Secure Trust Bank Group

Annual Report & Accounts 2022

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 strategy

- Grow
- Sustain
- Care

Our strengths

- Specialist
- Expert
- Diverse
- Ambitious

Our values

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

Best Workplaces™ Large Organisations — Great Place To Work. UK 2022

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

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

www.securetrustbank.com

In this report

Financial highlights

Continuing profit before tax

£39.0m

2021: £55.9 million

Loans and advances to customers

£2,919.5m

2021: £2,451.0 million[1]

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Pages 2 to 59 form the Strategic Report. It includes our business model, market review, strategy, financial review and a business review for each of the lines of business. Pages 105 to 108 form the Directors' report. All key performance indicators are presented on a continuing basis, unless otherwise stated.

1. Excludes discontinued loan portfolios. See Appendix to the Annual Report for further information.

Key performance indicators

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

Certain key performance indicators represent alternative performance measures that are not defined or specified under International Financial Reporting Standards ('IFRS'). Definitions of the financial key performance indicators, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on pages 182 to 184.

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

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

Further explanation of the financial key performance indicators is discussed in the narrative of the Financial review on pages 12 to 17, 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 (pages 50 to 59) sections.

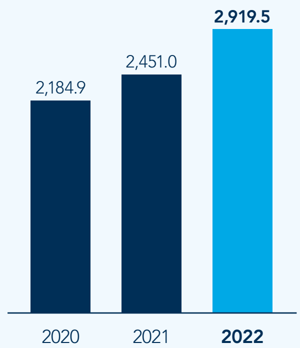
The Directors' Remuneration Report, starting on page 80, sets out how executive pay is linked to the assessment of key financial and non-financial performance indicators.

Grow

Loans and advances to customers (£m)

Why we measure this

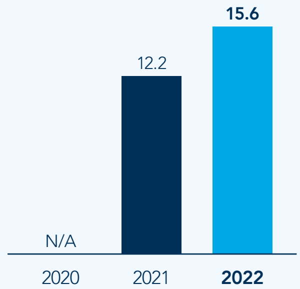
Shows the growth in the Group's lending balances, which generate income



Compound annual growth rate (%)

Why we measure this

Shows the rate of growth in the Group's lending balances

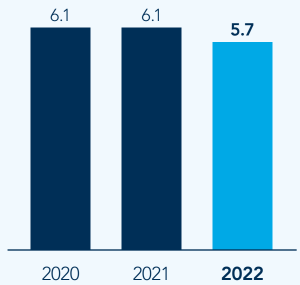


(From 31 December 2020.)

Net interest margin (%)

Why we measure this

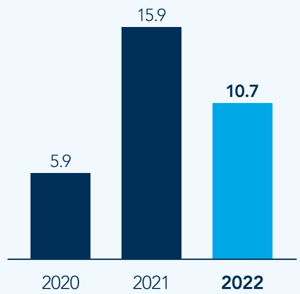
Shows the interest margin earned on the Group's lending balances, net of funding costs



Total return on average equity (%)

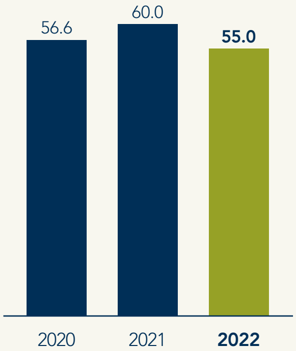
Why we measure this

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



Sustain

Cost to income ratio (%)

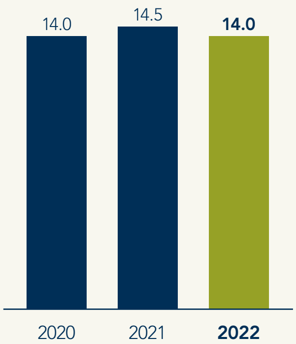


Why we measure this

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

(The reduction in the cost to income ratio reflects an improving trend.)

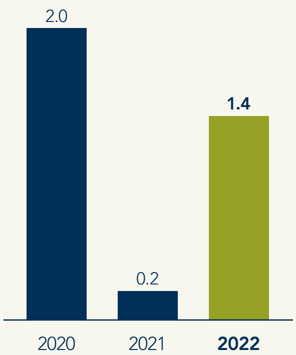
Common Equity Tier 1 ('CET 1') ratio (%)



Why we measure this

The CET 1 ratio demonstrates the Group's capital strength

Cost of risk (%)



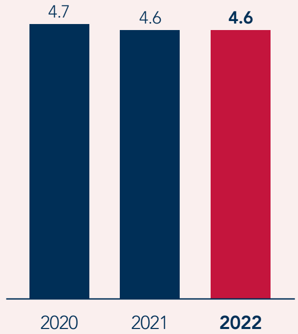
Why we measure this

Measures how effectively the Group manages the credit risk of its lending portfolios

(The increase in the cost of risk reflects a worsening trend.)

Care

Customer Feefo ratings (Stars)

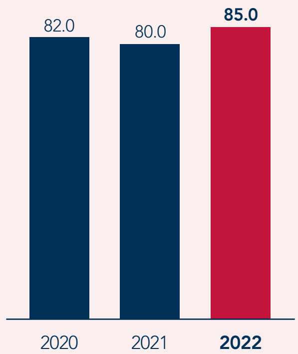


Why we measure this

Indicator of customer satisfaction with the Group's products and services

(mark out of 5 based onstar rating from 990 reviews,2021: 937, 2020: 1,466)

Employee survey trust index score (%)

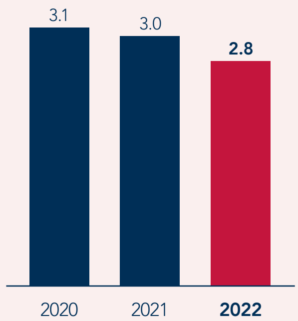


Why we measure this

Indicator of employee engagement and satisfaction

(based on all employee survey)

Environmental intensity indicator (%)



Why we measure this

Indicator of the Group's impact on the environment

(Total Scope 1, 2 and certain Scope 3 emissions per £m Group operating income. See page 56 for further details)

Chairman's statement

Excellent progress against key strategic objectives

"Facing the future with confidence."

Lord Forsyth
Chairman

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

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

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

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

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

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

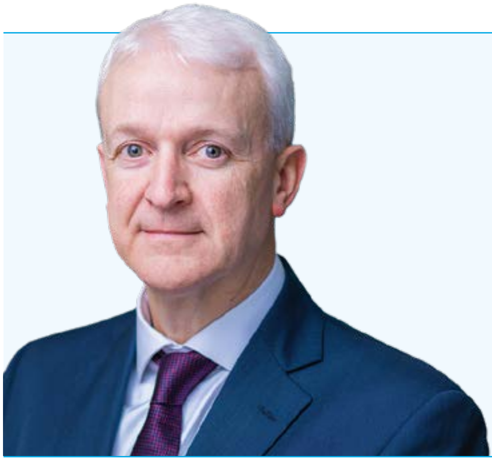
Thanks are due to the Board too. An external effectiveness evaluation concluded they have the necessary skills and are carrying out their duties well. Lucy Neville-Rolfe stepped down in September to join the Government and I am most grateful for her contribution over the last four years.

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

Lord Forsyth
Chairman
29 March 2023

Chief Executive's statement

Strong lending growth in target markets



> "Our performance has demonstrated the team's ability to help more customers, become more efficient and scale our specialist lending businesses."
>
> **David McCreadie**
> Chief Executive Officer

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

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

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

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

Medium-term targets

Total return on average equity	14-16%
Cost income ratio	<50%
Common equity tier 1 ratio	>12%
Net interest margin	>5.5%
Compound annual growth rate of the lending book	15%+

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

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

Chief Executive's statement
continued

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

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

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

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

Vision and purpose

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

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

Helping our customers

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

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

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

Operational efficiency

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

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

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

Our people

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

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

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

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

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

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

Outlook

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

David McCreadie
Chief Executive Officer
29 March 2023

Business model

How Secure Trust Bank does what it does

Consumer Finance

Retail Finance

V12 Retail Finance
AppToPay

Vehicle Finance

V12 Vehicle Finance Powered by Secure Trust Bank
moneyway

Business Finance

Real Estate Finance

Secure Trust Bank

Commercial Finance

Secure Trust Bank

Savings

Savings

Secure Trust Bank

Creating value for stakeholders

How we help more consumers and businesses fulfil their ambitions

How do we do it?

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

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

- We operate a market leading online service to retailers, providing unsecured, lending products to the UK customers of its retail partners to swiftly facilitate the purchase of a wide range of consumer products.
- Our online processing system allows customers to digitally sign their credit agreements, thereby speeding up the pay-out process, and removing the need to handle sensitive personal documents.

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.

- We lend in the form of hire purchase or personal contract purchase to prime and near prime customers.
- Lending is provided via UK motor dealers, brokers and internet introducers with a technology platform that allows an automated end-to-end customer journey.

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

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

- We lend on portfolios of residential property where the rental income will repay the underlying borrowing over a fixed term period, as well as the development of new build property.
- Our products are sourced and supported both directly and via introducers and brokers.

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

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

- We lend predominantly against receivables, typically releasing 90% of qualifying invoices under invoice discounting and factoring services.
- We also provided additional lending to existing customers through Government guaranteed schemes.
- Our products are sourced and supported both directly and via introducers.

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

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

- We offer a range of Savings accounts that are purposely simple in design, with a choice of products from same day withdrawal to 180-day notice, and six-month to seven-year fixed terms across both bonds and ISAs.
- Our products are supported through a highly commended online banking service.

Strategic priorities

Our vision

To be the most trusted specialist lender in the UK

Purpose

To help more consumers and businesses fulfil their ambitions

Strategy

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

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

Care
- 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

Strengths

Specialist
Focus on attractive returns in our core markets

Expert
Strong market expertise, relationships and digital capabilities

Diverse
Diverse portfolios in consumer and business lending

Ambitious
Clear opportunities for growth and strategy for long-term value creation

Values

Customer Focused
Because they are at the heart of everything we do

Risk Aware
It keeps our customers and us safe and secure

Future Orientated
Embracing change and implementing good ideas give us a competitive advantage

Teamwork
We achieve more when we work well together

Ownership
Each of us need to take personal responsibility

Performance Driven
We will only be the most trusted specialist lender in the UK by each of us taking personal accountability for our performance

How will it be delivered	Progress we are making	Targets and future priorities
Grow • Generate growth and attractive returns in specialist segments • Exploit digital capabilities to build scale and drive cost efficiency	• Consumer and Business Finance achieved a total return on average equity of 10.7%, with a 19.1% annual growth in the loan book during 2022, and compound annual growth[1] of 15.6%, reflecting growth across all our divisions. • Traction gained with new products in Vehicle Finance through the new prime Hire Purchase and Personal Contract Purchase products which are targeted at lower credit risk customers. Prime lending now makes up 24.2% (2021: 5.3%) of the Vehicle Finance loan book. • Delivered first phases of our cost and operational efficiency programme which comprised sourcing and supplier management, technology optimisation, organisational design and people, and reducing the Group's property footprint, resulting in a cost income ratio of 55.0% (2021: 60.0%). • Non-core loan book of Debt Managers (Services) Limited was sold during the year; and we completed the acquisition of AppToPay Ltd, which will provide the technology for Retail Finance to enter the digital Buy Now Pay Later sector. 1. Compound annual growth measured from 31 December 2020.	• Maintain growth in the lending balance sheet, targeting in the medium-term 15%+ compound annual growth in appropriate market conditions, whilst maintaining return on average equity of 14%-16% through scaling our specialist businesses. • Widen our distribution and addressable markets, both through new products in Consumer Finance. • Continue the cost and operational efficiency journey to achieve a <50% cost income ratio. • Build-out our existing digital capabilities to win share and drive scale, including transitioning legacy products to new scalable platforms. • Exploit merger and acquisition opportunities that complement our existing businesses and leverage costs, systems and market expertise.
Sustain • Create sustainable value through market expertise and deep customer knowledge • Utilise strong credit discipline, capital allocation and risk management capabilities	• Achieved a net interest margin of 5.7% (2021:6.1%), whilst operating in a challenging rising rate environment. • Capital was deployed to support growth in loans and advances to customers, resulting in a common equity tier 1 ('CET 1') ratio of 14.0% (2021: 14.5%). • Manage credit scorecard cut-offs and affordability thresholds to improve quality of credit in a challenging market environment. • Ongoing investment in regulatory compliance, finance automation and financial crime prevention.	• Continue to build on experienced specialist teams, deep expertise and knowledge to deliver sustainable value growth, ensuring a proactive approach to product design and pricing in a rising interest rate environment to maintain a net interest margin in excess of 5.5%. • Manage the mix and risk profile of the business to maintain the CET 1 ratio above 12%. • Drive sustainable scale and growth whilst maintaining credit discipline, risk management and optimising our capital allocation. • Provide products relevant to the external market and customers.
Care • Help customers with simple, clear and compelling products • Deliver consistently excellent customer care and swift outcomes	• Continued investment in digital platforms, allowing dealers and retailers to integrate seamlessly, as well as continued growth of online engagement and self-service, with enhancements across all our businesses. • Strong customer satisfaction and advocacy across all areas of the Group as evidenced by independent customer review ratings, and recognition from third parties such as Feefo, Moneyfacts and Customer Service Excellence. • Launched a Board approved environmental, social and governance ('ESG') strategy (for further details see pages 37 to 39). • Appointed a Board member as our Consumer Duty Champion, and approved our plan for compliance with the regulation.	• Increase customer self-service through digital capabilities, including a Savings proposition delivering native mobile apps, biometric authentication for enhanced security and enabling confirmation of payee to improve customer safety and satisfaction. • Develop new products, including Buy Now Pay Later and Near Prime PCP, as well as seizing opportunities presented by emerging green markets, such as the Greener Homes Scheme, and consumer and retailer demand for finance on environmentally friendly products and services. • Embedding the ESG strategy, which includes the further progression of an Equality, Diversity and Inclusion strategy. • Implement our Consumer Duty plan.

Financial review

Income statement

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

Selected key performance indicators and performance metrics

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

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under International Financial Reporting Standards ('IFRS'). Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on pages 182 to 184. In the narrative of this review, key performance indicators are identified by being in bold font.

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

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

Sustained growth in revenue and lending

> Successfully navigated the uncertain macroeconomic environment and delivered healthy loan book growth."
>
> **Rachel Lawrence**
> Chief Financial Officer

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

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

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

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

Operating income

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

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

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

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

Financial review
continued

Impairment charges

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

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

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

Operating expenses

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

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

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

Taxation

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

Discontinued businesses

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

Distributions to shareholders

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

Summarised balance sheet

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

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

New business

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

Customer lending and deposits

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

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

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 15, 16, 17 and 39 to the Financial Statements.

