisory statement, SS1/23, incorporating these revised expectations was also issued with an effective date of 17 May 2024. Although the final statement issued applies only to banks adopting the internal model approach to capital, and therefore does not directly impact the Group, it is aligning to the statement until the Simpler Regime Supervisory Statement is released, which is expected to adopt a more proportionate approach.

The UK Countercyclical Capital Buffer ('CCyB') rate increased from 1% to 2% on 5 July 2023, as previously announced by the Financial Policy Committee ('FPC'). The FPC have stated that they will continue to monitor the CCyB rate due to the current uncertainty around the economic outlook.

Conduct regulation

Through the first half of 2023, the FCA has continued to focus on supporting consumers who are in vulnerable circumstances struggling with the rising cost of living and the countdown to the implementation of the Consumer Duty.

In February, the FCA published a Dear CEO letter to Retail Banks (followed by Dear CEO letters for Retail Finance and Motor Finance providers in March) intended to help firms embed and implement the Consumer Duty effectively. The letter outlined key expectations on firms under the Consumer Duty, as well as provided feedback from a review of firm's implementation plans, containing observed good practice and areas of improvement. Importantly, the FCA identified three key areas of focus, including working with other firms, such as firms involved in the product distribution chain. In May, the FCA provided further insight for firms by publishing its findings from a review of firm's fair value assessment frameworks and in June produced a podcast outlining expectations for firm's outcomes testing and the types of data firms should be using to assess how customers are treated. The Group satisfied the key 30 April milestone of completing fair value assessments for all current products and services and sharing the outcomes of those assessments with relevant firms to assist with their own planning.

Cost of living pressures for consumers remain a key area of focus for the FCA, with Dear CEO letters relating to the Consumer Duty also referencing the cost of living crisis as well as focused initiatives, such as podcasts and blogs to ensure firms remain focused on supporting customers. In May, the FCA published a consultation on changes to sourcebooks to incorporate aspects of the Tailored Support Guidance that was introduced during the coronavirus pandemic. In June, a Dear CEO letter signed by the main UK regulatory bodies, including the FCA, set out shared expectations of firms in their respective sectors in supporting customers impacted by the rising cost of living. The Group looks to ensure customers are supported where experiencing financial difficulties.

More recently, the FCA set out expectations that consumers should be offered fair and competitive saving rates. The FCA is using the new Consumer Duty legislation and has set out an action plan to ensure banks and building societies are passing on interest rate rises to savers appropriately, communicating with customers more effectively and offering customers better savings rate deals. The Group is well positioned to meet the FCA's expectations of deposit-taking firms.

Government and monetary policy

Following a consultation on the optimal structure for UK financial services post-Brexit, the Financial Services and Markets Act 2023 (the 'FSMA') received royal assent during June 2023, with the aim of implementing the outcomes of the Government's future regulatory framework review and to make changes to update the UK regulatory regime. This allows for sector-wide regulation of financial services and markets, involving the revocation of EU law and its replacement with rules-based regulation primarily administered by regulators, subject to the oversight of Parliament, which is expected to allow for faster responses to changing conditions.

The Bank of England MPC announced five consecutive increases in the UK Base Rate over the course of 2023, taking rates up from 3.5% at the end of December 2022 to 5.25% at 3 August 2023. Rising interest rates have had a significant impact on the Group's funding costs and appropriate action has been taken to manage new business pricing and overall net interest margin.

In response to current cost of living challenges, on 23 June 2023 the Chancellor met with the FCA and principal mortgage lenders to agree a support package for customers struggling with mortgage repayments.

Principal risks and uncertainties

Risk management

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

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

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

Changes to the Group's risk profile

Changes to the Group's risk profile since the position set out in the 2022 Annual Report and Accounts are detailed below.

Credit risk: Heightened

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

Consumer Finance Credit risk

Notwithstanding the cost of living challenges experienced across the UK, including of high inflation and rising interest rates, the performance of the Consumer Finance credit portfolios has remained robust in the first half of the year.

The credit profile of the Vehicle Finance business has improved through the first half of the year as a result of an increase in Prime business and the positive impacts of credit tightening within the Near Prime portfolio.

Previous moves to lower risk sectors within Retail Finance continue to show through in strong performance and whilst, as anticipated, arrears have risen slightly from historical lows post COVID-19, they remain well below pre-COVID-19 levels.

Reflective of the high inflation environment, tightening of affordability metrics has been applied to Consumer Finance businesses to strengthen affordability assessment at the point of origination.

Business Finance Credit risk

Whilst Business Finance customers have been impacted by inflation, high interest rates and supply chain challenges credit performance remains robust across both Business Finance portfolios, notwithstanding a specific credit loss in Commercial Finance detailed below.

Real Estate Finance at a portfolio level is performing well and continues to work closely with borrowers experiencing challenges as a result of higher interest rates. Conservative origination parameters allow the business scope to work with customers on agreeing revisions to interest cover covenants, where necessary. Only a very small number of clients are in an active workout situation.

Commercial Finance is similarly performing strongly at a portfolio level, and whilst it does have customers who have been materially impacted by high inflation, particularly in relation to energy costs, the secured and highly-structured nature of facilities provided means these cases can be managed down without loss to the Group. One material loss was recorded in the first half on a long-running problem debt case. The circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the portfolio.

The risk continues to be assessed as heightened, reflecting the challenges impacting the UK's economic environment, including high rates of inflation and increasing interest rates.

Liquidity and Funding risk: Stable

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

The Group has maintained its liquidity and funding ratios in excess of regulatory and internal risk appetite requirements throughout the first half of the year. The Group continues to hold significant levels of high quality liquid assets, principally cash, and there is no material risk that liabilities cannot be met as they fall due. The Group reviewed the circumstances with respect to the recent banking failures, with no similar concerns around liquidity. The vast majority of deposits benefit from FSCS protection and we have seen no material change in behaviours following recent sector issues.

Capital risk: Stable

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

The Group's balance sheet and total risk exposure has increased since the beginning of the year as the Group continues to grow its core businesses organically. The Group has continued to ensure through this growth that it maintains adequate capital and all capital ratio measures have been met through the period.

The initial IFRS 9 transitional adjustment ended on 1 January 2023, however the Group continues to benefit from the capital relief that has been provided by the Prudential Regulation Authority ('PRA') in respect of IFRS 9 transitional provisions relating to the COVID-19 related 'quick-fix' that tapers off to 31 December 2024.

The Bank of England further increased the Countercyclical Capital Buffer ('CCyB') to 2% in July 2023, following its previous increase of the CCyB to 1% from December 2022, which will require the Group to hold increased levels of minimum regulatory capital in Common Equity Tier 1 ('CET 1').

In February 2023, the Group issued £90.0 million of 10.5 year, 13.0% Fixed Rate Callable Subordinated Notes, which also qualify as Tier 2 regulatory capital (subject to a cap of 25% of Pillar 1 and 2A requirements). Both £25.0 million issuances of our existing 2018 Notes were repurchased in quarter one 2023, ahead of their first call dates in the second half of 2023.

The Group manages its capital requirements on a forward-looking basis against minimum regulatory requirements and Board risk appetite. It assesses the adequacy of the quantum and quality of capital held under stress through the annual Internal Capital Adequacy Assessment Process ('ICAAP'). The Group will take opportunities to increase overall levels of capital and to optimise its capital stack, as and when appropriate.

Market risk: Stable

Description: Market risk is the risk to the Group's earnings and/or economic value from unfavourable market movements, such as interest rates and foreign exchange rates.

The Group continues to take a cautious approach to managing interest rate and foreign exchange risks, with all exposures hedged to minimise the impact of movements of underlying rates on financial performance.

Despite increasing interest rates through the period, the Group has remained within all Board agreed Risk Appetite measures governing interest rate and foreign exchange risk.

Operational risk: Stable

Description: Operational risk is the risk that the Group may be exposed to direct or indirect loss arising from inadequate or failed internal processes, personnel and succession, technology/ infrastructure, or from external factors.

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

The Group continues to enhance and further embed its approach to achieving Operational Resilience for all of its Important Business Services and is on track to meet the 2025 regulatory deadline. Strong progress has also been made in managing and monitoring its third-party suppliers; and the Group has seen benefits from the additional resource allocated to the management of this risk, with improved governance and supplier relationships.