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

New business volumes

Real Estate Finance	£384.5m
Commercial Finance	£157.3m
Retail Finance	£1,124.3m
Vehicle Finance	£401.7m

Loans and advances to customers

Real Estate Finance	£1,115.5m
Commercial Finance	£376.4m
Retail Finance	£1,054.5m
Vehicle Finance	£373.1m

Financial review
continued

Investments and wholesale funding

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

Tier 2 subordinated liabilities

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

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

Capital

Management of capital

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

Key factors influencing the management of capital include:

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

Capital resources

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

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

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

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

The Group's regulatory capital is divided into:

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

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

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

Capital requirements

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

	2022 £million	2021 £million
Total Capital Requirement	**210.2**	196.7
Capital conservation buffer	**58.4**	51.9
Countercyclical buffer	**23.4**	–
Total	**292.0**	248.6

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

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

Liquidity

Liquidity resources

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

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

Liquid assets	2022 £million	2021 £million
Aaa – Aa3	**370.1**	259.0
A1 – A2	**41.6**	42.6
Unrated	**5.2**	5.1
	416.9	306.7

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

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

Management of liquidity

The Group uses various measures to manage liquidity. These include:

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

The Group met the LCR minimum threshold throughout the year and the Group's average LCR was 270.1% (based on a rolling 12 month-end average).

Business review

Consumer Finance

Retail Finance

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

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

"Arranged very quickly and kept up to date with the whole process from start to finish. I would use again and recommend."

Customer feedback
Retail Finance customer

V12 Retail Finance   AppToPay

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

What we do

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

2022 performance

- Strong lending growth during 2022 of 37.9% (2021: 16.2%), resulting from an increase in our market share of the retail store and online credit market[1].
- Extension of our footprint with key retail partners as well as the introduction of new retailer relationships as we leveraged our strong track record of systems integration.
- Lending and revenue growth has come mainly from interest free lending into the furniture and jewellery sectors, which attracts a prime customer at a lower credit risk but a lower net interest margin. At the end of the year, 85.1% (2021: 80.2%) of the lending book related to interest free lending.
- We have consciously focused on primer sectors in response to the deteriorating economic environment. As a result, impairment charges have benefited from the improved credit quality of the book, with cost of risk reducing to nearly half of the pre-pandemic levels.
- We anticipate further lending growth from our existing retail partners and our operational plans are focused on digitalising all key processes to improve the customer and retail partners experience.
- The acquisition of AppToPay will provide an additional regulated product in the new digital Buy Now Pay Later markets using mobile application-based technology.

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

Vehicle Finance

We help to drive more business in UK car dealerships:

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

"Everything was carried out so quick and smooth. Excellent customer services. I've gone from owning a fairly old car to getting a really nice updated one in a matter of hours."

Customer feedback
Vehicle Finance customer

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

What we do

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

2022 performance

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

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

Business review
continued

Business Finance

Real Estate Finance

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

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

"The refinancing of Russell View is key to Tatiana Limited's growth plans and will ensure we can continue to develop similar high-quality residential assets around the country. The support we had from Secure Trust Bank was exceptional from start to finish and enabled us to finalise the deal without delay."

Raj Shah
Agent for Tatiana Limited

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

What we do

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

2022 performance

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

Commercial Finance

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

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

"We are really pleased Secure Trust Bank was able to provide the facility to support our growth. The team has taken the time to understand the business and stayed close to us throughout the process. Its support has been invaluable, and we look forward to working together in the future."

Caroline Farquhar
Financial Director at WHP Engineering

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

What we do

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

2022 performance

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

Business review
continued

Savings

Savings

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

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

"Opening my new account was extremely straightforward and hassle free! Also great interest rates."

Customer feedback
Trust Pilot, Savings customer

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

What we do

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

2022 performance

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

Market review

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

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

Economic review

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

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

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

The UK Government has provided over £100 billion[2] in support measures throughout the year including the May 2022 cost-of-living package, the September energy package which provided energy cost support for households and businesses, tax cuts announced in September that were largely reversed in October, and in the November Autumn statement further near-term support through cost-of-living payments for those in receipt of benefits. It is estimated that Government intervention on energy costs reduced the peak of inflation by 3.5%[2] but will weigh on growth as Government borrowing increased.

Outlook

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

Government and regulatory

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

Prudential regulation

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

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

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

1. Source: Office for National Statistics, data as at 31 December 2022 unless otherwise stated.
2. Source: Office of Budget Responsibility: Economic and Fiscal Outlook November 2022.

Market review
continued

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

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

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

Conduct regulation

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

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

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

Government and monetary policy

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

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

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

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

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

Principal risks and uncertainties

Risk management

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

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

Risk appetite

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

Risk culture

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

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

Risk governance

The Group's approach to managing risk is defined within its Enterprise-Wide Risk Management Framework. This provides a clear risk taxonomy for the Group and provides an overarching framework for risk management supported by individual risk discipline frameworks and policies, which set the standards on risk identification and assessment, mitigation, monitoring and reporting. The Group's risk management frameworks, policies and procedures are regularly reviewed and updated to reflect the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's operations. The Group's risk management frameworks support decision-making across the Group and are designed to ensure that risks are appropriately managed and reported via risk-specific committees.

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

An Executive Risk Committee, chaired by the Chief Risk Officer, reviews key risk management information from across the risk disciplines, with material issues escalated to the Executive Committee and/or the Risk Committee of the Board, as required.

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

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

Principal risks and uncertainties
continued

Board Committees

- See Corporate Governance section on pages 60 to 119

Group Executive Committee

Chair: Chief Executive Officer

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

Executive Risk Committee

Chair: Chief Risk Officer

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

Assets and Liabilities Committee ('ALCO')

Chair: Chief Financial Officer

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

Credit Committees

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

Model Governance Committee

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

Other Committees

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

Principal risks

Executive management performs ongoing monitoring and assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

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

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

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

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

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

Credit risk

Description

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

Mitigation

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

Change during the year

Heightened

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

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

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

Principal risks and uncertainties
continued

Liquidity and Funding risk

Description

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

Mitigation

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

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

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

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

In line with the Prudential Regulation Authority's ('PRA') self-sufficiency rule, the Group always seeks to maintain liquid resources which are adequate, both as to amount and quality, and managed to ensure that there is no significant risk that its liabilities cannot be met as they fall due under stressed conditions. The Group defines liquidity adequacy as the:

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

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

Contingency funding plans

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

Change during the year

Stable

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

Capital risk

Description

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

The Group adopts a conservative approach to managing its capital. It annually assesses the adequacy of the amount and quality of capital held under stress as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP').

Mitigation

Capital management is defined as the operational and governance processes by which capital requirements are identified and capital resources maintained and allocated, such that regulatory requirements are met while maximising returns and supporting sustainable growth.

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

The Group will take opportunities to increase overall levels of capital and to optimise its capital stack as and when appropriate. In addition to the ICAAP, the Group performs regular budgeting and reforecasting exercises which consider a five-year time horizon. These forecasts are used to plan for future lending growth at a rate that both increases year-on-year profits and maintains a healthy capital surplus, taking into consideration the impact of known and anticipated future regulatory changes including the estimated impact of the re-introduction of the countercyclical capital buffer requirement. The PRA proposed increase to this buffer is explained on page 24 has been reflected in capital planning.

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

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

Change during the year

Stable

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

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

Principal risks and uncertainties
continued

Market risk

Description

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

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

Mitigation

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

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

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

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

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

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

Change during the year

Stable

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

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

Operational risk

Description

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

The scope of Operational risk is broad and includes business process, business continuity, third party risk, Change, Human Resources, Information Security and IT risk, including Cyber risk.

Mitigation

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

- a risk and control self-assessment process to identify, assess and mitigate risks across all business units through improvements to the control environment;
- the governance arrangements for managing and reporting these risks;
- risk appetite statements and associated thresholds and metrics; and
- an incident management process that defines how incidents should be managed and associated remediation, reporting and root-cause analysis.

The framework is designed to ensure appropriate governance is in place to provide adequate and effective oversight of the Group's operational risks. The governance framework includes the Group Operational Risk, Executive Risk and Board Risk Committees.

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

In addition to the delivery of framework requirements, the Group has focused on these thematic areas of Operational Risk in 2022:

- Supplier management –The Group recognises that it is important to manage suppliers effectively and has embedded a suite of standard controls for all its material suppliers to reduce the risk of operational impacts. The Group has implemented the regulatory requirements for Third-Party Risk Management.
- Operational and IT resilience – The Operational Risk Framework supports the ongoing resilience of the Group's operational and IT services, including business continuity management, disaster recovery, incident management, process management, and the cyber strategy. The Group has implemented the regulatory requirements for operational resilience.
- Information security and cyber risk – The Group has paid considerable attention to ensuring the effective management of risks arising from a failure or breach of its information technology systems that could result in customer exposure, business disruption, financial losses, or reputational damage.
- Hybrid working – The Group now permanently operates in a hybrid environment. To ensure alignment with the Financial Conduct authority's ('FCA') hybrid/ remote working expectations (published in October 2021), detailed risk and control assessments were performed to check control functions remained effective.

Change during the year

Stable

The Group uses the 'The Standardised Approach' for assessing its operational risk capital, in recognition of the enhancements made to its framework and embedding this across the Group. The Group continues to invest in resource, expertise, and systems to support the Operational Risk Framework. In 2022 the Group has continued to enhance these standards and has introduced several improvements to the control frameworks in place across its operational risks. Overall, the assessment is that the level of risk has remained stable.

Principal risks and uncertainties
continued

Model risk

Description

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

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

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

Mitigation

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

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

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

Change during the year

Heightened

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

Compliance and Conduct risk

Description

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

Mitigation

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

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

The Group's horizon scanning activities track industry and regulatory developments including the PRA's work on a strong and simple prudential framework for non-systemic banks and building societies, the implementation of the Basel 3.1 standard, the Government's national data strategy and the PRA and FCA's transformation agendas related to data.

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

Change during the year

Stable

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

Financial Crime risk

Description

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

Mitigation

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

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

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

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

Change during the year

Stable

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

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

Principal risks and uncertainties
continued

Climate Change risk

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

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

Change during the year

Stable

The Group's direct exposure to the physical impacts of climate change is relatively limited, given its footprint and areas of operation. However, it has established robust controls to manage the associated risks and will continue to develop our business plans in the future as the risks evolve. Disclosures are made in this year's Annual Report and Accounts in line with the guidance from the 'Task Force on Climate-related financial disclosures'. Specific detail on each of the key risks identified and mitigation are covered within the 'Strategy' section of our Climate-related financial disclosures on page 51.

Strategic and emerging risks

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

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

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

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

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

Viability and going concern

Going concern

In assessing the Group as a going concern, the Directors considered the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the Strategic Report. The Group uses various short and medium-term forecasts to monitor future capital and liquidity requirements, and these include stress testing business planning assumptions to identify the headroom on regulatory compliance measures. The details of the forecasts and stress tests are explained in the Business viability section below.

Accordingly, the Directors conclude that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the Financial Statements and therefore it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Business viability

In accordance with provision 31 of the UK Corporate Governance Code, the Directors confirm that there is a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due, for the period up to 31 December 2027. As the Group's financial planning horizon is five years, the Group considers a five-year period for its viability assessment.

The Directors are confident of the Group's viability over the longer-term after considering all the principal risks affecting the Group, including these factors:

- The Group has delivered strong profit growth and capital management in 2022 and the 2023 annual budget process indicates long-term growth potential.
- The Group successfully navigated through the real-life business and financial stresses resulting from the COVID-19 pandemic. The legacy of the pandemic is that the Group has adopted new working practices, proved it can take necessary action on credit policy to manage risk and control business volumes, and demonstrated its operational resilience.
- Our deposit base is made up of retail customers and 95% of total deposits are fully covered by the Financial Services Compensation Scheme ('FSCS').
- In H2 2022, in response to the economic downturn and uncertainty, multiple changes were made to scorecard cut-offs and affordability checks in the Consumer Finance business to manage the credit quality of customer applications accepted. Similarly the Group has not targeted higher risk lending in the Business Finance division and has focused on working with its existing customers.
- Our stress testing indicates the Group's ability to manage its capital and liquidity requirements through the regulator's prescribed financial stresses. The Group has maintained capital levels in excess of its internal risk appetites and regulatory requirements throughout the year and is forecast to continue to do so over the five-year planning horizon.
- In the area of climate change, the Board recognises the long-term risks and following a review will launch its full ESG strategy in 2023. The impact of climate change is reflected in the business planning process and risks associated with climate change are considered as part of the annual ICAAP. Material impacts of climate change on the Group's markets and business model will emerge over the longer-term horizon and beyond the period of viability assessment. Notwithstanding this, the Group is mindful of the need to adapt its business model to changes in the markets it operates in as a result of climate change.

Furthermore, the Board considers that the circumstances required to cause the Group to fail, as demonstrated by its stress testing procedures, are sufficiently remote.

The Directors have based their assessment on the results of these activities:

- The latest annual budget process, which contains information on the expected financial and capital positions and performance of the Group over the 2023 to 2027 period.
- The Group monitors its key performance indicators across profit, capital, liquidity, and different risk categories to mitigate any changes in risk outside of its risk appetite.
- In addition to the annual budget process, key sensitivities are measured through other forecasting activity undertaken over the course of the year, which would impact on capital and liquidity over the planning horizon.
- The Group's ILAAP, approved by the Board in June 2022, 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. This risk was tested under the financial stresses outlined below. The Group has 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.
- The Group's ICAAP, which considered the PRA's published macroeconomic stress and severe scenarios in order to assess the adequacy of capital resources over the 2022 to 2026 period, was approved in September 2022. Within this process, the Group considered the extent of the credit, operational and market risks it is exposed to and how such risks affect its required capital levels. Under the macroeconomic stress, the details of which are set out below, at no point were minimum regulatory capital requirements breached and capital buffers held at the start of the stress were confirmed to be adequate.

Viability and going concern
continued

- The latest Group Recovery Plan was approved in December 2022 and confirmed that the Group has sufficient recovery options available to recover from the severe economic stress scenario modelled over the 2022 to 2026 period. The primary recovery options are to raise new deposits and reduce the level of new lending.
- Consideration of the other principal risks, as set out on pages 25 to 34, identify any other severe but plausible scenarios that could threaten the Group's business model, future performance, solvency or liquidity.

A summary of the different financial stresses are set out below:

ILAAP

The Group's 2022 ILAAP included idiosyncratic, market wide and combined stress scenarios.

The idiosyncratic liquidity stress test assumed poor levels of customer service leads to adverse media coverage on financial websites and on television, making it materially more challenging to retain maturing term bonds and resulting in higher notice being served on savings accounts.

The market wide stress is based upon the UK economy entering a severe recession with rising unemployment and inflation, falling house and equity prices, and subdued wage growth and a contraction in GDP due to prolonged economic uncertainty. Higher customer default rates (in line with ICAAP stress testing) and customer requests for payment holidays or short-term forbearance results in lower payment inflows. Completions on consumer contracts fall while requests for refinancing from business customers also contracts in line with reduced economic activity. The Group seeks to maintain market presence in all material business lines and so continues lending but on a more selective basis, so avoiding potential reputational damage from full market withdrawal. The prevailing economic conditions results in some increase in notice being served on savings accounts and lower bond retention as customers migrate to more liquid easy access savings products.

The combined stress includes elements of the idiosyncratic and market stresses whereby the UK economy enters a severe recession, and the Group suffers outflows due to poor customer services at the same time.

In addition, the ILAAP includes sensitivity analysis to model the impact of adverse variances in stress assumptions used in each of the above scenarios.

Reverse stress test modelling was also performed to identify the type and severity of a stress required for the Group to be no longer able to meet its liquidity requirements. The chosen scenario included the impact of an immediate repayment of amount drawn under the TFSME due to the ineligibility of collateral to support this funding.

ICAAP

The Group's ICAAP considered a PRA published macroeconomic stress and severe scenarios to assess the adequacy of capital resources over the 2022 to 2026 period. The macroeconomic stress included an unemployment peak of 9.2% in Q2 2023, a 33% property price decline by mid-2024, and an economic recovery beginning in 2024. At no point under the stress were the Group's minimum capital requirements not met and capital buffers held at the start of the stress were confirmed to be adequate.

Reverse stress test modelling was also performed to assess the level of stress required for the Group to be no longer able to meet its capital requirements. This required a significantly more severe scenario, including peak unemployment of 12.7% and a sharper decline in house prices to 50% of the starting values.

The ICAAP also utilised scenario modelling for elements of the Group's Pillar 2A capital assessment to support the assessment of operational risk and credit risk.

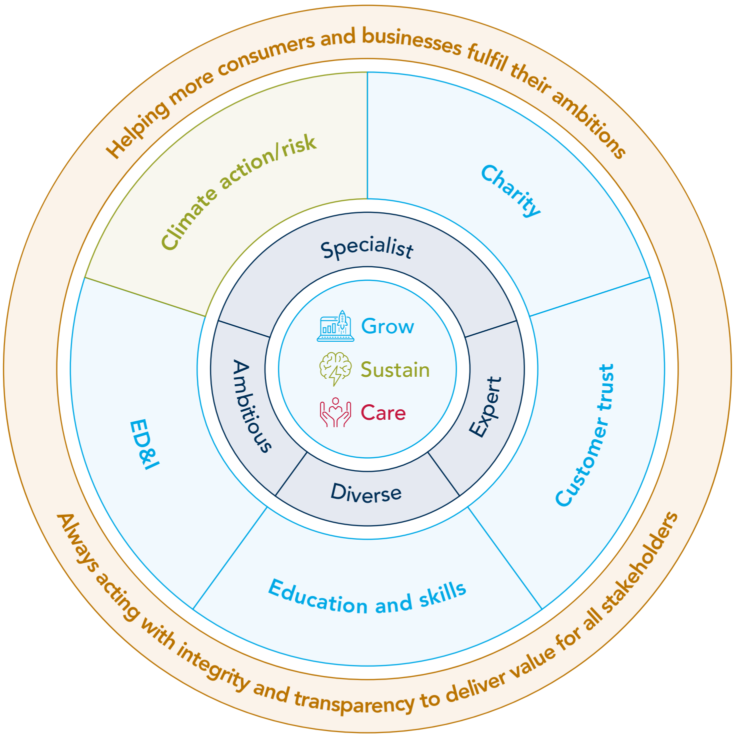
Recovery Plan

The latest Group's Recovery Plan confirmed that the Group has sufficient recovery options available to recover from the severe stress scenarios modelled over the 2022 to 2026 period.

The combined capital stress test included peak unemployment of 12.7%, a 50% decline in property prices, and an increase in operational losses based on the ICAAP Pillar 2A scenario modelling. The idiosyncratic liquidity stress test assumed a loss of confidence in the Group resulting in a run on the bank with a rapid loss of Access and ISA deposits and significantly increased Notice Account outflows. In addition, it was assumed that there would be a significant increase in requests to withdraw funds from fixed term bonds prior to the original maturity date. At the same time, to reflect a layering of liquidity risks, lending outflows were increased due to higher levels of pipeline completion.

Managing our business responsibly
Environmental, social and governance strategy

Delivering value for all stakeholders



Our focus areas	Sustainable Development Goals
Climate action/risk	11 Sustainable cities and communities; 13 Climate action
Customer trust	8 Decent work and economic growth
Equality, diversity and inclusion ('ED&I')	11 Sustainable cities and communities; 13 Climate action
Education and skills	3 Good health and well-being; 5 Gender equality; 10 Reduced inequalities
Communities and charities	4 Quality education
Acting responsibly	8 Decent work and economic growth

What is our environmental, social and governance ('ESG') strategy?

During 2022 the Group established its ESG strategy. Our ESG strategy is to:

- prioritise the ESG factors which we determine as material. These are issues of significant concern to our stakeholders which influence the delivery of our business strategy and our ability to achieve success; and
- act responsibly by aligning our activities with external standards relevant to us.

Our stakeholders are our customers, shareholders and capital providers, employees, wider society and the environment, regulators, and suppliers.

How did we develop our ESG strategy and priorities?

The Group continues to work with Business in the Community ('BiTC'), the Responsible Business Network. In 2021 we took part in BiTC's Responsible Business Tracker. Building on this, in 2022 we prioritised the ESG issues material to our stakeholders and our success, to help develop our ESG strategy. There are several external standards that also helped us to develop our ESG strategy, including the UN Sustainable Development Goals ('UN SDGs'), the World Economic Forum, and the Sustainability Accounting Standards Board ('SASB'). None of these standards directly align to the Group, therefore, we made judgements about the material ESG issues for us and our stakeholders and distilled them into our ESG focus issues.

Who owns our ESG strategy?

Ultimate ownership and oversight of our ESG strategy is with the Board as it supports the business strategy set by it. The Board delegates the implementation of our ESG strategy to the Chief Executive Officer ('CEO') and through him to the Executive Committee.

What is the governance that supports our ESG strategy?

The Executive Committee is supported by the Executive Risk Committee and working groups covering environment, climate change, equality diversity and inclusion, and customer experience. It is also supported by our Charity Committee which coordinates our choices of our preferred charities, communicates activities that support them and promotes £-for-£ match charity funding and volunteering.

Managing our business responsibly
Environmental, social and governance strategy continued

Grow

Sustain

Care

Governance
Always acting with integrity and transparency to deliver value for all our stakeholders

Stakeholders

Environmental

Climate action/risk
- Shareholders
- Environment
- Wider society
- Regulators

Sustain

Social

Customer trust
- Customers
- Shareholders
- Employees
- Regulators

Grow Sustain

Equality, Diversity & Inclusion (ED&I)
- Customer
- Shareholders
- Employees
- Environment
- Wider society
- Regulators

Grow Sustain Care

Education and skills
- Customer
- Shareholders
- Employees
- Environment
- Wider society
- Regulators

Grow Sustain Care

Communities and charities
- Customers
- Shareholders
- Employees
- Environment
- Wider society
- Regulators
- Suppliers

Sustain Care

Focus issue	Measures/Disclosures
We aim to minimise the harmful impact of our business on the environment by reducing Scope 1 and 2 emissions from our operations and to use less and re-use more.	• Reduce Scope 1 and 2 emissions by 50% from 31 December 2021 to 31 December 2025. • Compliance with the Task Force for Climate-related Financial Disclosures ('TCFD') requirements and related PRA regulations/Listing Rules.
Build the trust of our customers through the way we treat them, by enhancing their experience, achieving high standards of customer service excellence and through the outcomes we enable for them.	• Accreditation with the Government backed Customer Service Excellence quality mark. • Feefo Trusted Awards. • Awards from Moneyfacts. • HM Government Cyber Essentials Plus certificate.
Our vision is to be a successful inclusive business where all our people feel respected, can confidently be themselves and fulfil their potential.	• Maintaining/improving Great Place to Work® rankings for large companies, women and wellbeing. • HM Treasury Women in Finance Charter published targets. • Annual Gender Pay Gap reporting. • Maintaining/improving our Employer Network for Equality and Inclusion ('ENEI') TIDE Mark. • Maintaining our Disability Confident accreditation.
Help all our colleagues through a wide range of skills and development opportunities to build their specialisations, increase their confidence, plan their career progression and make it happen.	• Maintaining/ improving Great Place to Work® scores for career development.
Make a positive contribution to the communities in which we work and conduct our business.	• Bi-annual report on supplier payment period in days. • Annual modern slavery statement setting out steps taken to eradicate modern slavery in our businesses and supply chains. • Total charities supported and annual fundraising for charity by colleagues and matched by the Group £-for-£.

Managing our business responsibly
Section 172 statement

This section incorporates both our approach to Managing Business Responsibly and our section 172 statement. The Directors are bound by their duties under Section 172(1)(a) to (f) of the Companies Act 2006 and the manner in which these have been discharged. The following pages 40 to 49 demonstrate how the Directors have discharged this duty, in particular their duty to act in the way they consider, in good faith, promotes the success of the Company for the benefit of its members as a whole and outlines decisions taken by the Board, detailing how stakeholder interests were considered and balanced.

Customers

Link to strategy

Care Grow

Why we act responsibly for our customers

Our purpose is to help more consumers and businesses fulfil their ambitions. Our aim is to build the trust of our customers through the way we treat them, by enhancing our customers' experience, achieving high standards of customer service excellence and through the outcomes we enable for them. Preparing for the incoming Consumer Duty rules has given us the opportunity to enhance our existing approach to our customers and the outcomes we reach for them.

We have rigorous policies and procedures designed to make our lending responsible, fair and appropriate to the customer's circumstances, thereby enabling customers to make informed borrowing decisions.

We only approve lending once we have checked a customer's creditworthiness and ability to meet repayments. The customer experience is considered at every point in the design process for products and services. We regularly seek customer opinion on new initiatives before promoting these to the wider population and the customer design approval process makes sure that we can provide strong evidence that customer needs have been considered before a new product is launched.

We continue to adopt digital solutions to provide good outcomes for customers and improve the customer experience. For example, in the Retail Finance business, we now offer customers more choice and convenience through open banking to repay their loan. We have also launched the new streamlined personal loan eligibility check in partnership with Freedom Finance and the Savings team has continued a project to improve the customer's digital experience.

In 2022 we renewed our Cyber Essentials Plus certification as part of our overall information security protections.

Two-way engagement

Listening to our customers is paramount. We continue to use Feefo as an independent source of customer feedback, providing valuable insight into our customer relationships. In addition, our customers can use Trustpilot to share their views about the Group. Feefo scoring and customer service awards are monitored by the Board. We are keen to continually improve our services and complaints data is reviewed by the Executive and Board Committees. In 2022:

- our average Feefo rating, remained 4.6 out of 5 (2021: 4.6); and
- the average Trustpilot rating, improved to 4.7 out of 5 (2021: 4.6).

We also collected feedback from our SME customers and satisfaction scores, in 2022 these were:

- 92% for Real Estate Finance; and
- 97% for Commercial Finance.

We take pride that our ratings demonstrate our culture of putting the customer at the centre of what we do. When poor feedback is received, we treat each case individually and attempt to resolve the issue with the customer. This feedback is monitored alongside complaints data and where emerging trends are noted, we seek to design and implement solutions to fix the problem.

Outcomes

Customer service awards

For the tenth successive year, the Group has been accredited with the Government-backed Customer Service Excellence ('CSE') quality mark. This follows an in-depth external assessment against criteria that research has indicated are a priority for customers, with particular focus on customer insight, culture, information, service delivery and quality of service. The standard puts an emphasis on developing customer insight, understanding the user's experience and robust measurement of service satisfaction. It is designed to offer organisations a practical tool for driving customer focused change. The final written report was very positive, particularly in relation to putting the customers first: and states 'Secure Trust Bank is a progressive organisation that prides itself on innovation and its unwavering ambition to provide excellent customer-centric services. Ongoing certification to the CSE Standard continues to be fully justified and well-deserved.' We have also been awarded Best Notice Account Provider by Moneyfacts in December 2022.

Feefo Trusted Awards

We also continue to be recognised through the Feefo Trusted Awards. In January 2023, it was announced that we've been awarded Platinum Trusted Service by Feefo for our Moneyway and V12 Retail Finance businesses as well as Trusted Service Award for our Secure Trust Bank ('STB') Savings business. This independent seal of excellence recognises that our businesses are delivering exceptional experiences, rated by real customers. These accreditations give clear external recognition that our customer focused approach runs throughout our organisation.

The Board

The Board receives updates on customer views. This helps us to shape the products and services we offer to suit our customers' needs. Key topics discussed at meetings have included:

- vulnerable client needs;
- customer trends in 2022;
- reviewing key business streams and lending products against customer feedback;
- customer affordability;
- receiving Feefo and Trustpilot ratings and customer service awards; and
- aligning management reward with Feefo ratings.

How has the customer voice helped the Board make decisions on strategy?

As previously reported, the Board decided to acquire AppToPay Ltd owner of the digital Buy Now Pay Later ('BNPL') technology platform following clear demand for this product from retail customers and retailers. During 2022, the technology owned by the entity has been further enhanced to integrate into our existing systems in preparation for the launch of a regulated BNPL product. The decision to acquire and integrate the AppToPay technology aligns our customer needs with our growth strategy, which is also at the core of our shareholders' interests.

One of our key values as a Group is to be customer focused. Part of our ESG strategy is enabling good outcomes for customers. Together this value and strategy fit well with the forthcoming Consumer Duty rules, giving us an opportunity to review all our products and processes and see if we can make them even better. In 2022, the Board considered how it would meet the requirements of the new Consumer Duty rules and appointed Finlay Williamson as the Consumer Duty Champion to help ensure that the consumer voice is heard at the Board.

Trusted Service Award 2023 feefo

Platinum Trusted Service Award 2023 feefo

CUSTOMER SERVICE EXCELLENCE CSE

WINNER Moneyfacts Awards 2022

Managing our business responsibly
Section 172 statement
continued

Shareholders

Link to strategy

Care Grow

Why we act responsibly for our shareholders

The views of those who own STB and support us financially are important as they provide us with the capital we use to run our business.

Two-way engagement

The Board sought and received feedback from our principal shareholders during 2022 via our Chairman and CEO. Our committee chairmen, as well as the Senior Independent Director, were available to meet with shareholders on request. The Remuneration Committee Chairman consulted with our top shareholders regarding the Proposed Directors' Remuneration Policy (see page 81 for more information on the consultation process).

We followed up the success of the 2021 Capital Markets day with several investor meetings with key shareholders and investors during 2022.

The Board also receives updates from the Head of Investor Relations, appointed in 2022, and Company Secretary on correspondence received from shareholders throughout the year.

Outcomes

The relaxation of the COVID-19 social distancing rules allowed us to hold our 2022 AGM in person for the first time since 2019. Shareholders continued to be able to submit questions electronically ahead of the meeting with STB committing to publish responses on our corporate website.

The Board

The Board is responsible for safeguarding our shareholders' investment and we seek their feedback on our stewardship.

Key topics discussed by the Board this year have included:

- dividends;
- divestment and simplification of the Group;
- growth strategy; and
- trading updates.

How has the shareholder voice helped the Board make decisions on strategy?

The Board continued to follow its dividend policy of returning 25% of earnings to shareholders, and declared an interim dividend of 16.0 pence per share in 2022 following the 2021 final dividend of 41.1 pence per share.

The migration of the Debt Managers (Services) Limited loan portfolio completed in November 2022 following the decision to divest the Group of this business. Following a decision by the Board, the Group also completed the acquisition of AppToPay Ltd in May 2022 to support the planned entry, through its Retail Finance business, into the regulated digital Buy Now Pay Later market.