Model risk: Stable

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

Model risk has been a key focus for the Group in the first half of 2023, with investment in both additional employees and external expertise to strengthen the Group's approach to model risk management and governance.

The PRA published its supervisory statement (SS1/23) in relation to Model Risk Management in May 2023. Whilst the Group is not directly captured by this statement, the principles have been reflected in the ongoing work to strengthen the approach to model management and governance.

Conduct and Compliance risk: Heightened

Description: The risk that the Group's products and services, and the way they are delivered, or the Group's failure to be compliant with all relevant regulatory requirements result in poor outcomes for customers or markets in which we operate, or harm to the Group. This could be as a direct result of poor or inappropriate execution of our business activities or behaviour from our employees.

During the period, the Group has engaged with its regulators on an increased number of thematic reviews and information requests, reflective of the regulatory focus on a number of key priority areas across the industry. In particular, the Group was contacted by the FCA in July 2023 in a follow up to a review of forbearance outcomes associated with its Borrowers in Financial Difficulty project. The Group is responding to requests from the FCA to review and enhance its practices in this area.

The Group had an extensive implementation programme in place during the period to ensure it met the requirements of the FCA's Consumer Duty. A progress update confirming work completed and readiness for the Duty coming into force on 31 July 2023 was approved by the Group's Board Risk Committee. The Group is now working on fully embedding all activity delivered in the implementation programme.

Recognising the increasing focus referenced above, and notwithstanding progress on Consumer Duty implementation, the risk has been assessed as being heightened for the period.

Financial Crime risk: Stable

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

The Group continues to invest and strengthen its financial crime framework against a backdrop of an evolving external landscape. The current economic challenges in the UK will increase the fraud threat across the industry, and the Group continues to enhance its systems and controls in this regard. There has been an increase in regulatory and legislative changes, or proposed changes, for financial crime that will be relevant to our strategic objectives and are picked up through the Group's horizon-scanning activity.

Climate Change risk: Stable

Description: The risk of exposure to physical and transition risks arising from climate change.

A detailed report on the key risks the Group faces in relation to climate change was included in the Task Force on Climate-related Financial Disclosures in the 2022 Annual Report and Accounts. Since then, the Group has made good progress in embedding Climate Change risk management into business-as-usual processes aligned to the Groups wider environmental, social, and governance strategy.

Plans are in place to further develop emissions reporting, which will be reflected in enhanced disclosures reporting in our next Annual Report and Accounts.

Condensed consolidated statement of comprehensive income

For the period ended	Note	Unaudited 30 June 2023 £million	Restated[1] Unaudited 30 June 2022 £million	Restated[1] Unaudited 31 December 2022 £million
Continuing operations:				
Income statement				
Interest income and similar income	3	138.8	90.6	203.0
Interest expense and similar charges		(57.8)	(17.5)	(50.4)
Net interest income		**81.0**	**73.1**	**152.6**
Fee and commission income	3	8.1	8.1	17.4
Fee and commission expense		–	(0.2)	(0.4)
Net fee and commission income		**8.1**	**7.9**	**17.0**
Operating income		**89.1**	**81.0**	**169.6**
Net impairment charge on loans and advances to customers	10	(23.0)	(17.9)	(38.2)
Gains on modification of financial assets		0.2	0.7	1.1
Fair value gains/(losses) on financial instruments	4	0.9	(0.5)	(0.3)
Operating expenses		(50.7)	(46.2)	(93.2)
Profit before income tax from continuing operations		**16.5**	**17.1**	**39.0**
Income tax expense	5	(4.2)	(4.2)	(9.4)
Profit for the period from continuing operations		**12.3**	**12.9**	**29.6**
Discontinued operations:				
(Loss)/profit before income tax from discontinued operations	6	**(1.5)**	**7.6**	**5.0**
Income tax credit/(expense)	6	0.3	(1.4)	(0.9)
(Loss)/profit for the period from discontinued operations	6	**(1.2)**	**6.2**	**4.1**
Profit for the period		**11.1**	**19.1**	**33.7**
Other comprehensive loss				
Items that will be reclassified to the income statement				
Cash flow hedge – fair value loss taken to reserves		(0.3)	(0.5)	(0.8)
Reclassification to the income statement		0.2	–	0.1
Taxation		–	–	0.2
Other comprehensive loss for the period, net of income tax		**(0.1)**	**(0.5)**	**(0.5)**
Total comprehensive income for the period		**11.0**	**18.6**	**33.2**
Profit attributable to the equity holders of the Company		**11.1**	**19.1**	**33.7**
Total comprehensive income attributable to the equity holders of the Company		**11.0**	**18.6**	**33.2**

Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)				
Basic earnings per ordinary share	7	**59.4**	**102.4**	**180.5**
Diluted earnings per ordinary share	7	**57.9**	**99.1**	**174.7**
Basic earnings per ordinary share – continuing operations		**65.8**	**69.1**	**158.5**
Diluted earnings per ordinary share – continuing operations		**64.1**	**67.0**	**153.4**

1. The condensed consolidated statement of comprehensive income has been restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3.1 for further details.

Condensed consolidated statement of financial position

As at the period ended	Note	Unaudited 30 June 2023 £million	Restated[1] Unaudited 30 June 2022 £million	Restated[1] Unaudited 31 December 2022 £million
ASSETS				
Cash and Bank of England reserve account		318.3	253.0	370.1
Loans and advances to banks		33.3	54.2	50.5
Debt securities		–	34.9	–
Loans and advances to customers	9	3,158.5	2,751.2	2,919.5
Fair value adjustment for portfolio hedged risk		(47.7)	(17.0)	(32.0)
Derivative financial instruments		50.3	17.7	34.9
Assets held for sale	11	–	3.3	–
Investment property		–	1.4	–
Property, plant and equipment		11.4	8.5	9.7
Right-of-use assets		1.9	1.7	1.5
Intangible assets		6.5	6.9	6.6
Current tax assets		1.4	0.5	–
Deferred tax assets		5.0	6.1	5.6
Other assets		12.0	12.4	13.4
Total assets		**3,550.9**	**3,134.8**	**3,379.8**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	12	409.3	400.3	400.5
Deposits from customers	13	2,648.9	2,290.9	2,514.6
Fair value adjustment for portfolio hedged risk		(33.7)	(15.2)	(23.0)
Derivative financial instruments		36.1	17.3	26.7
Current tax liabilities		–	–	0.8
Lease liabilities		2.3	2.5	2.1
Other liabilities		59.1	72.4	78.1
Provisions for liabilities and charges	14	2.8	1.5	2.5
Subordinated liabilities	15	92.9	51.0	51.1
Total liabilities		**3,217.7**	**2,820.7**	**3,053.4**
Equity attributable to owners of the parent				
Share capital		7.5	7.5	7.5
Share premium		82.3	82.2	82.2
Other reserves		(1.2)	(0.8)	(1.1)
Retained earnings		244.6	225.2	237.8
Total equity		**333.2**	**314.1**	**326.4**
Total liabilities and equity		**3,550.9**	**3,134.8**	**3,379.8**

1. The condensed consolidated statement of financial position has been restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3.1 for further details.

Condensed consolidated statement of changes in equity

Unaudited	Share capital £million	Share premium £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Revaluation reserve £million	Other reserves: Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2023 (as originally stated)	**7.5**	**82.2**	**(0.8)**	**0.8**	**(0.3)**	**237.5**	**326.9**
Prior year restatement net of tax (see Note 1.3.1)	–	–	–	(0.8)	–	0.3	(0.5)
Balance at 1 January 2023 (restated)	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**237.8**	**326.4**
Total comprehensive income for the period							
Profit for the six months to 30 June 2023	–	–	–	–	–	11.1	11.1
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.1)	–	–	–	(0.1)
Total other comprehensive income	**–**	**–**	**(0.1)**	**–**	**–**	**–**	(0.1)
Total comprehensive income for the period	**–**	**–**	**(0.1)**	**–**	**–**	**11.1**	**11.0**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Issue of shares	–	0.1	–	–	–	–	0.1
Dividends	–	–	–	–	–	(5.4)	(5.4)
Share-based payments	–	–	–	–	–	1.1	1.1
Total contributions by and distributions to owners	**–**	**0.1**	**–**	**–**	**–**	**(4.3)**	**(4.2)**
Balance at 30 June 2023	**7.5**	**82.3**	**(0.9)**	**–**	**(0.3)**	**244.6**	**333.2**

Unaudited	Share capital £million	Share premium £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2022 (as previously stated)	**7.5**	**82.2**	**(0.3)**	**1.3**	**211.7**	**302.4**
Land and buildings prior year restatement net of tax (see Note 1.3.1)	–	–	–	(1.3)	1.1	(0.2)
Balance at 1 January 2022 (restated)	**7.5**	**82.2**	**(0.3)**	**–**	**212.8**	**302.2**
Total comprehensive income for the period						
Profit for the six months to 30 June 2022	–	–	–	–	19.1	19.1
Other comprehensive income, net of income tax						
Cash flow hedge reserve movements	–	–	(0.5)	–	–	(0.5)
Total other comprehensive income	**–**	**–**	**(0.5)**	**–**	**–**	**(0.5)**
Total comprehensive income for the period	**–**	**–**	**(0.5)**	**–**	**19.1**	**18.6**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(7.7)	(7.7)
Share-based payments	–	–	–	–	1.0	1.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(6.7)**	**(6.7)**
Balance at 30 June 2022	**7.5**	**82.2**	**(0.8)**	**–**	**225.2**	**314.1**

Unaudited	Share capital £million	Share premium £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Revaluation reserve £million	Other reserves: Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2022 (as originally stated)	**7.5**	**82.2**	**(0.3)**	**1.3**	**–**	**211.7**	**302.4**
Land and buildings prior year restatement net of tax (see Note 1.3.1)	–	–	–	(1.3)	–	1.1	(0.2)
Balance at 1 January 2022 (restated)	**7.5**	**82.2**	**(0.3)**	**–**	**–**	**212.8**	**302.2**
Total comprehensive income for the period							
Profit for the year to 31 December 2022	–	–	–	–	–	33.7	33.7
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedge reserve movements	–	–	0.2	–	–	–	0.2
Total other comprehensive income	**–**	**–**	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Total comprehensive income for the period	**–**	**–**	**(0.5)**	**–**	**–**	**33.7**	**33.2**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**237.8**	**326.4**

Condensed consolidated statement of cash flows

For the period ended	Note	Unaudited 30 June 2023 £million	Restated[1] Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Cash flows from operating activities				
Profit for the year		11.1	19.1	33.7
Adjustments for:				
Income tax expense	5	3.9	5.6	10.3
Depreciation of property, plant and equipment		0.5	0.6	1.2
Depreciation of right-of-use assets		0.3	0.3	0.7
Amortisation of intangible assets		0.6	0.8	1.4
Loss on disposal of property, plant and equipment, right of use assets and intangible assets		–	–	1.4
Impairment charge on loans and advances to customers	10	23.0	18.6	39.0
Share-based compensation		1.1	1.0	2.0
Gain on disposal of loan books	6	–	(8.1)	(8.9)
Other non-cash items included in profit before tax		1.2	0.3	1.0
Cash flows from operating profits before changes in operating assets and liabilities		41.7	38.2	81.8
Changes in operating assets and liabilities:				
– loans and advances to customers		(262.1)	(308.8)	(497.1)
– loans and advances to banks and balances at central banks		(0.6)	2.0	0.6
– other assets		1.4	(0.5)	(1.5)
– deposits from customers		134.3	187.7	411.4
– provisions for liabilities and charges		(1.6)	(0.3)	(1.1)
– other liabilities		(17.2)	37.7	45.6
Income tax paid		(5.5)	(4.3)	(7.0)
Net cash (outflow)/inflow from operating activities		**(109.6)**	**(48.3)**	**32.7**
Cash flows from investing activities				
Consideration on sale of loan books	6	–	81.9	81.9
Sale of investment property	11	–	–	3.3
Maturity and sale of debt securities		–	45.0	80.0
Purchase of debt securities		–	(45.0)	(80.0)
Purchase of property, plant and equipment and intangible assets		(2.7)	(1.0)	(2.7)
Net cash (outflow)/inflow from investing activities		**(2.7)**	**80.9**	**82.5**
Cash flows from financing activities				
Issue of subordinated debt	15	90.0	–	–
Redemption of subordinated debt	15	(48.8)	–	–
Drawdown of amounts due to banks		7.3	8.7	7.0
Purchase of own shares		–	–	(0.3)
Issue of shares		0.1	–	–
Dividends paid		(5.4)	(7.7)	(10.7)
Repayment of lease liabilities		(0.5)	(0.5)	(1.0)
Net cash inflow/(outflow) from financing activities		**42.7**	**0.5**	**(5.0)**
Net (decrease)/increase in cash and cash equivalents		(69.6)	33.1	110.2
Cash and cash equivalents at 1 January		416.9	306.7	306.7
Cash and cash equivalents at end of period	18	**347.3**	**339.8**	**416.9**

1. Cash and cash equivalents at June 2022 have been restated from £338.3 million to £339.8 million. See Note 1.3.2 for further details.

Notes to the interim financial statements

1. Accounting policies

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

1.1. Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as 'the Company') and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is Yorke House, Arleston Way, Shirley, Solihull, West Midlands B90 4LH. The Interim Financial Statements, as at and for the period ended 30 June 2023, comprises 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 Financial Statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, and has been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Financial Reporting Standards and IAS 34 Interim Financial Reporting.

A copy of the statutory accounts for the year ended 31 December 2022 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 2023 and 30 June 2022 are unaudited. The restated results for the year ending 31 December 2022 are unaudited.

The Interim Financial Statements have been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments and investment properties. The Interim Financial Statements are presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

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

1.2.1 Going concern

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

As disclosed in the 2022 Annual Report and Accounts (pages 35 and 36), the Group considers a number of factors in making this assessment. This includes reviewing current performance, past performance, changes in the economic and regulatory environment, the risk profile of the business, operational resilience and possible future events that will impact the business. The Group also undertakes stress testing to ensure the adequacy of capital and liquidity under severe, but plausible stresses. The Board sets risk appetites to enable the Group to withstand stress and tail risk events.

Since the year-end, the Group has reviewed its principal risks to ensure they remain appropriate and relevant (for further details see Principal risks and uncertainties on pages 22 to 24). There has been no significant deterioration in the risk profile of the Group and no new principal risks have arisen in the six-month period.

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

The 2023 Internal Capital Adequacy Assessment Process ('ICAAP') was approved by the Board in August 2023. Details of the Group's 2022 ICAAP are included in the 2022 Annual Report and Accounts and there were no major changes in approach taken for the 2023 ICAAP other than refreshing the macroeconomic stress scenario to reflect a more typical prolonged economic recession using the latest scenario published by the Prudential Regulation Authority ('PRA') for small banks.

The Board approved the Internal Liquidity Adequacy Assessment Process (‘ILAAP’) in June 2023. This provides assurance that the Group can maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. As part of the ILAAP, the Group reviews the liquidity risks to which it is exposed and assesses the quantum of liquid resources required to survive, and remain viable, under a severe, but plausible combined idiosyncratic and whole of market 90-day stress. The Group maintained liquidity levels in excess of its liquidity risk appetite and regulatory requirements throughout the year and is forecast to continue to do so over the ILAAP planning horizon and going concern period.

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

1.3. Accounting policies

The accounting policies applied in preparing the unaudited Condensed Interim Financial Statements are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2022, other than the change noted below.

1.3.1 Property, plant and equipment prior year adjustment

IAS 16 Property, plant and equipment offers a choice of two methods of measuring the carrying amount of land and buildings:

- The cost model or;
- The revaluation model.

The Group’s previous accounting policy was to hold land and buildings at its revalued amount, being its fair value at the date of valuation less any subsequent accumulated depreciation. Revaluations were carried out annually at the reporting date, and movements were recognised in Other Comprehensive Income, net of any applicable deferred tax. External valuations were performed on a triennial basis.

Following a review, the Directors have concluded that the historical cost model is a more appropriate and relevant approach due to the nature of the Group’s business. This will reduce volatility in the income statement and revaluation reserve, allowing for a more appropriate presentation of the Group’s financial performance. Furthermore, the cost model approach is adopted by the majority of our peer group, which will allow for better comparability.