Employees

Link to strategy

Sustain

Why we act responsibly for our employees

We believe that providing our employees with an effective voice contributes to building trust, innovation, productivity and organisational improvement. By considering our people as a key stakeholder in our decision making, we seek to attract the best people for our business, gain their commitment and retain them long-term to fulfil their ambitions at work. The employee voice is pivotal in creating diverse, inclusive and safe working environments.

Two-way engagement

We operate Employee Councils in each of our businesses, consisting of department representatives elected by their colleagues. The Councils meet on a regular basis and encourage a two-way process of communication between employees, senior managers and the Board. In addition, we have a Group Employee Council that meets with the CEO, HR Director and is chaired by the independent Non-Executive Director designated for workforce engagement, Paul Myers. The Group Employee Council aims to promote further employee engagement and provide a structured forum for teams to share their views, provide insight, feedback and suggestions to make the Group continue to be a great place to work. Throughout 2022, our Employee Councils were pivotal in helping us shape our future working practices and fully consider the views of all colleagues. Paul Myers provides an update to the Board following each meeting so that the employee voice can be heard by the Board.

We complete an annual 'Your Voice' employee survey conducted by the Great Place to Work® ('GPTW®') Institute. This comprehensive survey explored the levels of trust and employee engagement across the Group and includes values such as credibility, fairness, respect, camaraderie, honesty and pride. The results are benchmarked against many of the most progressive workplaces in the UK and are considered by the Board. In November 2022, the Group participated in the survey for the fifth time. We were thrilled to maintain a high Trust Index rating of 85% (2021: 80%) with 88% of respondents stating that 'Secure Trust Bank is a great place to work' (2021: 81%)[1]. The Trust Index is the average of the core survey statements and is used as the Group's key performance indicator for employee satisfaction.

Our Your Voice results are used to drive continuous improvement at both Group and team level throughout the year. Progress is communicated and enabled by a team of colleague volunteers called Your Voice champions. Our Your Voice Champions meet quarterly and act as a conduit between senior management and the wider colleague community and are instrumental to driving and reporting progress in key areas at both a Group and departmental level.

We were delighted to be recognised at the UK's Best Workplaces™ awards in April 2022, being ranked in the top 40 in the UK's Best Workplaces™ Large category (2021: 23rd), the UK's Best Workplaces™ for Women category and, newly for 2022, in the UK's Best Workplaces™ for Wellbeing.

We have also maintained our partnership with the Employer Network for Equality and Inclusion ('ENEI') and once again completed the TIDE diversity benchmarking tool to identify areas of focus. In 2022, we were awarded the silver standard for our approach to and progress on diversity and inclusion. The results of the evaluation have shown an increase in our score to 78% from 74% in the previous year and 60% in 2020. This is the fourth consecutive year that we have been awarded both a UK Best Workplaces™ for Women award and an ENEI TIDE Mark, showing that employees feel a strong sense of trust, fairness and wellbeing in their workplace.

The Board has adopted a hybrid working policy which enables the vast majority of employees to work remotely as well as in the office. The decision to move to a hybrid working policy was based on feedback received that employees wanted the flexibility that remote working provides.

During 2022, we invited all eligible employees to participate in the Group's Sharesave plan. We communicated the launch with employees via news articles on the intranet, a webinar, communications with teams as well as drop in sessions with members of the Company Secretariat. Feedback was sought on the views from employees on the benefit of the plan and will be reflected on when considering the 2023 invite.

1. Results exclude Debt Managers (Services) Limited.

Managing our business responsibly
Section 172 statement
continued

Outcomes

Employee development

Employee development remains a priority. We have a comprehensive induction programme for new employees, a wide range of specialist professional qualifications and numerous other development opportunities. These include a comprehensive four-level leadership academy and 'ICE', our Individual Contributor Excellence Programme for those in specialist and non-leadership roles. These programmes have continued to be delivered either virtually or face to face during 2022 to ensure that the focus on personal development is maintained. We also launched several line manager masterclasses to build further confidence in leading teams, including compulsory Everyday Allyship training for line managers. We continue to partner with Everywoman to provide extensive online and self-managed learning that is so important for our hybrid working teams.

Our personal growth programme, Blazing My Trail, sponsored by our Non-Executive Director designated for workforce engagement helps colleagues to build confidence, plan their progression and make it happen. It remains extremely popular and oversubscribed at each intake and includes a variety of prestigious external speakers who help attract excellent feedback.

In 2020, the Chairman launched the Alan Karter scholarship fund to give four individuals per year the opportunity to attend professional development programmes with Cranfield Business School. There are two programmes that provide individuals with either leadership skills or training on how to develop impact and influencing skills for use in either their current role or to enable them to progress to a more senior one. In 2022, the calibre of applications was so high that an additional place was funded by the Group.

Employee engagement and recognition

Research has consistently shown a clear link between high performance and team engagement. To recognise colleagues for their contribution, we have a suite of recognition tools to celebrate exceptional performance and behaviours. These range from simple e-thank you cards to the Group's annual Outstanding Achievers awards, where 30 winners are selected by the Executive Committee.

These schemes together with our annual incentive programme continue to help embed excellence within the culture. We provide colleagues with a wide range of training for personal and professional development. The Group supports employees in achieving recognised qualifications from the London Institute of Banking and Finance and other bodies.

Employee wellbeing

It is critically important to provide a positive and healthy working environment, so colleagues have the opportunity and support to enhance their own wellbeing. Following positive feedback, we have continued to focus on employee wellbeing during 2022, building on the wellbeing progress previously made and resulting in STB being recognised as a Great Place to Work for wellbeing in 2022. In 2022, we continued our successful wellbeing hour initiative. This gives colleagues an hour each month during their working day to dedicate to supporting their wellbeing. We maintained the Wellbeing Cafe launched in the pandemic, allowing colleagues to connect with others supported by one of our many Mental Health First Aiders. Additional employee communications about financial wellbeing highlighted resources both available as part of existing remuneration packages and externally, including the launch of 'My Rewards' that is an improved voluntary benefits portal that also offer attractive discounts at a wide variety of retailers.

Equality, Diversity & Inclusion ('ED&I')

In 2022, we published our fifth Gender Pay Report and supporting commentary. We are committed to diversity in the workplace at all levels and the actions outlined in the report demonstrate this and show our commitment to improving the position at senior manager level. In 2022, women comprised 25% (2021: 21%) of our Executive Committee. Our ED&I agenda remains an area of focus for us and we are conscious we still have more to do. We continue to work closely with Everywoman in progressing our Inclusion Agenda with two members of the senior leadership team having been appointed as Everywoman Ambassadors. In June 2022, STB became signatories of the Women in Finance Charter.

In addition, we introduced our ED&I workforce champions ('Inclusioneers'). Our Inclusioneers champion our Group vision and provide valuable feedback to our ED&I Steering Committee. They are supported by our Advisory Committee that consists of the relevant subject matter experts. These groups are critical in helping us to take meaningful action in ensuring everyday inclusion is a reality.

We launched Everyday Allyship in 2022, a learning and development opportunity for our people managers which shows how to promote inclusion and the wellbeing of others by taking action to support those in marginalised groups.

At the year-end, the split by gender of the Group's employees was as follows:

Male	57%
Female	43%

Male	57%
Female	43%

Male	52%
Female	48%

Male	52%
Female	48%

The Board

The Board acknowledges that the strength of our service is set by our people. It is clear that having a talented, healthy, diverse family of individuals who are engaged in their roles is essential to bringing the Group's vision to be the most trusted specialist lender in the UK to life and fundamental to the long-term success of the Group. By protecting mental health and listening to employee feedback and implementing ideas for improvements, we stand the best chance of maintaining morale, boosting productivity and retaining the individuals that make the Group work on a day-to-day basis.

Key topics discussed by the Board this year have included:

- communication of our refreshed strategy to our people;
- diversifying the workforce;
- 'Your Voice' results;
- aligning Management reward with employee engagement; and
- upskilling existing employees to provide a talent pipeline for the Group through initiatives such as the Confident Leader Academy, Blazing My Trail and an extensive range of professional qualifications.

How has the employee voice helped the Board make decisions on strategy?

The Board recognises employees and workforce colleagues as key stakeholders and takes the perceived or actual views of that constituency into consideration when making key strategic decisions, such as the impact upon employees when selling the Debt Managers (Services) Limited loan portfolio and hosting consultation sessions on a range of issues in addition to those required as part of that process.

Cost of living impacts on employees have been a focus of multiple Board discussions and in the Summer in 2022 the Board approved an exceptional one-off payment to be made to colleagues with an annual salary below £35,000. In addition, our annual pay review prioritised our lower salary banded colleagues.

In 2022, we have also had a focus on menopause and employee wellbeing. The Board adopted a menopause policy setting out how colleagues going through menopause will be supported within the Group. Awareness sessions were held during the year and additional resources were made available to all of our colleagues on the employee intranet.

Managing our business responsibly
Section 172 statement
continued

Environment

Link to strategy

Sustain

Why we act responsibly towards our environment

We continue to recognise the importance of acting responsibly in relation to the environment and our ESG Strategy, which has been developed following engagement with a wide range of stakeholders, includes environment as a key focus area.

Two-way engagement

In 2021, the Group adopted an Environment Action Plan for our Solihull head office as well as Cardiff and Rotherham offices. This programme of work continued in 2022 aided by a newly formed Environment Steering Committee. The Committee has used the outputs from Business in the Community's Responsible Business Tracker survey, to develop and guide our environment strategy, embed our Environmental Policy and help the Group develop its approach to reducing CO_2 equivalent ('CO_2e') emissions and improving its environmental impact.

In 2022, the Board has developed and approved our ESG strategy, more information can be found on pages 37 to 39.

Outcomes

Our Environmental Policy sets out key areas of focus for the business and also commits the Group to follow environmental guidance, where reasonably practicable, provided by the UK Government, the financial services sector and environmental organisations. This includes reporting our progress using key metrics related to our environmental footprint. More information about our progress in this area can be found in the following section which sets out how we are disclosing information in line with the expectations of the Task Force on Climate- related Financial Disclosures.

We continued to develop our digital capabilities to provide customers with increased opportunities to self-serve on their accounts. The majority of STB's customers are now accessing savings statements and certificates of interest online via internet banking, reducing both costs for STB and environmental impacts.

We monitor emissions from our operations and recognise STB's impact on the environment. We review the business model to assess what the indirect impact of financing of certain industries, such as Vehicle Finance, can have on the environment.

The Board

The Board recognises the importance of our impact on the environment and that making decisions that help to improve our impact on the environment support our long-term sustainability. It also enables us to agree STB's priorities in line with the expectations of future generations of customers.

Key topics discussed by the Board this year have included:

- ESG strategy including how STB can offset its environmental impact from its operations;
- measuring emissions from our operations and setting CO_2e reduction target for Scope 1 and 2 emissions;
- operating model; and
- roadmap to carbon neutrality.

How has the environmental voice helped the Board make decisions on strategy?

In developing strategy, environmental impact has been a key feature of Board discussions. The Board continues to be mindful of both STB's direct and indirect impacts on the environment. In 2022, an ESG strategy to improve STB's environmental impact has been developed and adopted by the Board. In doing so, the Board has received specific training on climate change risk and ESG. It has also progressed strategic initiatives such as finance for second-hand electric vehicles.

Wider society

Link to strategy

Care Grow

Why we act responsibly for our society

We remain mindful of our need to act responsibly in society and comply with the wide range of laws and regulations applying to financial services companies generally in the UK.

Two-way engagement

Our established community-focused schemes remain in place and our Charity Committee continues to empower colleagues from different business areas to drive forward charitable activities.

As we transitioned to a post COVID-19 environment in 2022, there were increased opportunities for fundraising and community outreach. We chose to continue to match £-for-£ donations raised by Group employees. In 2022, we supported 17 charities and raised over £54,000 for good causes.

The STB Volunteers Scheme, which entitles all colleagues to use one paid day a year to make a difference in their local area, was impacted by the pandemic. In 2022, we saw a ten-fold increase in hours used by colleagues and we are proud to continue to support this initiative.

We are proud of the work to date in this area and we fully anticipate that our ongoing partnership with Business in the Community and the results from our Responsible Business Tracker will guide our ESG (Responsible Business) strategy and result in new initiatives which address additional social issues that are of high importance to our stakeholders.

Outcomes

The Group has a governance framework and policies designed to enable us to meet our responsibilities and adhere to the highest professional and ethical standards when dealing with customers, suppliers, employees, local communities and other stakeholders.

The scope of our Group-wide policies and regulations includes:

- anti-bribery and corruption;
- anti-money laundering;
- employment health and safety;
- whistleblowing; and
- human rights and tackling modern slavery.

All employees are required to complete the relevant regulatory training on an annual basis with further training offered when required.

The Board

The Board is proud that STB is a good corporate citizen and funds businesses which fuel our economy. We are mindful of our impact on wider society and supportive of our employees' efforts with local communities and stakeholders.

Managing our business responsibly
Section 172 statement
continued

Regulators

Link to strategy

Care Grow

Why we act responsibly for our regulators

We have a duty to engage transparently and proactively with our regulators.

Two-way engagement

We interact with our regulators through meetings on a monthly basis with our Directors and senior management. Engagement is also conducted through thematic reviews in which the Group participates. Informally we regularly consider correspondence and publications from the regulatory sphere. Engagement is also periodically conducted through UK Finance, the relevant trade body.

We adhere to the FCA's 11 Principles for business, which is the foundation for FCA regulated firms operating in a regulatory environment.

Outcomes

We require our people to act with integrity and provide them with the necessary training to conduct themselves with due skill, care and diligence. Amongst other things, this approach ensures the suitability of the advice we provide to our customers.

We review consultation papers as they provide insight on where key risks and opportunities may be within the industry and allow us to learn from our peers on industry wide challenges. This enables us to evolve our business processes to become more resilient and to identify opportunities to take advantage of our specialisations and/or our technology. This helps us to serve our customers in the best way we can.

Our horizon scanning processes and controls safeguard against the risk of missing or not responding to regulatory change impacting the Group as set out on page 32.

The Board

By taking part in regulatory initiatives and having transparent communication with our regulators, we are able to understand the key drivers for regulatory change which, in the Board's view, promote the long-term success of the Group. It also provides us with a platform to provide input into the regulatory environment in which we operate. By supporting the regulatory regime in which we have been granted a licence to operate, we ensure, collectively with our peers, continued customer confidence in the industry.

Key topics discussed by the Board this year have included:

- implementation plans for the new Consumer Duty;
- operational and cyber resilience; and
- thematic reviews.

How has the regulators' voice helped the Board make decisions on strategy?

Knowing regulatory and industry expectations allows us to enhance and adapt our existing operating model. It also provides us with a steer on what is needed when implementing our growth strategy.

Suppliers

Link to strategy

Care Grow

Why we act responsibly for our suppliers

Our suppliers support a wide range of services and systems which underpin our operating model.

Two-way engagement

The Group has a structured supplier governance framework operated by management to manage material and other suppliers.

Outcomes

The Board is committed to acting ethically and with integrity in all of its business relationships. The Board has adopted a number of policies which reinforce this commitment including the procurement policy, the supplier management policy and the anti-bribery and corruption policy.

During 2022, STB Group assessed 573 suppliers within its supply chain to determine which, if any, potentially presented a higher risk of modern slavery and human trafficking. The suppliers identified were required to provide additional assurance of the programmes they had in place to address this risk. The Group's supply chain management process involves the assessment and ongoing monitoring of critical contractors and suppliers in line with STB's policies. The Group invests in training for employees on modern slavery.

The Board and Risk Committee have considered the resilience of our outsourced IT services. STB Group have had a continued focus on ensuring our most critical services and processes are resilient to disruption through a structured programme of supplier management, testing and supplier assurance activities. This has included risk assessment of our supply chain, with reviews of business continuity, disaster recovery plans and recovery test results of over 60 suppliers including those identified as a key dependency for the delivery of STB Group's important business services. We are content with the provision of services and diligence undertaken by management in assessing the continuity of services.

The Board

Delivery of our vision to be the most trusted specialist lender in the UK depends, in part, on ensuring the continuity of our services. Key topics discussed by the Board this year have included:

- operational resilience of material suppliers; and
- commitments to avoid modern slavery by our suppliers.

How has our suppliers voice helped the Board make decisions on strategy?

Availability and engagement of suppliers help to deliver some of our operating strategy and enhance our customers' experience.

Non-financial information statement

The Group complies with the non-financial information reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. This is intended to help stakeholders understand the Group's position on key non-financial information.

Information regarding environmental matters, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters are included in this 'Managing our business responsibly' section.

The location of the other information required is set out in the table below:

Reporting Requirement	Section	Pages
Policy embedding, due diligence and outcomes	Principal risks and uncertainties	25 to 34
Description of principal risks and impact of business activity	Principal risks and uncertainties	25 to 34
Description of the business model	Our business model	8 and 9
Non-financial key performance indicators	Key performance indicators	2 and 3

Climate-related financial disclosures

Climate change

Climate change, and society's response to it, presents risks and opportunities to the UK financial services sector. While some of these risks may not crystalise in the short-term, the industry needs to take action now to support and help mitigate the medium to long-term implications of climate change.

The Group has assessed its risk exposure to both the potential 'physical' effects of climate change and the 'transitional' risks from the UK's target to bring all greenhouse gas ('GHG') emissions to net zero by 2050.

In order to express how the Group is responding to these risks, this report has been structured to align with the four key parts of the guidance from the 'Task Force for Climate-related Financial Disclosures' ('TCFD'), being Governance, Strategy, Risk management and Metrics and targets. The key risks, their mitigants and assessments are covered under the Strategy and Risk management sections of this report below.

The Group has complied with the requirements of the Financial Conduct Authority's Listing Rules 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures. There is one aspect of these recommendations where, in line with others across the industry, the Group is still developing its approach to reporting. This is in relation to Scope 3 emissions and the TCFD recommendation to 'Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks'. The Group has already established reporting for Scope 1 and 2 emissions and during 2022 undertook work to assess its material Scope 3 emissions. A summary of the reporting of all categories of Scope 3 emissions is included in the Metrics and targets section of this report. Financed emissions form the most significant part of the Group's Scope 3 emissions, although a lack of consistent disclosure standards across the industry limits the Group's ability to provide comprehensive reporting in this regard. What is being reported is a summary of Financed emissions associated with our Vehicle Finance business, with a plan to add reporting for our other lending areas in future periods when consistent standards are available. Assurance in relation to disclosed Scope 3 emissions is planned for 2023.

In the Group's 2021 Annual Report and Accounts two gaps were identified in our TCFD disclosures, scenario testing and risk appetite, with both closed in these updated 2022 disclosures.

Governance

In accordance with the requirements of the SS3/19 – PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Group allocated responsibility for identifying and managing the risks from climate change to the relevant Senior Management Function, namely the Chief Risk Officer ('CRO'). The CRO chairs the Climate Change Risk Working Group ('CCRWG'), with representatives from across the first line risk owners and the second line Risk leads that are managing the key risks identified across the Group. The CCRWG is responsible for identifying, assessing and defining mitigating responses to these risks.

The CCRWG reports to the Executive Risk Committee ('ERC') chaired by the CRO. The ERC monitors progress and oversees all aspects of climate change risk, including proposing associated risk appetite statements and metrics for approval at Board and Risk Committee respectively.

The Board has delegated responsibility for oversight of climate change risk to the Risk Committee. The Risk Committee has undertaken periodic reviews of the risk assessments in relation to climate change and is kept informed of management's responses to these risks. It reviews and approves all associated risk appetite metrics and thresholds and receive associated reporting against these metrics. The Group's risk governance structure can be found on pages 25 to 26.

Reporting during 2022:

- The CCRWG met on seven occasions to monitor progress, initiate action to meet existing and new insight/guidance and manage the associated risks. Attendees received briefings and training on new developments associated with climate change within the financial services sector.
- The ERC met on eleven occasions in 2022. A Climate Change Risk dashboard is reviewed at each meeting.
- The Risk Committee approved the Climate Change risk appetite statement and supporting metrics in 2022. The Climate Change Risk dashboard is reviewed at each meeting and feedback provided to management where necessary.

- In June the Board received a progress report covering all aspects of climate change risk management. Specifically, this included the strategic responses to climate change as defined by our Real Estate Finance and Vehicle Finance businesses. These reviews considered both the risks and opportunities that climate change present to our business. Furthermore, in November 2022 the Board reviewed and agreed a proposal to reduce our Scope 1 and 2 CO_2 equivalent (CO_2e) emissions (more detail under Metrics and targets from page 55). The Board received a specific training briefing in 2022.
- The CRO and a senior member of the risk function are members of the UK Finance TCFD, Disclosure & Consultations Working Group. They attend numerous industry meetings and have engaged with external expertise to enhance their skills in order to develop the Group's response to the risks associated with climate change. This knowledge and understanding is disseminated to first-line business leads through the CCRWG.

Strategy

The Group, through the governance model described above, has identified several risks and opportunities associated with climate change and these are described below with supporting commentary on the implications for our future strategy. The Group integrated the consideration of climate change risks and opportunities within their annual business planning cycle.

The Group's environmental policy has been incorporated into the Group's new environmental, social and governance ('ESG') strategy. A comprehensive environmental strategy has been approved at Board level and includes strategic objectives to support climate change, the circular economy and nature stewardship. The strategy also includes the Group's target to achieve a 50% reduction in Scope 1 and 2 CO_2e emissions by December 2025, compared with a 2021 baseline. The Group is on track to achieve this target following the successful implementation of initiatives in 2022 and the planned delivery of the Environmental Action Plan in the next few years. In 2023, the Group plans to review its longer-term approach to all emissions, including Scope 3, in the context of the Government's 2050 Net Zero target.

Risk management

Whilst climate change risk has been recognised as a principal risk within the Group, the management of this risk has been integrated and embedded within existing risk management frameworks and associated processes, and is governed through existing risk governance structures, including reporting to the ERC and the Risk Committee and monitoring for any new regulation through established horizon scanning processes.

Physical risks and transitional risks are managed and integrated within the Operational Risk Framework and the Credit Risk Framework respectively. This includes how risks are identified, assessed, mitigated and any associated stress testing and scenario analysis.

However, all climate change risks are reported collectively to enable the Executive and Board to understand and consider the scale and breadth of the climate change risk profile.

The Group's climate change risks are identified through workshops with representatives from each business line and the Risk team. These reviews consider both physical and transitional risk and all relevant sources of risk as described within the guidance tables provided by TCFD. This qualitative review is undertaken annually and all risks identified are assessed against three time horizons, being one year, five years and ten years plus. The potential impact of the risks are assessed against an established hierarchy contained within our risk frameworks which cover the potential financial, regulatory/reputational, business disruption and customer impacts. Each risk has an executive owner.

The risks are collectively reviewed and agreed at the ERC. Thereafter the risks are reported to the Risk Committee for oversight.

As described below the businesses have also undertaken scenario analysis. This analysis has improved the Group's understanding of the key drivers to their risks and therefore the mitigating actions required. We plan to continue to refine this analysis in 2023 to better understand the risks and opportunities that climate change presents.

The Group considers remuneration policies to be an important incentive to achieving our organisation's goals and objectives. The management of all risks (including climate change risk) is embedded within the executive's remuneration policy and processes.

Climate-related financial disclosures
continued

Summary of climate change risks

Climate change risk	Source	Area	Risk	Timeframe
Physical risk	Acute/ Chronic	Operations	Impacts of climate change interrupt our internal operations e.g. floods.	Short, medium and long-term
	Acute/ Chronic	Operations	Impacts of climate change interrupt our supply chain e.g. floods.	Short, medium and long-term
	Acute/ Chronic	Real Estate Finance	The value of the Group's security may be negatively impacted due to increased risk of flood associated with climate change.	Short, medium and long-term
Transitional risk	Technology/ Market	Vehicle Finance	Failure to respond/recognise that the value of the loan security may be negatively impacted by 'transitional' effects from climate change.	Short, medium and long-term
	Current and emerging regulation	Real Estate Finance	Failure to respond/recognise that the value of the loan security may be negatively impacted by the effects of climate change or through 'transitional' impacts.	Short, medium and long-term
	Market/Current and emerging regulation	Commercial Finance	Profitably or viability of our clients may be impacted by the transitional effects of climate change.	Short, medium and long-term
	Reputation	Group	The Group's reputation is negatively impacted due to failure to meet: • climate change regulation; • stakeholder expectations; and • responding strategically to changing market/ consumer demands/preferences.	Short, medium and long-term

Operations

Disruption to the Group's and third-party suppliers' operational sites through climate change related impacts, such as severe weather.

The Group has undertaken a review of the physical risks associated with the location of each of its operational sites. Similarly, we have consulted with our material suppliers in relation to their contingency plans in the event of flooding or other severe weather. From the flood risk data and energy performance ratings of our internal sites and the responses from our material suppliers, we do not consider there to be any material risks in the short-term.

In strategic terms, these risks and their associated risk appetites will be assessed, and influence any proposed changes to our operational sites, and during the selection and on-boarding processes for any new suppliers.

In addition, scenario analysis has been undertaken in relation to the operational impact of a severe flood at one of our key sites.

Given the operational changes we have introduced during the pandemic (including our employees working from home), the operational impacts of such a scenario are limited and we would be able to continue to operate within service levels and risk appetite.

Vehicle Finance

Transitional impacts of climate change within the motor industry as consumers and the industry respond to the move towards non/low-carbon fuelled vehicles.

The key area of risk for the Group is the implications of an accelerated transition to the use of 'non-fossil fuelled vehicles' on the residual values of our security on internal combustion engine vehicles. Our current planning assumption is based on an orderly transition to non-fossil fuelled vehicles.

As part of our strategic planning process, the Board has reviewed and approved our response to this climate change risk for the Vehicle Finance business. We have already amended our credit policy to allow lending for electric vehicles ('EV'). However, given that we operate in the used vehicle sector where 99% of transactions are for internal combustion engine vehicles (source: SMMT Used car sales: Q3 2022), the current level of lending associated with EV and hybrid vehicles is small.

We are committed to supporting our customers where they wish to transition to EV and hybrid vehicles. To support this, we are actively enhancing our market intelligence in this sector, and closely monitoring the key factors that will influence changes in this market (e.g. customer preferences, Government intervention, infrastructure and vehicle developments). In addition, we are working with our 'Introducer' base to understand how we can develop our product base and lending criteria to better support demand for EV and hybrid vehicles.

To support the strategy outlined above we have set risk appetite metrics that monitor the proportion of older vehicles (with higher emissions) that we are willing to fund, and metrics that monitor customer behaviour.

In order to better understand the potential implications of the transition to vehicles with lower emissions, the Group has undertaken a review of a range of scenarios to help assess the level of risk from climate change on our Vehicle Finance business. These scenarios are linked to the Bank of England's Climate Biennial Exploratory Scenarios ('CBES') that are based on those developed by the Network for Greening the Financial System and are designed to support central banks to bring greater consistency and comparability to stress-testing exercises. Two routes to meeting the net-zero carbon dioxide emissions targets by 2050 were considered: an 'Early Action scenario' and a 'Late Action scenario'. A third scenario explored what might happen in terms of the physical risks materialising if governments around the world fail to take action to address climate change: the 'No Additional Action scenario'.

Whilst it is recognised that the economic impacts of these scenarios were set by the Bank of England prior to the current inflationary environment, the results do still provide the Group with an understanding of the potential impacts of these transitional risks on our Vehicle Finance business.

In the unlikely event of the Group not taking any action to mitigate the potential impacts from these scenarios, the increase in the level of credit losses would likely peak around 2031 for the Early Action and Late Action scenarios, albeit at a lower level in the Early Action scenario. Management have monitoring tools in place that closely monitor the key indicators and, should elements of the scenarios unfold, the Group would take corrective action through amending credit policies to reduce loan-to-value rates and/or reduce lending to those vehicles that are likely to see the most significant reduction in value as a result of the transition.

The outcomes from the analysis indicate that currently there is no significant link to credit losses due to climate change factors and the Group is resilient across the scenarios assessed. The results will be factored into the Group's 2023 Internal Capital Adequacy Assessment Process ('ICAAP').

The Group plans to further develop the scenario analysis undertaken and will continue to use the results to identify climate change risks/opportunities and how these may influence our business plans.

Climate-related financial disclosures
continued

Real Estate Finance

Climate change related impacts on the valuations of property securing our Real Estate Finance portfolio.

There are two areas of potential risk that could impact the performance of the Group. The first relates to the risk that climate change has an increased impact on the weather conditions across the UK and the properties we hold as security for our lending are subject to an increased risk of flooding or similar risks associated with severe weather.

In order to mitigate flood risk, existing on-boarding and due diligence processes require a full valuation from a RICS qualified surveyor which includes an assessment of the flood risk. Based on this information, the Group may choose not to proceed with lending, or will look to mitigate the risk through acceptable insurances. It should also be noted that, unlike a residential mortgage, the maximum term of our loan facilities is currently five years so this limits the potential impact from any change to the level of flood risk and ensures we have recent valuation assessments. Therefore, we are confident that the level of risk is not currently considered to be material.

Notwithstanding these due diligence checks, the Group has also undertaken a review of assets it currently holds as security against an external flood risk data (Hometrack). Recording of property details differs between this source and the land registry, however to date we have matched two thirds of our investment portfolio and are working with the external provider to further enhance this matching rate. The matched results show that 3.9% of the properties we hold as security are classed as having a 'high' or 'very high' level of risk from flooding, compared to a national average of 4% (source: Hometrack). Development sites are not currently captured in third party flood risk data.

The second area of risk is where the value of our security could be impacted by transitional changes made or imposed on the sector through Government intervention to improve the energy efficiency of residential property. The UK Government has set a minimum Energy Performance Certificate ('EPC') rating of E for tenanted properties. This is due to be raised from E to C from the 1 April 2025 for new tenancies, and from 1 April 2028 for existing tenancies. In order to understand the potential risks, the Group has reviewed the EPC rating for properties we hold as security. The results are presented on the right.