Therefore under IAS 8.14(b) Accounting Policies, Changes in Accounting Estimates and Errors, the Group is changing its accounting policy to measure land and buildings at historical cost less depreciation, less any impairment, and to adjust the depreciation charge accordingly. The Group’s policy to depreciate buildings over 50 years remains unchanged. This has also resulted in the removal of the Group’s revaluation reserve and associated deferred tax.

Due to the change in accounting policy, the Group is required to restate its comparatives in accordance with IAS 8.28. A summary of the impact on the primary statements is as follows:

Statement of financial position	As originally stated Audited 1 January 2022 £million	Prior year adjustment Unaudited 1 January 2022 £million	Restated Unaudited 1 January 2022 £million
Property, plant and equipment	9.3	(0.5)	8.8
Deferred tax assets	6.9	0.3	7.2
Other assets	2,869.7	–	2,869.7
Total assets	**2,885.9**	**(0.2)**	**2,885.7**
Total liabilities	**2,583.5**	**–**	**2,583.5**
Retained earnings	211.7	1.1	212.8
Revaluation reserve	1.3	(1.3)	–
Other equity/reserves	89.4	–	89.4
Total equity	**302.4**	**(0.2)**	**302.2**
Total liabilities and equity	**2,885.9**	**(0.2)**	**2,885.7**

Statement of financial position	As originally stated Unaudited 30 June 2022 £million	Prior year adjustment Unaudited 30 June 2022 £million	Restated Unaudited 30 June 2022 £million
Property, plant and equipment	9.0	(0.5)	8.5
Deferred tax assets	5.9	0.2	6.1
Other assets	3,120.2	–	3,120.2
Total assets	**3,135.1**	**(0.3)**	**3,134.8**
Total liabilities	**2,820.7**	**–**	**2,820.7**
Retained earnings	224.1	1.1	225.2
Revaluation reserve	1.4	(1.4)	–
Other equity/reserves	88.9	–	88.9
Total equity	**314.4**	**(0.3)**	**314.1**
Total liabilities and equity	**3,135.1**	**(0.3)**	**3,134.8**

Statement of financial position	As originally stated Audited 31 December 2022 £million	Prior year adjustment Unaudited 31 December 2022 £million	Restated Unaudited 31 December 2022 £million
Property, plant and equipment	10.3	(0.6)	9.7
Deferred tax assets	5.5	0.1	5.6
Other assets	3,364.5	–	3,364.5
Total assets	**3,380.3**	**(0.5)**	**3,379.8**
Total liabilities	**3,053.4**	–	**3,053.4**
Retained earnings	237.5	0.3	237.8
Revaluation reserve	0.8	(0.8)	–
Other equity/reserves	88.6	–	88.6
Total equity	**326.9**	**(0.5)**	**326.4**
Total liabilities and equity	**3,380.3**	**(0.5)**	**3,379.8**

There is negligible impact on the income statement or cash flow statement for the period ended June 2022 or year ended December 2022.

1.3.2 Cash and cash equivalents prior year adjustment

During 2022, the International Financial Reporting Interpretations Committee ('IFRIC') issued a clarification of IAS 7 Statement of cash flows. IFRIC clarified that restrictions on use of a demand deposit, arising from a contract with a third party, does not result in the deposit no longer being treated as cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7.

At June 2022, £1.5 million of loans and advances to banks was excluded from cash and cash equivalents. This comprised amounts over which the Group had a contractual obligation with a third party to use the cash only for specified purposes. If the Group were to use these amounts for purposes other than those agreed with the third party, the Group would have been in breach of its contractual obligation. However, the terms and conditions did not prevent the Group from accessing the amounts held. As the Group could still access the amounts held, these amounts met the definition of cash. Accordingly, as a result of the IFRIC clarification above, cash and cash equivalents in the Condensed consolidated statement of cash flows have been restated as follows:

	As originally stated £million	Prior year adjustment Unaudited £million	Restated £million
June 2022			
Cash and cash equivalents	338.3	1.5	339.8

Accordingly, Changes in operating assets, loans and advances to banks and net cash flow from operating activities, have been restated by £2.2 million in the cash flow statement for the period ended 30 June 2022.

1.3.3 Taxation

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

1.3.4 Standards in issue but not yet effective

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

2. Critical accounting judgements and key sources of estimation uncertainty

2.1 Judgements

A critical judgement relating to Consumer Finance affordability is disclosed in Note 10.2. No other critical judgements were identified.

2.2. Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results, and are therefore considered to be key sources of estimation uncertainty, all relate to allowances for impairment of loans and advances and are therefore set out in Note 10.1.

3. Operating segments

The Group is organised into four lending segments, which consists of the different products available, as disclosed below.

During 2022, the Group disposed of the Debt Management operating segment. Accordingly, the results of this business is now included in discontinued operations.

Consumer Finance

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

Business Finance

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

Other

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

Discontinued operations

Debt Management: a credit management services business that primarily invested in purchased debt portfolios from third parties, as well as fellow group undertakings. The Debt Management loan book was sold during 2022.

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

Interest expense and similar charges, fee and commission expense and operating expenses are not aligned to operating segments for day-to-day management of the business, so they cannot be allocated on a reliable basis. Accordingly, profit by operating segment has not been disclosed. Furthermore, no balance sheet items are allocated to segments other than loans and advances to customers.

Unaudited 30 June 2023	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge on loans and advances to customers £million	Loans and advances to customers £million
Retail Finance	47.9	1.3	49.2	8.9	1,179.9
Vehicle Finance	28.0	1.0	29.0	4.9	440.4
Consumer Finance	75.9	2.3	78.2	13.8	1,620.3
Real Estate Finance	34.6	0.5	35.1	2.2	1,221.8
Commercial Finance	12.9	5.3	18.2	7.0	316.4
Business Finance	47.5	5.8	53.3	9.2	1,538.2
Other	15.4	–	15.4	–	–
Continuing operations	**138.8**	**8.1**	**146.9**	**23.0**	**3,158.5**
Discontinued operations – Debt Management	–	–	–	–	–
	138.8	**8.1**	**146.9**	**23.0**	**3,158.5**

Unaudited 30 June 2022	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge/ (credit) on loans and advances to customers £million	Loans and advances to customers £million
Retail Finance	34.2	1.7	35.9	5.6	916.2
Vehicle Finance	21.6	0.7	22.3	12.4	332.6
Consumer Finance	55.8	2.4	58.2	18.0	1,248.8
Real Estate Finance	26.9	0.1	27.0	(0.2)	1,142.6
Commercial Finance	7.1	5.4	12.5	0.1	359.8
Business Finance	34.0	5.5	39.5	(0.1)	1,502.4
Other	0.8	0.2	1.0	–	–
Continuing operations	**90.6**	**8.1**	**98.7**	**17.9**	**2,751.2**
Discontinued operations – Debt Management	5.3	1.1	6.4	0.7	–
	95.9	**9.2**	**105.1**	**18.6**	**2,751.2**

Audited 31 December 2022	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge on loans and advances to customers £million	Loans and advances to customers £million
Retail Finance	74.4	3.6	78.0	14.8	1,054.5
Vehicle Finance	46.6	1.4	48.0	21.3	373.1
Consumer Finance	121.0	5.0	126.0	36.1	1,427.6
Real Estate Finance	57.4	0.3	57.7	1.3	1,115.5
Commercial Finance	17.5	11.8	29.3	0.8	376.4
Business Finance	74.9	12.1	87.0	2.1	1,491.9
Other	7.1	0.3	7.4	–	–
Continuing operations	**203.0**	**17.4**	**220.4**	**38.2**	**2,919.5**
Discontinued operations – Debt Management	5.3	4.1	9.4	0.8	–
	208.3	**21.5**	**229.8**	**39.0**	**2,919.5**

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

4. Fair value gains/(losses) on financial instruments

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Hedge ineffectiveness recognised in the income statement	0.5	(0.5)	(0.3)
Losses recognised on derivatives not in hedge relationships	(0.8)	–	–
Extinguishment gain on redemption of subordinated debt	1.2	–	–
	0.9	**(0.5)**	**(0.3)**

5. Income tax expense

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Current taxation			
Corporation tax charge – current year	3.2	4.6	8.4
Corporation tax charge – adjustments in respect of prior years	–	–	0.1
	3.2	4.6	8.5
Deferred taxation			
Deferred tax charge – current year	0.7	1.0	1.9
Deferred tax credit – adjustments in respect of prior years	–	–	(0.1)
	0.7	1.0	1.8
Income tax expense	**3.9**	**5.6**	**10.3**
Of which:			
Continuing	4.2	4.2	9.4
Discontinued (Note 6)	(0.3)	1.4	0.9
Total	**3.9**	**5.6**	**10.3**

The tax for all of the periods above has been calculated at the current statutory rate, which is 23.5% for the six months ended 30 June 2023, and 19% for the six months ended 30 June 2022 and year ended 31 December 2022.

The Corporation Tax rate increased from 19% to 25%, with effect from 1 April 2023, giving a rate of 23.5% for the year to 31 December 2023. At the same time, the banking surcharge reduced from 8% to 3% and the surcharge allowance available to a banking group increased from £25 million to £100 million. These changes were enacted prior to the start of 2023 and so opening and closing deferred asset values have been calculated from expected future tax relief based on these enacted rates.

6. Discontinued operations

Discontinued operations includes the Debt Management business, which sold its loan portfolio in 2022. Employees have been retained for a period of time, with the eventual aim to wind down the entity in line with regulatory requirements.

Income statement	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Interest income and similar income	–	5.3	5.3
Interest expense and similar charges	–	(0.8)	(0.8)
Net interest income	**–**	**4.5**	**4.5**
Fee and commission income	–	1.1	4.1
Net fee and commission income	**–**	**1.1**	**4.1**
Operating income	**–**	**5.6**	**8.6**
Net impairment charge on loans and advances to customers	–	(0.7)	(0.8)
Overall profit on disposal of loan portfolio	–	8.1	6.1
Operating expenses	(1.5)	(5.4)	(8.9)
(Loss)/profit before income tax from discontinued operations	**(1.5)**	**7.6**	**5.0**
Income tax credit/(charge)	0.3	(1.4)	(0.9)
(Loss)/profit for the period from discontinued operations	**(1.2)**	**6.2**	**4.1**
Basic earnings per ordinary share – discontinued operations	**(6.4)**	**33.2**	**22.0**
Diluted earnings per ordinary share – discontinued operations	**(6.3)**	**32.2**	**21.3**

	Audited 31 December 2022 £million
Consideration received	81.9
Carrying value of loan books disposed	(71.8)
Selling costs	(1.2)
Profit on disposal of loan book (including selling costs)	**8.9**
Other closure costs	(2.8)
Overall profit on disposal of loan portfolio(s)	**6.1**

Net cash flows	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Operating	(1.5)	(81.2)	(82.6)
Investing	–	80.7	81.9
Financing	–	–	(0.1)
Net cash outflow	**(1.5)**	**(0.5)**	**(0.8)**

7. Earnings per ordinary share

7.1 Basic

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

	Unaudited 30 June 2023	Unaudited 30 June 2022	Audited 31 December 2022
Profit attributable to equity holders of the parent (£million)	11.1	19.1	33.7
Weighted average number of ordinary shares (number)	18,699,341	18,658,851	18,672,650
Earnings per share (pence)	**59.4**	**102.4**	**180.5**

7.2 Diluted

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

	Unaudited 30 June 2023	Unaudited 30 June 2022	Audited 31 December 2022
Weighted average number of ordinary shares	18,699,341	18,658,851	18,672,650
Number of dilutive shares in issue at the period end	485,520	609,051	617,340
Fully diluted weighted average number of ordinary shares	**19,184,861**	**19,267,902**	**19,289,990**
Dilutive shares being based on:			
Number of options outstanding at the period end	1,506,219	1,205,610	1,206,639
Weighted average exercise price (pence)	246	297	304
Average share price during the period (pence)	685	1,205	1,040
Diluted earnings per share (pence)	**57.9**	**99.1**	**174.7**

8. Dividends

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
2021 final dividend – 41.1 pence per share (paid May 2022)	–	7.7	7.7
2022 interim dividend – 16.0 pence per share (paid September 2022)	–	–	3.0
2022 final dividend – 29.1 pence per share (paid May 2023)	5.4	–	–
	5.4	**7.7**	**10.7**

The Directors have approved an interim dividend of 16.0 pence per share (2022: 16.0 pence per share). This will be paid on 28 September 2023 with an associated record date of 1 September 2023.

9. Loans and advances to customers

	Unaudited 30 June 2023	Unaudited 30 June 2022	Audited 31 December 2022
Gross loans and advances	3,238.0	2,818.2	2,997.5
Less: allowances for impairment of loans and advances	(79.5)	(67.0)	(78.0)
	3,158.5	**2,751.2**	**2,919.5**

10. Allowances for impairment of loans and advances

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

	Not credit-impaired		Credit-impaired			
Unaudited 30 June 2023	**Stage 1: Subject to 12-month ECL £million**	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total provision £million**	**Gross loans and advances to customers £million**	**Provision cover %**
Consumer Finance:						
Retail Finance	13.8	11.3	6.8	31.9	1,211.8	2.6
Vehicle Finance:						
Voluntary termination provision	5.0	–	–	5.0		
Other impairment	6.7	12.6	17.9	37.2		
	11.7	12.6	17.9	42.2	482.6	8.7
Business Finance:						
Real Estate Finance	0.3	0.5	3.6	4.4	1,226.2	0.4
Commercial Finance	0.2	0.2	0.6	1.0	317.4	0.3
	26.0	**24.6**	**28.9**	**79.5**	**3,238.0**	**2.5**

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

Audited 31 December 2022	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision cover %
Consumer Finance:						
Retail Finance	12.7	9.8	5.7	28.2	1,082.7	2.6
Vehicle Finance:						
Voluntary termination provision	3.7	–	–	3.7		
Other impairment	7.3	16.4	17.0	40.7		
	11.0	16.4	17.0	44.4	417.5	10.6
Business Finance:						
Real Estate Finance	0.3	1.1	2.0	3.4	1,118.9	0.3
Commercial Finance	0.3	1.3	0.4	2.0	378.4	0.5
	24.3	**28.6**	**25.1**	**78.0**	**2,997.5**	**2.6**

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

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Expected credit losses: impairment charge	17.1	18.4	38.9
(Credit)/charge in respect of off balance sheet loan commitments	(0.4)	0.2	0.2
Loans written off/(recovered) directly to the income statement[1]	6.3	–	(0.1)
	23.0	**18.6**	**39.0**
Of which:			
Continuing	23.0	17.9	38.2
Discontinued (Note 6)	–	0.7	0.8
Total	**23.0**	**18.6**	**39.0**

1. The impairment charge for the period ending 30 June 2023 includes a £7.2 million charge relating to a single long-running problem debt case, of which £6.3 million was written off-directly to the income statement.

Total allowance for impairment above include expert credit judgements (post model adjustments) as follows:

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Specific (underlays)/overlays held against credit-impaired secured assets held within the Business Finance portfolio	(2.4)	(1.7)	0.7
Management judgement in respect of:			
Consumer Finance affordability	2.8	5.3	2.5
Vehicle Finance used car valuations	0.9	1.6	1.3
Adjustment of model over-extrapolation of observed defaults	–	(2.2)	–
Other	0.2	(1.0)	(1.6)
Expert credit judgements over the IFRS 9 model results	**1.5**	**2.0**	**2.9**

The specific (underlays)/overlays for Business Finance have been estimated on an individual basis by assessing the recoverability and condition of the secured asset, along with any other recoveries that may be made. For further details on Consumer Finance affordability and Vehicle Finance used car valuations, see Notes 10.2.1 and 10.1.4 respectively.