EPC Rating	% of investment loan portfolio by value
C or above	66.9%
D and E	32.8%
Below E	0.3%

To mitigate this risk, new lending facilities are provided on the basis that all properties are compliant (unless exempt) with current EPC requirements. In addition to this the Group also requires an assessment from the borrower regarding their strategy to comply with the 2025 EPC C rating requirement. For existing exposures this is reviewed on an annual basis. Therefore, the Group does not consider the risk associated with transitioning to the new EPC requirements to be material.

Furthermore, in order to better understand the potential implications of these risks, the Group has undertaken a review of a range of quantitative scenario assessments, linked to the Bank of England's CBES scenarios (as described above under Vehicle Finance), to help assess the longer-term level of risk from climate change on our Real Estate Finance business. The analysis considered the potential economic implications of the transitioning to net zero and the most severe potential impacts of flooding on property values. The analysis showed that the Group's approach to surveying/valuing properties and the short-term nature of the lending facilities provided, enabled us to minimise any impact from flooding within the planning period and adapt lending policy to withstand the most severe longer-term economic impacts. The outcomes from the analysis indicate that currently there is no significant link to credit losses due to climate change factors and the Group are resilient across the scenarios assessed. The results will be factored into the Group's 2023 ICAAP.

The Group plans to further develop the scenario analysis undertaken and will continue to use the results to identify climate change risks/opportunities and how these may influence our business plans.

The Group has also considered how Real Estate Finance can support our clients to manage the transitional impacts of climate change. In June 2021 Real Estate Finance identified an opportunity to support its clients through enhancing its existing loan products to specifically support borrowers investing in higher energy performance rated properties or upgrading less efficient properties. This product offered favourable interest rates and has been popular with our customers and to date we have committed facilities totalling £120 million. These products were relaunched in 2022, although on a variable interest rate basis only. As a result of the current interest rate environment, this product has not generated significant lending volumes.

In June 2022, the Board reaffirmed its desire to support our clients' transition. Through planned training to our relationship managers, we will continue to work with our clients and industry professionals to identify opportunities where we can support them with adapting and reducing their impact on climate change.

Commercial Finance

The potential impacts on our Commercial Finance clients as they respond to any changes to their business from the effects of climate change and associated transitional impacts on their clients.

The Group's Commercial Finance clients cover a broad range of sectors and there is a risk that their businesses and/or customers could be affected by the transitional impacts of climate change, which in turn could affect their ability to service their lending with the Group.

In order to understand and evaluate the risk to our business, the Group has developed an approach to formally assess the climate change risks associated with each of its Commercial Finance clients. The assessments consider all of the following areas of risk (i) client risk; (ii) geography; (iii) product risk; (iv) debtor risk; (v) supply risk; and (vi) collateral risk.

This bespoke model allows our Commercial Finance business to focus on the most relevant areas of our credit risk assessment and thereafter engage with those current and prospective clients that may have material or specific risks to understand and support them with any mitigations necessary.

To support this approach, the Group has defined its risk appetite that it will not engage with clients whose residual risk rating from the above assessment is considered to be 'high' risk in relation to the impacts and implications of climate change. Rather than sector specific risk appetite, Commercial Finance operate a business model that makes appropriate client by client decisions to reflect the climate change risk associated with each individual facility.

Whilst the client risk reviews have provided useful insight, the level of risk is not currently considered to be material since the Commercial Finance portfolio is primarily composed of short-term, self liquidating facilities secured principally by debtors and stock. Should there be any material concerns or risks relating to the impact of climate change on the viability of the client, these facilities can be reviewed, reduced or additional collateral taken where required.

Metrics and targets

The Board has approved an overarching risk appetite statement in relation to climate change of: 'Secure Trust Bank seeks to understand and quantify its climate change risk exposure, so the Bank working with its customers and clients can minimise the financial risks associated with the transition to a low carbon economy and any impacts from climate change to our business'.

This statement is supported by a set of metrics and thresholds, approved by the Risk Committee, that measure and monitor the level of risk for each key risk identified.

The metrics and thresholds include:

- **Operations** – No appetite for any internal sites with medium or high flood rating or EPC rating below rating E.
- **Supply chain** – Metrics that monitor whether there are any material risks that could affect the service offering from our material suppliers.
- **Vehicle Finance** – A series of metrics that measure and limit the concentration within the portfolio of funding for older (higher emission) vehicles. Metrics that monitor customer preferences and the potential impacts on the residual values of carbon fuelled vehicles.
- **Real Estate Finance** – Metrics that monitor the proportion of the lending portfolio that is secured on properties that are within high risk of flood or require investment to improve their energy performance to acceptable levels.
- **Commercial Finance** – No appetite for funding customers that are assessed as having an overall 'high' residual risk (internally rated assessment) to the impacts and implications of climate change.

Climate-related financial disclosures
continued

Scope 1, Scope 2, and Scope 3 GHG emissions.

This section of the report covers the Group's GHG emissions, with work ongoing across the Group to evaluate our financed and supply chain emissions. In line with accepted industry approaches, and once complete the Group will consider additional targets and metrics to cover these emissions.

The following tables set out the Group's energy consumption and CO_2e emissions for 2022 in accordance with TCFD, and the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

We have calculated our emissions using the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). Energy consumption and GHG emissions are reported as single totals, by converting them to the equivalent amount of kWh and CO_2e respectively using emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2022. This approach is consistent with previous years. All energy consumption and emissions relate to the UK and cover all Group entities and therefore is aligned with the financial reporting of the Group.

Measure	2022 kWh	2021 kWh	Year on Year Variance %
Scope 1 – Building energy: gas consumption	210,605	194,723	8.2
Scope 1 – Emergency generator: gas oil consumption	4,733	4,733	–
Scope 1 – Business travel: Group leased vehicles	195,579	NC[1]	N/A
Scope 2 – Building energy: electricity consumption	1,303,946	1,475,676	(11.6)
Scope 3 – Business travel: employee owned vehicles	126,748	NC[1]	N/A
Total energy consumption	**1,841,611**	**1,675,132**	**9.9**

Measure (Location-based emissions[2])	2022 CO_2e tonnes	2021 CO_2e tonnes	Year on Year Variance %
Scope 1 – Direct emissions from the combustion of fossil fuel	148.3	132.4	12.0
Scope 2 – Indirect emissions from purchased electricity	252.2	313.3	(19.5)
Scope 3 – Other indirect emissions	91.5	45.2	102.4
Total Scope 1 to 3 CO_2e emissions	**492.0**	**490.9**	**0.2**

Measure	2022	2021	Year on Year Variance (%)
Group operating income £ million (continuing and discontinued)	178.2	164.5	8.3
Environmental intensity indicator (Total emissions per £m Group operating income)	**2.8**	**3.0**	**(6.7)**

- Scope 1 emissions resulting from activities owned and controlled by the Group. These are direct emissions and includes the combustion of natural gas for heating buildings and fuel for Group owned vehicles.
- Scope 2 emissions are indirect emissions generated from purchased electricity in relation to the Group's activities, but occur at sources which the Group does not own or control.
- Scope 3 emissions are indirect emissions generated by the Group's activities, but occur at sources which the Group does not own or control. Emission data included in the table relate to Scope 3 categories (3) Fuel and energy related activities (not included in Scope 1 or 2) and (6) Business travel, noting business travel on public transport has been included for the first time in 2022. For further information on Scope 3 categories and applicability to the Group, see Scope 3 CO_2e emissions section below.

The Group is reporting a small increase in emissions in the year. Increases in emissions primarily caused by the addition of 'Business travel: public transport' reporting (32.1 tonnes CO_2e) and the increase in air conditioning leakage (67.1 tonnes CO_2e) have been offset by the implementation of environmental initiatives such as switching the Group's fleet of leased vehicles to PHEVs and EVs. The increase in air conditioning leakage mostly caused by the age of the equipment at our main site, is unlikely to recur as the Group plans to exit this site in 2023. Delivery of the Group's carbon saving initiatives in the year have reduced the Environmental intensity of its operations year on year.

The majority of the Group's offices have used renewable electricity during 2022. Under location based[2] emissions, electricity emissions were 252.2 tonnes of CO_2e (included in the table above in Scope 2). Market based[3] emissions exclude premises which use 100% renewable electricity. This reduces electricity emissions to 95.3 tonnes of CO_2e. The Group will continue to work with landlords to switch to 100% renewable electricity at the remaining Group offices.

1. Not calculated in 2021 due to absence of Government issued conversion factors.
2. Location based emissions are calculated by multiplying electricity consumption for all sites by the Governments conversion factor for UK electricity.
3. Market based emissions are calculated by excluding the sites that use 100% renewable electricity from the location based calculation.

CO_2e emissions

Scope 1

Air conditioning leakage	12.5%
Business travel: Group leased vehicles	9.5%
Building energy: Gas consumption	7.8%
Fuel: Gas oil	0.2%

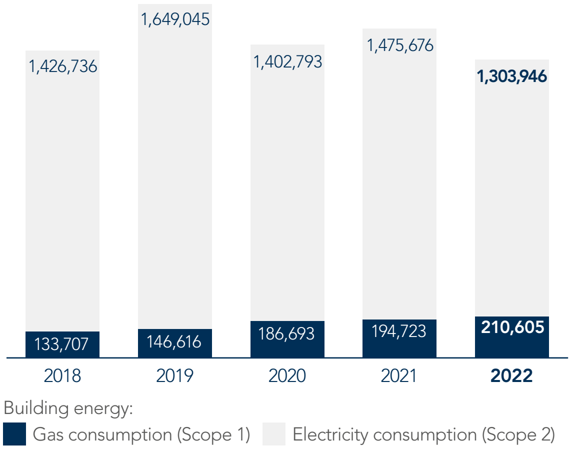
Scope 2

Building energy: Electricity consumption	51.4%

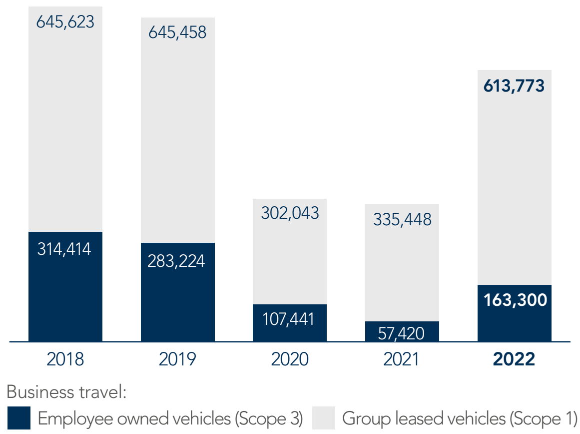
Scope 3

Business travel: Employee owned vehicles	7.4%
Business travel: Public transport	6.5%
Fuel and energy related activities (not included in Scope 1 or Scope 2): Electricity transmission and distribution	4.7%

Energy consumption five-year trend (kWh)



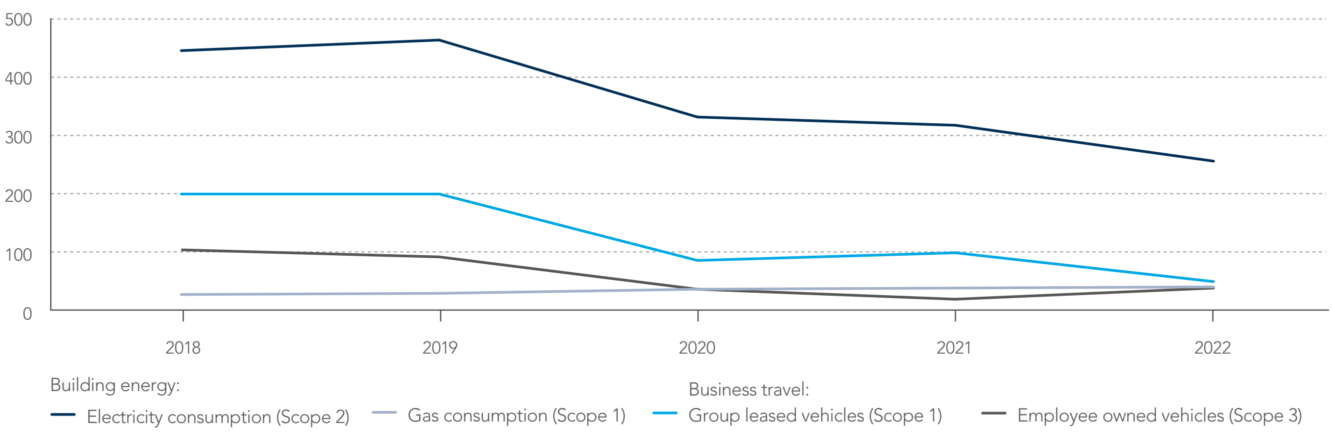
Energy consumption five-year trend (miles)



Reported energy consumption has increased year on year for natural gas but has decreased for electricity. This is primarily due to adopting a more accurate assessment of the energy consumption at our leased offices.

Mileage for all vehicles has increased significantly as pandemic travel restrictions were lifted in 2022. Mileage for Group leased vehicles has returned to pre-pandemic levels as sales teams find face to face meetings more effective. However, mileage for employee owned vehicles remains below pre-pandemic levels as office based employees now favour a mix of face to face and remote meetings.

CO_2e emissions (tonnes) five-year trend



*Graph is prepared on location based emissions.

CO_2e emissions for natural gas, electricity and employee owned vehicles are following the trend set by the energy consumption data for these categories. However, whilst Group leased vehicles mileage has increased, emissions have significantly decreased following the switch to PHEVs and EVs.

Climate-related financial disclosures
continued

Environmental initiatives

Achievements

A programme of environmental initiatives is being implemented across the Group. Recent achievements include:

Sector	Achievements
Climate Change	• Our offices in Cardiff, Solihull, London, Reading and Leeds have now switched to 100% renewable electricity. Our offices in Manchester and Birmingham are currently using 50%+ renewable energy. • Gas and electricity consumption has been reduced by the closure of one of our Cardiff offices. • EV charging points have been installed at our Cardiff and Solihull offices. • Almost all Group leased vehicles have been switched from petrol and diesel vehicles to PHEVs and EVs.
Circular Economy	• Many of our customer bulk mailings have been switched to a more efficient external print service provider and some have been switched to digital channels. • Waste recycling has been established at our main offices in Cardiff and Solihull. • Items such as batteries, toner cartridges and IT equipment are recycled. • Unwanted office furniture is re-used through donations to local schools, colleges and charities.

Planned activities

The Group's programme of environmental initiatives will continue to be implemented throughout 2023. The table below illustrates some of the key initiatives planned:

Sector	Planned activities
Climate Change	• Investigate transitioning our remaining sites to 100% renewable electricity. • Present a business case for the installation of photovoltaic cells (solar panels) at our Cardiff and Solihull offices. • Close two further offices, thereby reducing gas and electricity consumption. • Review the fleet of Group leased vehicles with a view to switching from PHEVs to EVs. • Undertake a review to consider how we can encourage employees who use their own vehicles for business travel to switch to PHEV and EVs and how we can reduce business travel. • Undertake a review of our premises to consider how we can reduce energy consumption and improve energy efficiency.
Circular Economy	• Continue to switch customer bulk mailings to our external print service provider and from paper and post to digital channels. • Continue to monitor waste from our offices, considering ways to reduce overall waste and to increase the proportion of recyclable waste. • Review purchased products across the company to determine which other items can be switched to recycled or sustainable products.