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

	Not credit-impaired		Credit-impaired	
Unaudited	**Stage 1: Subject to 12-month ECL £million**	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total £million**
At 1 January 2023	24.3	28.6	25.1	78.0
Increase due to change in credit risk				
– Transfer to stage 2	(4.8)	25.7	–	20.9
– Transfer to stage 3	–	(13.9)	21.8	7.9
– Transfer to stage 1	4.9	(16.8)	–	(11.9)
Passage of time	(6.6)	(0.2)	(0.3)	(7.1)
New loans originated	11.6	–	–	11.6
Matured and derecognised loans	(1.4)	(2.4)	(1.9)	(5.7)
Changes to credit risk parameters	(1.5)	3.6	(1.0)	1.1
Other adjustments	0.3	–	–	0.3
Charge to income statement	2.5	(4.0)	18.6	17.1
Allowance utilised in respect of write-offs	(0.8)	–	(14.8)	(15.6)
30 June 2023	**26.0**	**24.6**	**28.9**	**79.5**

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

Audited	Not credit-impaired Stage 1: Subject to 12-month ECL £million	 Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2022	18.5	20.0	29.0	67.5
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(8.8)	46.3	–	37.5
– Transfer to stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to stage 1	2.3	(4.6)	–	(2.3)
Passage of time	(6.3)	(0.7)	(2.5)	(9.5)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.9	(8.2)
Other adjustments	2.4	–	–	2.4
Charge to income statement	6.6	8.6	23.7	38.9
Allowance utilised in respect of write-offs	(0.8)	–	(27.6)	(28.4)
31 December 2022	**24.3**	**28.6**	**25.1**	**78.0**

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

Transfers between stages 1 to 2 or 1 to 3 relate to changes from 12-month ECL to lifetime ECLs, and vice versa.

Passage of time represents the impact of accounts maturing through their contractual life and the associated reduction in Probability of Defaults (‘PD’) and the unwind of the discount applied in calculating the ECL.

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

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

Stage 1 ‘Allowance utilised in respect of write-offs’ arise on Vehicle Finance accounts where borrowers have exercised their right to voluntarily terminate their agreements.

10.1 Key sources of estimation uncertainty

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

The potential impact of the current macroeconomic environment has been considered in determining reasonably possible changes in key sources of estimation uncertainty, which may occur in the next 12 months.

The determination of both the PD and Loss Given Default (‘LGD’) require estimation, which is discussed further below.

10.1.1 Incorporation of forward-looking data

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

The macroeconomic scenarios used were provided by external economic advisors. The scenarios and weightings applied are summarised below:

Unaudited 30 June 2023		UK Unemployment Rate – Annual Average				UK HPI – movement from H1 2023			
Scenario	Weightings	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %
Upside	20%	3.8	3.7	3.7	3.7	(2.7)	(3.8)	0.8	2.3
Base	50%	4.0	4.2	3.9	3.9	(6.0)	(9.0)	(6.7)	0.7
Downside	25%	4.9	6.3	6.9	6.3	(12.3)	(19.2)	(21.0)	(2.3)
Severe	5%	5.2	6.8	7.5	6.8	(17.1)	(26.9)	(32.0)	(4.8)

Unaudited 30 June 2022		UK Unemployment Rate – Annual Average				UK HPI – movement from H1 2022			
Scenario	Weightings	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %
Upside	20%	3.6	3.6	3.6	3.6	4.2	5.5	8.4	7.3
Base	50%	3.8	3.8	3.7	3.8	1.3	0.3	1.0	2.0
Downside	25%	6.0	6.2	6.3	6.1	(6.9)	(17.1)	(23.0)	(15.0)
Severe	5%	6.3	6.5	6.6	6.4	(11.0)	(25.7)	(34.8)	(23.4)

Audited 31 December 2022		UK Unemployment Rate – Annual Average				UK HPI – movement from December 2022			
Scenario	Weightings	2023 %	2023 %	2024 %	5 Yr Average %	2023 %	2023 %	2024 %	5 Yr Average %
Upside	20%	4.1	4.0	3.8	3.8	(5.2)	(6.3)	(2.0)	1.9
Base	50%	4.4	4.4	4.0	4.1	(8.4)	(11.4)	(9.2)	0.4
Downside	25%	5.4	6.5	7.1	6.5	(14.6)	(21.3)	(23.5)	(2.6)
Severe	5%	5.6	7.0	7.6	6.9	(19.2)	(28.8)	(34.3)	(5.2)

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

	Increase in downside case weighting by 10% and reduction in upside case			Increase in severe stress case weighting by 5% and reduction in base case		
	Unaudited June 2023 £million	Unaudited June 2022 £million	Audited December 2022 £million	**Unaudited June 2023 £million**	Unaudited June 2022 £million	Audited December 2022 £million
Vehicle Finance	0.2	1.1	0.6	0.1	0.8	0.4
Retail Finance	0.3	1.6	0.7	0.2	1.2	0.5

The sensitivity is immaterial for other lending products.

The Group recognised an impairment charge of £23.0 million (30 June 2022: £18.6 million, 31 December 2022: £39.0 million). Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the increase/(decrease) on ECL provisions would be as follows:

Unaudited 30 June 2023 Scenario	**Vehicle Finance £million**	**Retail Finance £million**	**Business Finance £million**	**Total Group £million**
Upside	(0.9)	(1.4)	(0.6)	(2.9)
Base	(0.4)	(0.7)	(0.3)	(1.4)
Downside	1.3	2.0	0.7	4.0
Severe	1.8	2.8	1.7	6.3

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

Audited 31 December 2022 Scenario	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(1.9)	(0.3)	(0.7)	(2.9)
Base	(1.5)	0.4	(0.4)	(1.5)
Downside	0.9	3.0	0.9	4.8
Severe	1.6	3.8	1.7	7.1

10.1.2 ECL modelled output: Estimation of PDs

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

A 15% change in the PD for Vehicle Finance would immediately impact the ECL allowance by £4.4 million (30 June 2022: 50% change impacted ECL allowance by £7.2 million, 31 December 2022: a 15% change impacted the ECL allowance by £3.1 million).

A 15% change in the PD for Retail Finance would immediately impact the ECL allowance by £5.8 million (30 June 2022: 10% change impacted ECL allowance by £1.3 million, 31 December 2022: a 15% change impacted the ECL allowance by £2.5 million).

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

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

10.1.3. ECL modelled output: Vehicle Finance recovery rates

With the exception of the Vehicle Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. The Vehicle Finance portfolio is particularly sensitive to changes in LGD due to the range of outcomes, that could crystallise, depending on whether the Group is able to recover the vehicle as security. For the Vehicle Finance portfolio a 20% (June 2022: 20%, December 2022: 20%) change in the LGD is considered reasonably possible due to delays in the vehicle collection process. A 20% reduction in the vehicle recovery rate assumption element of the LGD for Vehicle Finance would increase the ECL by £1.5 million (30 June 2022: £1.4 million, 31 December 2022 £1.9 million). There has been no change in the vehicle recovery rate assumption in the ECL model, in either the current or prior periods.

10.1.4 Vehicle Finance used car values

Since used car values first started to increase following the COVID-19 pandemic in March 2021, we have observed an increase in used car prices of 18% (30 June 2022: 26%, 31 December 2022: 17%). This increase in used car prices, if incorporated into the modelled LGD, would have reduced the ECL provision by £1.2 million (30 June 2022: £2.1 million, 31 December 2022: £2.0 million). However, the Directors believe that the used car prices will drop by 9% (30 June 2022: 14%, 31 December 2022: 9%) and have applied an overlay for lower recoveries, with an increased provision of £0.7 million (30 June 2022: £1.6 million, 31 December 2022: £1.0 million).

10.1.5 Climate risk impact

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

10.2. Critical judgments

10.2.1. ECJ: Consumer Finance customer affordability

An additional PD estimate was applied at June 2022 to reflect the heightened risk of lower customer affordability in the Consumer Finance businesses due to the increased cost of living. A 15% uplift was applied to the ECL on loans identified as most likely to be impacted by increases in cost of living, which impacted the ECL by £5.3 million.

At 31 December 2022, the methodology was changed to a new Exogenous Maturity Vintage model, which used inflation as the driver of defaults, with the difference between this model and our base models informing the expert credit judgement. The resulting expert credit judgement relating to Consumer Finance affordability was £2.8 million at 30 June 2023 (31 December 2022: £2.5 million). The Directors have deemed this a critical judgement, given the uncertainty of the current economic environment and the effect that this could have on customer affordability. The Group is satisfied that it is reasonably estimating the level of provisioning required to capture expected defaults, including the impacts of costs of living.

11. Assets and liabilities held for sale

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

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

12. Due to banks

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Amounts due under the Bank of England's liquidity support operations (Term Funding Scheme with additional incentives for SMEs)	390.0	390.0	390.0
Amounts due to other credit institutions	15.0	9.4	7.7
Accrued interest	4.3	0.9	2.8
	409.3	**400.3**	**400.5**

13. Deposits from customers

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Fixed term bonds	1,410.0	1,182.4	1,414.0
Notice accounts	324.3	696.8	500.7
ISAs	505.2	310.8	421.8
Access accounts	409.4	100.9	178.1
	2,648.9	**2,290.9**	**2,514.6**

14. Provisions for liabilities and charges

	ECL allowance on loan commitments £million	Other £million	Total £million
Balance at 1 January 2022	**0.9**	**0.4**	**1.3**
Charge to income statement	0.2	0.3	0.5
Utilised	–	(0.3)	(0.3)
Balance at 30 June 2022 (Unaudited)	**1.1**	**0.4**	**1.5**
Charge to income statement	–	1.6	1.6
Utilised	–	(0.6)	(0.6)
Balance at 31 December 2022 (Audited)	**1.1**	**1.4**	**2.5**
(Release)/charge to income statement	(0.4)	2.6	2.2
Utilised	–	(1.9)	(1.9)
Balance at 30 June 2023 (Unaudited)	**0.7**	**2.1**	**2.8**

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9, the Group holds an ECL allowance against loans it has committed to lend, but have not yet been drawn. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements, and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 30 June 2023, 30 June 2022, 31 December 2022, no provision was held for losses in excess of drawn amounts.

Other

Other includes:

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

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

15. Subordinated liabilities

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Notes at face value	90.0	50.0	50.0
Unamortised issue costs	(1.0)	(0.2)	(0.1)
Accrued interest	3.9	1.2	1.2
	92.9	**51.0**	**51.1**

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

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

16. Contingent liabilities and commitments

16.1 Contingent liabilities

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

In July 2023, the Group was contacted by the Financial Conduct Authority (‘FCA’) in a follow up to a review of forbearance outcomes associated with its Borrowers in Financial Difficulty project. The Group is responding to requests from the FCA to review its practices in this area. It is not possible to estimate or reliably predict the outcome of this review and its financial effect on the Group.

16.2 Credit commitments

Commitments to extend credit to customers were as follows:

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Consumer Finance			
Retail Finance	72.5	100.8	97.2
Vehicle Finance	2.0	1.6	1.2
Business Finance			
Real Estate Finance	54.2	77.3	53.1
Commercial Finance	165.3	152.6	146.5
	294.0	**332.3**	**298.0**

17. Share-based payments

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

	Outstanding at 1 January 2023 Number	Granted Number	Forfeited, lapsed and cancelled Number	Exercised Number	Outstanding at 30 June 2023 Number
Long term incentive plan	611,353	281,282	(36,723)	(3,249)	852,663
Deferred bonus plan	49,807	39,953	–	(1,227)	88,533
Sharesave plan	545,479	–	–	(17,179)	528,300
	1,206,639	**321,235**	(36,723)	**(21,655)**	**1,469,496**

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

	Outstanding at 1 January 2022 Number	Granted Number	Forfeited, lapsed and cancelled Number	Exercised Number	Outstanding at 31 December 2022 Number
Long term incentive plan	408,043	230,789	–	(27,479)	611,353
Deferred bonus plan	19,686	38,344	–	(8,223)	49,807
Sharesave plan	542,446	111,833	(100,873)	(7,927)	545,479
	970,175	**380,966**	**(100,873)**	**(43,629)**	**1,206,639**

18. Cash flow statement

18.1 Cash and cash equivalents

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

	Unaudited 30 June 2023 £million	Restated Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Cash and Bank of England reserve account	318.3	253.0	370.1
Loans and advances to banks	33.3	54.2	50.5
Debt securities	–	34.9	–
Less:			
Cash ratio deposit	(4.3)	(2.3)	(3.7)
	347.3	**339.8**	**416.9**

Cash and cash equivalents at June 2022 have been restated from £338.3 million to £339.8 million. See Note 1.3.2 for further details.

The Group has no access to the cash ratio deposit, so this amount does not meet the definition of cash and cash equivalents and accordingly it is excluded from cash and cash equivalents.

18.2 Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £nil (June 2022: £0.1 million, December 2022: £0.1 million) of lease liabilities interest expense.

19. Related party transactions

There were no changes to the nature of the related party transactions during the period to June 2023 that would materially affect the position or performance of the Group. The nature and relative quantum of related party transactions has not changed in the six months ended 30 June 2023 in comparison to the year ended 31 December 2022. Details of the transactions for the year ended December 2022 can be found in the 2022 Annual Report and Accounts.

20. Management of credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Details of the management of credit risk can be found in the 2022 Annual Report and Accounts.

Unaudited 30 June 2023	Stage 1 £million	Stage 2 <= 30 days past due £million	Stage 2 > 30 days past due £million	Stage 2 Total £million	Stage 3 Total £million	Total £million
Consumer Finance						
Retail Finance	1,111.5	89.0	4.0	93.0	7.3	1,211.8
Vehicle Finance	385.1	68.7	3.4	72.1	25.4	482.6
Business Finance						
Real Estate Finance	1,023.1	142.1	20.8	162.9	40.2	1,226.2
Commercial Finance	276.9	19.9	–	19.9	20.6	317.4
Total drawn exposure	**2,796.6**	**319.7**	**28.2**	**347.9**	**93.5**	**3,238.0**
Off balance sheet						
Loan commitments	260.9	32.8	–	32.8	0.3	294.0
Total gross exposure	**3,057.5**	**352.5**	**28.2**	**380.7**	**93.8**	**3,532.0**
Less:						
Impairment allowance	(26.0)	(19.5)	(5.1)	(24.6)	(28.9)	(79.5)
Provision for loan commitments	(0.7)	–	–	–	–	(0.7)
Total net exposure	**3,030.8**	**333.0**	**23.1**	**356.1**	**64.9**	**3,451.8**

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

Audited 31 December 2022	Stage 1 £million	<= 30 days past due £million	> 30 days past due £million	Stage 2 Total £million	Stage 3 Total £million	Total £million
Consumer Finance						
Retail Finance	987.4	85.4	3.8	89.2	6.1	1,082.7
Vehicle Finance	306.8	83.3	3.8	87.1	23.6	417.5
Business Finance						
Real Estate Finance	957.9	122.9	21.3	144.2	16.8	1,118.9
Commercial Finance	327.7	50.2	–	50.2	0.5	378.4
Total drawn exposure	**2,579.8**	**341.8**	**28.9**	**370.7**	**47.0**	**2,997.5**
Off balance sheet						
Loan commitments	298.0	–	–	–	–	298.0
Total gross exposure	**2,877.8**	**341.8**	**28.9**	**370.7**	**47.0**	**3,295.5**
Less:						
Impairment allowance	(24.3)	(23.9)	(4.7)	(28.6)	(25.1)	(78.0)
Provision for loan commitments	(1.1)	–	–	–	–	(1.1)
Total net exposure	**2,852.4**	**317.9**	**24.2**	**342.1**	**21.9**	**3,216.4**

20.1 Concentration risk

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

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

	Unaudited 30 June 2023 £million	Unaudited 30 June 2022 £million	Audited 31 December 2022 £million
Central England	100.4	95.1	101.9
Greater London	749.6	696.7	689.7
Northern England	66.3	61.5	68.7
South East England (excl. Greater London)	194.9	225.7	189.5
South West England	41.0	22.2	20.4
Scotland, Wales and Northern Ireland	74.0	43.6	48.7
Gross loans and advances to customers	**1,226.2**	**1,144.8**	**1,118.9**
Allowance for impairment	(4.4)	(2.2)	(3.4)
Total	**1,221.8**	**1,142.6**	**1,115.5**
Loan-to-value	**56%**	**57%**	**58%**

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

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

* Based on gross development value.