Scope 3 CO_2e emissions

The Group has assessed the relevance and materiality for each category of Scope 3 emissions within the table below.

Scope 3 Category		Status
1	Purchased goods and services	Supply chain analysis underway, to be completed in 2023
2	Capital goods	Supply chain analysis underway, to be completed in 2023
3	Fuel and energy related activities (not included in Scope 1 or Scope 2)	Reported in 2022
4	Upstream transportation and distribution	Supply chain analysis underway, to be completed in 2023
5	Waste generated in operations	Unlikely to be material. Analysis to be completed in 2023.
6	Business travel	Reported in 2022.
7	Employee commuting	Analysis to be completed in 2023.
8	Upstream leased assets	All material emissions from leased assets are included in Scope 1 and 2 emissions.
9	Downstream transportation and distribution	Not applicable for the Group.
10	Processing of sold products	Not applicable for the Group.
11	Use of sold products	Not applicable for the Group.
12	End-of-life treatment of sold products	Not applicable for the Group.
13	Downstream leased assets	Material assets leased in 2022 have now been terminated. Not applicable in 2023.
14	Franchises	Not applicable for the Group.
15	Investments (Financed emissions)	Analysis of financed emissions underway, to be completed in 2023. See below for further details.

Financed emissions

In 2022, the Group commenced work to evaluate a baseline for Financed emissions associated with our key lending portfolios. Financed emissions are the indirect emissions attributable to the Group due to the financing we provide to our customers. In line with Partnership for Carbon Accounting Financials ('PCAF') methodology, we have established the data for Financed emissions across the majority of the properties and vehicles we finance. This data will be used to determine a baseline position for future targets. Whilst we are already utilising this data to understand the impacts of our business on climate change, we recognise the importance of the accuracy of this data so will be undertaking formal assurance over these assessments and will report more detail in our 2023 Annual Report and Accounts.

The Financed emissions analysis for all vehicles financed follows the formula prescribed in the PCAF standard.

$$\boxed{\text{Financed Emissions}} = \sum \underbrace{\text{Attribution Factor}}_{\frac{\text{Outstanding loan value}}{\text{Original vehicle value}}} \times \underbrace{\text{Vehicle Emissions}}_{\text{Annual Km} \times CO_2\text{Kg/Km}}$$

	As at 31 December 2022
Vehicle Finance loan book (£m) (excluding Stock Funding)	351.8
Average CO_2e tonnes per annum per vehicle[1,2]	1.99
Total annual CO_2e tonnes[1,2]	101,000
Total annual Scope 3: Financed emissions CO_2e tonnes	64,600

The Strategic Report was approved by the Board on 29 March 2023 and signed on its behalf by:

David McCreadie
Chief Executive Officer

1. Internal combustion engine (Scope 1: direct emissions from fuel combustion in vehicles), EVs (Scope 2: indirect emissions from electricity consumed) and Plug-in hybrid EVs (Scope 1 and 2) estimates based on the annual mileage provided in the contract, or where not available based on an estimate from the Department of Transport data (2019). Internal combustion engine and plug-in hybrid EVs tailpipe emissions use recognised manufacturer data for all vehicles. EV emission data uses Government averages for CO_2/km.
2. The official figures for grammes of CO_2/km are from the regulatory testing either older New European Driving Cycle ('NEDC') or phased in from c2017 'Worldwide harmonised Light-Vehicle Testing Procedure ('WLTP'). An uplift is applied to the emission figure on vehicles on the earlier test to more reflect 'real world' CO_2 emissions.

Chairman's introduction

> "We believe that both the Board collectively and Directors individually have a responsibility to set and demonstrate high standards of corporate governance."
>
> **Lord Forsyth**
> Non-Executive Chairman

On behalf of the Board, I am pleased to present our Corporate Governance Report and confirm our compliance with the UK Corporate Governance Code published in July 2018, for the year ended 31 December 2022. We believe that both the Board collectively and Directors individually have a responsibility to set and demonstrate high standards of corporate governance. The following pages outline the structures, processes and procedures by which the Board ensures that this is achieved.

The Corporate Governance Report in its entirety, pages 60 to 109, explains how the Group has applied and complied with the provisions of the UK Corporate Governance Code 2018 and the Companies (Miscellaneous Reporting) Regulations 2018 for the year to 31 December 2022.

The Report includes a statement disclosing its compliance with the UK Corporate Governance Code 2018, which can be found on page 64, and a disclosure of how the Company engages with its stakeholders, which can be found on pages 40 to 49. The Non-Executive Directors, all of whom the Company regards as independent, bring considerable experience to the Board across a number of specialisms. They challenge management constructively, develop clear strategy and are actively involved in chairing and attending Committees. The Executive Directors implement Board strategy to deliver growth and returns, actively managing the portfolio of businesses through each of the business unit Managing Directors.

The Board was able to meet both physically and virtually on a regular basis during 2022, to collaborate and maintain control of its governance processes and activities in what has been a successful year.

The Board is required to confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The Audit Committee has again assisted the Board in its assessment of these matters, together with those of Going Concern and Viability Statement disclosures. The full Audit Committee Report is set out on pages 70 to 74.

Lord Forsyth
Chairman

Board leadership
Board of Directors

Strong leadership

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

Appointed to the Board on 1 March 2014 as an Independent Non-Executive Director and as Chairman of the Company on 19 October 2016. Chair of the Nomination Committee and member of the Remuneration Committee.

Skills and experience
Lord Forsyth is a former Chairman of Hyperion Insurance Group, and former Deputy Chairman of JP Morgan UK and Evercore Partners International. He was appointed to the Privy Council in 1995, knighted in 1997, and joined the House of Lords in 1999. He was a member of the House of Commons for 14 years and served in Government for 10 years, latterly as a Cabinet Minister.

Long-term contributions:
His background in the public and private sectors has given Lord Forsyth a broad experience of matters relevant to the business of the Group including strategy, governance, operations, marketing, risk and human capital. His experience enables him to provide valuable insights at committee meetings and to chair the Board effectively.

Other appointments include:
Lord Forsyth is a director of J&J Denholm Limited and Denholm Logistics Group Limited. He stepped down from his role as Chairman of the House of Lords Economic Affairs Committee in January 2022 following his appointment as Chairman of the Association of Conservative Peers on 15 September 2021.

David McCreadie FCBI
Chief Executive Officer ('CEO')

Appointed to the Board on 17 December 2019 and appointed as CEO on 5 January 2021.

Skills and experience
David McCreadie has many years of banking experience and is a Fellow of the Chartered Banking Institute. He spent more than 20 years at The Royal Bank of Scotland (now NatWest Group plc) holding roles in Branch Banking, Consumer Finance and several Group central functions. From 2004 to 2008 David was appointed the CEO of Kroger Personal Finance, a joint venture between RBS and Kroger Co, based in Cincinnati, USA. David joined Tesco Personal Finance in 2008 and was a member of the executive team that built Tesco Bank. David was an Executive Director and Managing Director of Tesco Bank, with responsibility for the banking and insurance businesses, from 2015 to 2019.

Long-term contributions:
His executive career and wealth of experience in banking, risk management, governance, consumer facing businesses and retailing provide David with the skills needed to manage the day-to-day activities of the Group. His strong leadership and strategic expertise enable him to lead the Group in a sustainable way and create shareholder value.

Rachel Lawrence ACMA
Chief Financial Officer ('CFO')

Appointed to the Board on 23 September 2020.

Skills and experience
Rachel has considerable experience in financial services gained from a career spanning more than 20 years. She has held senior finance roles in Metro Bank, where she was part of the original team that set up the bank, and Shawbrook where she was part of the successful Initial Public Offering ('IPO'). Prior to joining Secure Trust Bank plc, Rachel was CFO at AIB Group (UK) plc. She brings a wealth of banking experience focused on high growth start up organisation and wider financial services experience gained in asset management, life, pensions and general insurance. She is a qualified chartered management accountant.

Long-term contributions:
Rachel's considerable experience in finance and banking proves invaluable in her role as CFO. She has a deep understanding of the Group's businesses and strategy and has a strong track record of creating shareholder value.

Board leadership
Board of Directors

Ann Berresford ACA
Senior Independent Director

Appointed to the Board on 22 November 2016, appointed Chairman of the Audit Committee on 23 September 2017. Member of the Risk and Nomination Committees. Ann was appointed as the Senior Independent Director following the close of the 2020 Annual General Meeting.

Skills and experience
Ann Berresford is a Chartered Accountant with a background in the financial services and energy sectors. She has held positions at Bath Building Society, the Pensions Regulator, Hyperion Insurance Group, Triodos Renewables plc, the Pension Protection Fund, Bank of Ireland Group, Clyde Petroleum plc and Grant Thornton.

Long-term contributions:
Her career has given Ann experience in mortgages, pensions, operations, accounting, finance and risk. Her previous experience in the renewable sectors gives her a long-term outlook. The insights she has gained from her career mean that she is a strong Senior Independent Director and an excellent addition to the Board and committees she serves. Her financial background makes her an excellent Chairman of the Audit Committee.

Other appointments include:
Ann is the Senior Independent Director and Chairman of the Audit Committee of Albion Venture Capital Trust PLC.

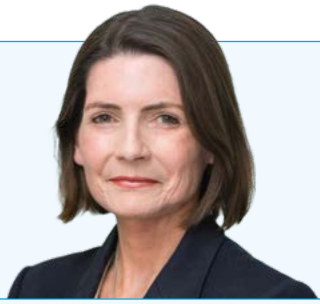
Paul Myers ACIB
Independent Non-Executive Director

Appointed to the Board on 28 November 2018 and as Chairman of the Risk Committee on 31 March 2020. Member of the Remuneration and Nomination Committees. Paul is the Non-Executive Director designated for Workforce Engagement and the Chairman of the Employee Council.

Skills and experience
Paul Myers has many years of banking experience, gained initially in Barclays where he spent 24 years in a variety of retail banking roles. He was part of the small team that founded and built Aldermore Bank, where he served as Chief Operating Officer, Corporate Development Director and on the board as an Executive Director. Paul had a wide range of responsibilities at Aldermore, including IT, operations, transformation, marketing and digital as well as building and developing the retail and SME savings operations. Paul also has previous experience as CEO of a FinTech new banking venture, GKBK Limited. Paul is an Associate of the Chartered Institute of Bankers.

Long-term contributions:
Paul's career has given him a wide range of experiences and responsibilities, including IT, operations, transformation, marketing and digital as well as building and developing retail and SME savings operations. His insight into banking and particularly IT and operations provide a unique viewpoint that complements the Board and the Committee he serves well. His broad experience positions him well as Chairman of the Risk Committee.

Other appointments include:
Paul is currently a Non-Executive Director and Chairman of the Remuneration Committee at Ashman Bank Limited, a new bank start-up.



Victoria Stewart
Independent Non-Executive Director

Appointed to the Board on 22 November 2016. Appointed Chairman of the Remuneration Committee on 21 July 2017. Member of the Nomination and Audit Committees.

Skills and experience
Victoria Stewart has over 25 years' experience in the financial services sector and was for many years a fund manager and investor in UK small companies. Victoria has knowledge of corporate structures and capital markets with particular experience in smaller companies listed on the Main Market and the Alternative Investment Market. She has held a number of positions at Royal London Group and Chiswell Associates (formerly Cantrade Investment Management Limited and now part of Sarasin & Partners).

Long-term contributions:
Victoria's background has given her vast experience in remuneration, governance, corporate strategy, investor relations, accounting, finance and risk. Her investor relations experience provides her with valuable insight from a shareholder perspective which the Board benefits from. Her experience in remuneration and governance make her a suitable choice for the Chairman of the Remuneration Committee and member of the Nomination Committee.

Other appointments include:
Victoria is a Non-Executive Director of Artemis Alpha Trust plc, Aberforth Smaller Companies Trust plc and JP Morgan Claverhouse Investment Trust plc. She is a member of the ICAEW Investment Committee and a former member of the ICAEW Corporate Governance Committee.

Finlay Williamson CA FCIBS

Independent Non-Executive Director

Appointed to the Board on 30 June 2021 and member of the Risk and Nomination Committees. Appointed to the Audit Committee and as Consumer Duty Champion on 27 October 2022.

Skills and experience

Finlay Williamson is a qualified accountant with many years of banking experience, gained initially at The Royal Bank of Scotland Group PLC (now NatWest Group plc) and then at Virgin Money Holdings (UK) plc where he was CFO prior to the IPO. Finlay was previously a Non-Executive Director at Paragon Banking Group PLC, where he was a member of the Audit Committee and chaired the Group and Bank Risk Committees.

Long-term contributions:

His career has given Finlay experience in retail, SME and auto finance banking as well as real estate domain experience. He also has experience of corporate acquisitions and subsequent integrations, with significant experience of change and transformation. Finlay has developed good relationships with the FCA and PRA during his career and is up to date with their priorities and processes. He also has prior appointments on plc Boards and Committees. The skills and experience he has gained from his career mean that he is a strong addition to the Board and committees he serves.

Other appointments include:

Finlay is currently the Chairman of the Audit Committee and Senior Independent Director of Hampden & Co PLC.

Mark Stevens FCG

Company Secretary

Appointed as Company Secretary in June 2019 and a member of the Executive Committee.

Skills and experience

Mark Stevens is a Chartered Secretary and qualified governance professional with a wealth of experience in the financial services sector. Mark previously was Group Company Secretary of Amlin plc, a FTSE 250 international insurance company, where he overhauled the governance practices and teams, and implemented a new governance framework in six jurisdictions in consultation with local regulators.

Prior to his role in Amlin, Mark was Deputy Secretary of the retailer Dixons, worked at BT Global Services as Head of Governance, MENA and trained with Ernst & Young.

Long-term contributions:

His long career has given Mark experience in insurance, banking, telecoms and retail, working within multiple regulatory environments and complex remuneration structures.

A qualified share schemes practitioner, Mark brings his extensive experience and knowledge of remuneration and corporate governance to Board and Executive Committee discussions.

Former Directors who served during the year

Baroness Lucy Neville-Rolfe DBE CMG

Independent Non-Executive Director

Corporate Governance report

UK Corporate Governance Code (the 'Code') – Statement of Compliance

Throughout the period under review, the Board confirms that the Group has complied with the provisions and applied the principles of the Code. A copy of the Code can be found on the Financial Reporting Council's website.

The Chairman, who was independent upon his appointment as Chairman in October 2016, is being recommended for reappointment at the upcoming AGM and has served as a Director for more than nine years since his appointment in March 2014. The Board is comfortable that the knowledge, tenacity and experience that the Chairman brings to the Board outweighs the need for mandated time independence, particularly during this period of growth for the business and is content that the Chairman remains independent in character and judgement. Further details can be found in the Nomination Committee report on pages 67 to 69 for more information.

The governance sections of this report describe the Group's governance arrangements and how the Board has applied the principles of the Code.