21. Capital risk

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

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

	Unaudited 30 June 2023 £million	Restated[1] Unaudited 30 June 2022 £million	Restated[1] Unaudited 31 December 2022 £million
Tier 1			
Share capital	7.5	7.5	7.5
Share premium	82.3	82.2	82.2
Retained earnings	244.6	225.2	237.8
Own shares	(0.3)	–	(0.3)
IFRS 9 transition adjustment (See below for further details)	2.4	8.5	11.7
Goodwill	(1.0)	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(5.5)	(5.9)	(5.6)
Prudential adjustments	(0.2)	–	–
Common Equity Tier 1 ('CET 1') capital before foreseeable dividend	**329.8**	**316.5**	**332.3**
Foreseeable dividend	(3.0)	(3.0)	(5.4)
CET 1 capital	**326.8**	**313.5**	**326.9**
Tier 2			
Subordinated liabilities	89.0	49.8	49.9
Less ineligible portion	(32.3)	–	–
Total Tier 2 capital	**56.7**	**49.8**	**49.9**
Total own funds/Total capital	**383.5**	**363.3**	**376.8**
Reconciliation to total equity:			
IFRS 9 transition adjustment	(2.4)	(8.5)	(11.7)
Prudential adjustments	0.2	–	–
Eligible subordinated liabilities	(56.7)	(49.8)	(49.9)
Cash flow hedge reserve	(0.9)	(0.8)	(0.8)
Goodwill and other intangible assets net of attributable deferred tax	6.5	6.9	6.6
Foreseeable dividend	3.0	3.0	5.4
Total equity	**333.2**	**314.1**	**326.4**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3.1 for further details.

The Group has elected to adopt the IFRS 9 transitional rules. In 2022, this allowed for 25% of the initial IFRS 9 transitional adjustment, net of attributable deferred tax, and for increases in provisions between 1 January 2018 to 31 December 2019, except where these provisions relate to defaulted accounts, to be added back to eligible capital. This part of the relief has now ended. The relief for increases in provisions since 1 January 2020. however continues to apply at 50% in 2023 (2022: 75%). This relief will taper off by 31 December 2024.

The Group's regulatory capital is divided into:

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

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

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

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

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

	Unaudited Carrying amount 30 June 2023 £million	**Unaudited Fair value 30 June 2023 £million**	Unaudited Carrying amount 30 June 2022 £million	Unaudited Fair value 30 June 2022 £million	Audited Carrying amount 31 December 2022 £million	Audited Fair value 31 December 2022 £million
Total loans and advances to customers	**3,158.5**	**3,077.4**	2,751.2	2,771.7	2,919.5	2,895.6
Deposits from customers	**2,648.9**	**2,631.7**	2,290.9	2,297.3	2,514.6	2,494.0

Investment properties and derivatives are carried at fair value. All other assets and liabilities are carried at amortised cost.

Appendix to the Interim Report (unaudited)

Key performance indicators and other alternative performance measures

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

(i) Net interest margin ratio

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over seven or 13 months. The resulting ratios for June 2023 and June 2022 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2023 £million	June 2022 £million	December 2022 £million
Interest income and similar income	138.8	90.6	203.0
Interest expense and similar charges	(57.8)	(17.5)	(50.4)
Net interest income	81.0	73.1	152.6
Opening loan book	2,919.5	2,451.0	2,451.0
Closing loan book	3,158.5	2,751.2	2,919.5
Average loan book	3,005.6	2,584.2	2,699.3
Net interest margin	**5.4%**	**5.7%**	**5.7%**

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

(ii) Yield

Yield is calculated as interest income and similar 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. The resulting ratios for June 2023 and June 2022 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2023 £million	June 2022 £million	December 2022 £million
Interest income and similar income	138.8	90.6	203.0
Average loan book	3,005.6	2,584.2	2,699.3
Yield	**9.3%**	**7.1%**	**7.5%**

The yield measures the gross return on the loan book.

(iii) Cost of funds

Cost of funds is calculated as the interest expense for the financial period expressed as a percentage of average loan book. The resulting ratios for June 2023 and June 2022 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2023 £million	June 2022 £million	December 2022 £million
Interest expense and similar charges	57.8	17.5	50.4
Average loan book	3,005.6	2,584.2	2,699.3
Cost of funds	**3.9%**	**1.4%**	**1.9%**

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

(iv) Cost to income ratio

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

	June 2023 £million	June 2022 £million	December 2022 £million
Operating expenses	50.7	46.2	93.2
Operating income	89.1	81.0	169.6
Total cost to income ratio	**56.9%**	**57.0%**	**55.0%**

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

(v) Cost of risk

Cost of risk is calculated as the net impairment charge on loans and advances to customers and gains and losses on modification of financial assets for the financial period as a percentage of the average loan book. The resulting ratios for June 2023 and June 2022 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2023 £million	June 2022 £million	December 2022 £million
Net impairment charge on loans and advances to customers	23.0	17.9	38.2
Gains on modification of financial assets	(0.2)	(0.7)	(1.1)
Total	22.8	17.2	37.1
Average loan book	3,005.6	2,584.2	2,699.3
Cost of risk	**1.5%**	**1.3%**	**1.4%**

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

(vi) Total annualised return on average equity

Total annualised return on average equity is calculated as the total profit after tax for the financial period as a percentage of average equity. Average equity is calculated as the average of the monthly equity balances. The resulting ratios for June 2023 and June 2022 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2023 £million	Restated[1] June 2022 £million	Restated[1] December 2022 £million
Total profit after tax	11.1	19.1	33.7
Opening equity	326.4	302.2	302.2
Closing equity	333.2	314.1	326.4
Average equity	331.4	307.9	313.4
Total annualised return on average equity	**6.8%**	**12.5%**	**10.8%**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3.1 for further details.

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

(vii) Loans and advances to customers compound annual growth rate

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

	June 2023 £million	June 2022 £million	December 2022 £million
Loans and advances to customers at period end	3,158.5	2,751.2	2,919.5
Loans and advances to customers at December 2020	2,184.9	2,184.9	2,184.9
Annual growth rate (since 31 December 2020)	**15.9%**	**16.7%**	**15.6%**

(viii) Funding ratio

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

	June 2023 £million	Restated[1] June 2022 £million	Restated[1] December 2022 £million
Deposits from customers	2,648.9	2,290.9	2,514.6
Borrowings under the Bank of England's liquidity support operations (Term Funding Scheme with additional incentives for SMEs (including accrued interest))	394.3	390.9	392.8
Tier 2 capital (including accrued interest)	92.9	51.0	51.1
Equity	333.2	314.1	326.4
	3,469.3	3,046.9	3,284.9
Loans and advances to customers	3,158.5	2,751.2	2,919.5
Funding ratio	**109.8%**	**110.7%**	**112.5%**
Loan to deposit ratio	**119.2%**	**120.1%**	**116.1%**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3.1 for further details.

The funding ratio measures the Group's liquidity.

(ix) Profit before tax pre impairments

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

	June 2023 £million	June 2022 £million	December 2022 £million
Profit before income tax	16.5	17.1	39.0
Excluding:			
Net impairment charge on loans and advances to customers	23.0	17.9	38.2
Gains on modification of financial assets	(0.2)	(0.7)	(1.1)
Profit before tax pre impairments	**39.3**	**34.3**	**76.1**

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

(x) Tangible book value per share

Tangible book value per share is calculated as the total equity less intangible assets divided by the number of shares in issue at the end of the period:

	June 2023 £million	June 2022 £million	December 2022 £million
Total equity	333.2	314.1	326.4
Less: Intangible assets	(6.5)	(6.9)	(6.6)
Tangible book value	326.7	307.2	319.8
Number of shares in issue at the end of the period	18,713,089	18,675,260	18,691,434
Tangible book value per share	**£17.46**	**£16.45**	**£17.11**

Tangible book value is a measure of the Group's value per share.

Directors' responsibility statement

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

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

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

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

8 August 2023

Independent review report to Secure Trust Bank PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the Interim Financial Statements for the six months ended 30 June 2023 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related Notes 1 to 22.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Statements for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

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

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

Conclusion relating to going concern

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

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

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

In preparing the Interim Financial Statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

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

Use of our report

This report is made solely to the Company in accordance with ISRE (UK) 2410. 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

8 August 2023

Board of Directors

The Rt Hon Lord Forsyth of Drumlean PC, Kt

Non-Executive Chairman

Ann Berresford ACA

Independent Non-Executive Director (Senior Independent Director)

Rachel Lawrence ACMA

Chief Financial Officer

David McCreadie FCBI

Chief Executive Officer

Paul Myers ACIB

Independent Non-Executive Director

Victoria Stewart

Independent Non-Executive Director

Finlay Williamson CA FCIBS

Independent Non-Executive Director

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