Board leadership and Company culture

The corporate purpose, values and strategy of Secure Trust Bank ('STB') are set out at the beginning of the Annual Report and are embedded into employee objectives aligned to STB's core values of Grow, Sustain and Care. Every year, an all-employee opinion survey is issued and the feedback is reviewed by the Board to assess how well these aims are understood and followed by the workforce. The result of this year's survey, conducted by Great Place to Work®, was a continued improvement for the third consecutive year on what were already positive scores, demonstrating that the culture and values of STB are understood and ingrained in the organisation (please see page 43 for more information).

The Board believes it is important that colleagues can raise concerns in confidence and, if they wish, anonymously. Information on the Group's whistleblowing arrangements can be found on page 74. Regular interaction with key stakeholders takes place via the Chairman, the Non-Executive Director designated for workforce engagement and each of the committee chairmen. This enables stakeholder impact to be fully considered in Board discussions across a range of topics. In addition, workforce engagement remains a standing item on the Board agenda. Further information on this and how the Group Employee Council operates can be found on page 43.

The Chairman of the Board, Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') meet with analysts and institutional investors to seek and understand their views and report back to the Board. The committee chairmen and the Senior Independent Director are available to engage with shareholders on significant matters relating to their areas of responsibility. For example, the Chairman of the Remuneration Committee wrote to our top shareholders ahead of the publication of the proposed Directors' Remuneration Policy (please see page 81 for more information). Further detail on stakeholder engagement can be found in the Managing our business responsibly section starting on page 40. The Chairman meets with the Non-Executive Directors without the Executive Directors, or other members of senior management, present at least annually and did so twice during 2022.

The Board delegates authority to executive management to run the business and to implement the strategy set by the Board. A brief description of the responsibilities of the Executive Committee and a description of the governance framework can be found on STB's corporate website. Two members of executive management, the CEO and the CFO, are Executive Directors of the Board. The CEO is the Chairman of the STB Group Executive Committee.

The Board sets the Group's risk appetite and oversees risk management practices by management. The Board meets regularly and, both as a Board and through its various committees, provides oversight of and direction to management through constructive challenge, strategic guidance and specialist advice. Regular confirmation is sought from management that the necessary resources are in place to enable STB to meet its objectives and measure performance.

Board attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Lord Forsyth	11	11
Ann Berresford	11	11
Rachel Lawrence	11	11
David McCreadie	11	11
Paul Myers	11	11
Victoria Stewart	11	11
Finlay Williamson	11	11
Baroness Neville-Rolfe	8	8

iNED	5
ED	2

Division of responsibilities

The Board is led by the Chairman who is responsible for the Board's overall effectiveness and who encourages a culture of openness and debate. The Board provides strategic leadership to the Group, sets its long-term strategic objectives and exercises oversight over the implementation of the strategy and the activities of management. The Board is aware of its responsibilities to all its stakeholders and is mindful of this in Board discussions as set out on pages 40 to 49. The Board has appointed a Senior Independent Director, Ann Berresford, who is available to shareholders if they have concerns, where contact through the normal channels of Chairman, CEO or other Executive Directors has failed or is inappropriate. The Senior Independent Director was appointed in June 2020 and fulfilled this role throughout 2022 (please see the Board biographies on pages 61 to 63 for further information).

The responsibilities of the Chairman, CEO and Senior Independent Director are outlined in writing and a brief summary of their roles can be found on STB's corporate website. The role of each of the Non-Executive Directors is to hold management to account on activities by providing constructive challenge and strategic guidance at Board and committee meetings. The Board has delegated specific authorities to its four committees; Audit, Risk, Remuneration and Nomination, via each committee's respective terms of reference which are available to view on the STB website. There is a schedule of matters reserved for consideration by the Board. These include, amongst other matters, the determination of dividends, material acquisitions or disposals and the issue of new shares. The Board exercises oversight of the work of its committees via formal updates from committee chairs. There is a clear division of responsibilities between the leadership of the Board and the executive leadership of the Company. Internal processes are in place to enable the Board to have access to necessary information and resources to function effectively, including the maintenance of online portals of up-to-date company policies, timely dissemination of information and access to independent professional advice at the expense of the Company. All Directors have access to the Company Secretary's advice and services. Directors have access to the necessary information and resources to be able to effectively discharge their responsibilities. The Company Secretary provides support and acts as a first point of contact for the Chairman and Non-Executive Directors. The Company Secretary is also responsible for the induction of new independent Non-Executive Directors.

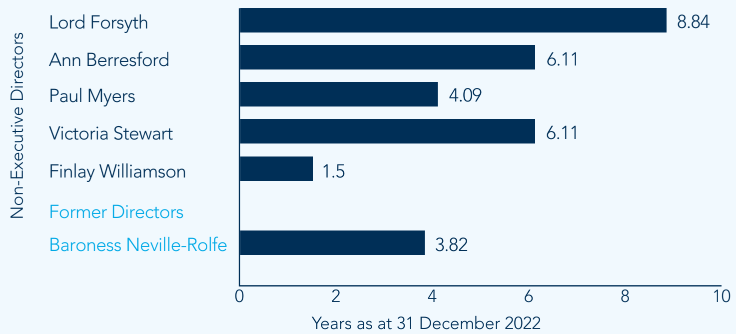
Delegation of authority within limits set by the Board

Subject to certain matters reserved for the Board, the CEO has been delegated authority limits and powers within which to manage the day-to-day affairs of the Group. Each Executive Committee member has authority delegated from the CEO within which they manage the day-to-day affairs of the business or function for which they are accountable, and the Group and Business Unit Executive Committees and other Committees assist them in assessing and controlling risk.

Composition, succession and evaluation

Information on Board and Committee succession planning can be found within the Nomination Committee report starting on page 67. The length of service for each Non-Executive Director in years as at 31 December 2022 is outlined to the right. Baroness Neville-Rolfe stepped down from the Board on 21 September 2022. The Nomination Committee considers the membership and tenure of the Board as a whole and considered proposals for refreshing membership during the year. Please see the Nomination Committee report starting on page 67 for more information.

Non-Executive Director Tenure



Conflicts of interest

All Directors are required to disclose to the Board any outside interests which may conflict with their duties to the Group (including any related party transactions). The Board is required to approve any actual or potential conflicts of interest. On appointment, new Directors are required to disclose their other interests. Conflicts of interest are also governed by the Articles of Association of the Company and company law. Directors are under a continuing obligation to disclose external appointments and to confirm they have sufficient time to discharge their duties to the Group. Additional external appointments require prior authorisation by the Chairman and an internal schedule of conflicts is maintained.

Financial reporting

A description of the responsibilities of the Directors for the preparation of the Annual Report and Accounts is set out on page 109. The approach taken by the Board to ensure that the Annual Report and Accounts are fair, balanced and understandable is set out on page 72 and the information necessary for shareholders to assess the Company's position and performance is set out in the Strategic report starting on page 2. An explanation of the business model and the strategy for delivering the objectives of the Company is set out on pages 8 to 11. A statement of the responsibility of the External Auditors for the Annual Report and Accounts is set out on page 116. The basis on which the Board reached its decision to adopt the going concern basis of accounting is described on pages 35 to 36.

Corporate Governance report
continued

Internal control

The Board has overall responsibility for maintaining the Group's system of internal control, including financial, operational and compliance controls, and for reviewing its effectiveness. This system is designed to manage risk of failure to achieve business objectives and to provide reasonable assurance against the risk of material misstatement or loss. The system of internal control was in place throughout the financial year, and up to the date of the approval of the Annual Report and Accounts, and was reviewed by the Board and its committees. The Board, through the Risk Committee, confirms that in reviewing the Annual Report it has completed a robust assessment of the Group's emerging and principal risks and has included a description of its principal risks as set out on pages 25 to 34.

The key risk management principles include the following:

Risk appetite

The Board has adopted a Group risk appetite statement which sets out the Board's attitude to risk and internal control.

Risk management framework

The Group has adopted a 'Three Lines of Defence' model to control and manage risks in line with the Group's risk appetite. Please see the description of Principal risks and uncertainties on page 25 for a description on how the Three Lines of Defence operates at STB Group. Each of the second line functions that set policy, provide guidance and oversee risk management or compliance has the appropriate expertise in order to fulfil its responsibilities and this is overseen by the Board Committees.

Risk identification and monitoring

The Board, through the Risk Committee, confirms that in reviewing the Annual Report it has completed a robust assessment of the Group's emerging and principal risks and has included a description of its principal risks as set out on pages 25 to 34. Key risks identified by the Directors are formally reviewed and assessed annually by the Board and the Risk Committee. Key business risks are also identified, evaluated and managed on an ongoing basis by management. The Board and the Risk Committee also receive regular reports on any material risk matters. Significant risks identified in connection with the development of new activities are considered by the Board and the Risk Committee in conjunction with the approval of any such new activity.

Review of the effectiveness of the Internal Control System

The Board, through the Audit Committee, reviews the effectiveness of the internal control system. The Audit Committee receives reports of reviews undertaken by the Internal Audit function as well as reports from the External Auditors, Deloitte LLP, which include details of internal control matters they have identified as part of their external audit. Other key elements of the Group's system of internal control include regular meetings of the Executive and business unit Risk Committees and monthly financial and operational reporting.

The reports of the Audit Committee and Risk Committee starting on pages 70 and 75 respectively set out further details of how those responsibilities are discharged.

Nomination Committee report
Statement by the Chairman of the Nomination Committee

"Diversity and inclusion plays an important part in our workforce engagement and succession planning."

Lord Forsyth
Chairman of the Nomination Committee

The Committee's focus in 2022, has been on overseeing the planned changes to the senior management team following the retirement of Executive Committee members Jon Bowers, Managing Director, Real Estate Finance and Asset Finance, and David Nield, Managing Director, V12 Vehicle Finance, and commissioning and responding to the external evaluation of the effectiveness of the Board and its Committees.

The sudden departure of Baroness Neville-Rolfe from the Board following her appointment to the Government in September 2022, required the reallocation of her role as the Non-Executive Director responsible for Workforce Engagement and Chairman of the Employee Council to Paul Myers, who has stepped into the role following a short induction. The Board also appointed Finlay Williamson to the Audit Committee and as Consumer Duty Champion and our approach to treating our customers fairly is set out on pages 40 to 41.

Until Baroness Neville Rolfe stepped down, the Board was gender balanced. Diversity and inclusion plays an important part in our workforce engagement and succession planning. As we look to recruit a further Non-Executive Director during the course of 2023 there will be an opportunity to broaden the diversity of the Board whilst ensuring that all our appointments continue to be made on merit.

The external evaluation concluded that the Board remains effective and has the right level of challenge to and oversight of Senior Management.

As we progress into 2023, I would like to express my thanks to the Committee members for their continued support.

Lord Forsyth
Chairman of the Nomination Committee

Nomination Committee report
continued

Nomination Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Lord Forsyth	2	2
Ann Berresford	2	2
Paul Myers	2	2
Victoria Stewart	2	2
Finlay Williamson	2	2
Baroness Neville-Rolfe	1	1

Membership and meetings

As at 31 December 2022, the Nomination Committee comprised five members, as set out in the attendance table above, and was compliant with the Code provision regarding its composition throughout 2022. Baroness Neville-Rolfe ceased to be a member of the Committee in September 2022.

The Committee meets at least twice a year or as frequently as its Chairman may require, and met twice in 2022. The Company Secretary, or their alternate, acts as Secretary to the Committee and other Directors or members of the senior management team attend at the request of the Committee Chairman. During the year the Chief Executive Officer attended a meeting by invitation.

The Chairman of the Committee reports to the Board on the outcome of Committee meetings and any recommendations made by the Committee.

Role and activities of the Nomination Committee

The Nomination Committee is responsible for considering the size, composition and balance of the Board; the retirement and appointment of Directors, including Executive Directors; succession planning for the Board and senior management, focused on the development of a diverse succession pipeline; and making recommendations to the Board on these matters.

The Committee's roles and responsibilities are covered in its terms of reference which were reviewed and updated during the year and are available on our corporate website www.securetrustbank.com

Board effectiveness and Non-Executive Director evaluation

During H2 2022 an externally facilitated independent board evaluation, as set out by the Code, was conducted by Board Alchemy Limited ('Board Alchemy') and reviewed by the Committee and the Board in Q1 2023. The appointment of Board Alchemy was through a competitive tender process conducted in early 2022. Board Alchemy has previously conducted the External Quality Assessment of the Internal Audit function in 2021 and conducted a review of corporate governance effectiveness in 2018, the latter as a co-sourced provider of the Internal Audit team. Both prior instructions assisted the evaluation of the Board as they provided a framework for how the Board has continued to develop its oversight of the business and internal controls. Board Alchemy has no other connection to the Company, the Directors or Senior Management.

The external evaluation consisted of observing the Board and its Committee meetings, together with interviews with Directors and Senior Management and the completion of a short questionnaire. The outcome of the evaluation was discussed with the Chairman and input into the report was provided to clarify matters of factual accuracy or historical context. The evaluation concluded that 'STB's Board (was) effective'.

The Committee reviewed the results and a report by the Chairman on the individual Directors' performance evaluations and a report from the Senior Independent Director on the review of the Chairman. The Committee agreed with the results of the evaluation and concluded that the Board was performing well and exercising the right level of judgement with due regard to the duties placed on Directors under company law, including section 172 of the Companies Act 2006. The Committee acknowledged that the Directors had been mindful of the provisions of the Code and their responsibilities as Directors and, where applicable, as senior managers under the Senior Managers Regime, when reaching their assessment of Board effectiveness and individual Director contributions.

The 2022 Board effectiveness review noted the evolving Board dynamic following changes to both the Board and the Executive Committee and noted that these would continue to change as members of the Board and Executive Committee retired from the business and were succeeded during the course of 2022 and 2023.

The external evaluation raised discussion points for the Board to consider regarding the format of management information and the interaction of the senior management team and the Board post pandemic and following changes to personnel. The Board had already given consideration to the majority of the points raised and action to address those points was underway, validating the Board's judgement on these areas. The Board is considering the remaining discussion points and will report on the points in the 2023 Committee report.

Composition and independence

The Committee confirmed to the Board that it is satisfied that all Non-Executive Directors are independent and that Lord Forsyth, who was considered to be independent upon his appointment in March 2014 and upon his appointment as Chairman in 2016 remained independent, meeting the independence criteria set out in the Code.

The Committee reviewed the Board's composition during 2022 and concluded that it had the right balance of skills, knowledge and experience. The Committee continues to be mindful of the composition of each of the Board Committees and the Board and to have at least half of the Board members as independent non-executive directors.

Succession planning and Director recruitment

The Nomination Committee has considered the Company's succession plans, both at Board and at Senior Manager level. The plans identify potential internal candidates, short-term solutions in the event of unanticipated changes in circumstances and external recruitment, as well as reallocating regulatory responsibilities as required. The need for regulatory approval of the persons performing Senior Manager Functions under the Senior Managers Regime is incorporated into the suggestions of proposed individuals outlined in the succession plan.

The Committee, when considering the succession plans for individuals on the Board and in Senior Management, reviews the contingency (immediate), medium (one to two year) and longer-term (two to three year) proposals. The Committee also receives updates on the mentoring programmes for 'High Potential' individuals identified by the Executive Committee.

The Committee, having reviewed the succession plan and the mix of the Board's skills and experience at the end of 2021 decided that the recruitment of a further Non-Executive Director would not be required during the course of 2022 and that further consideration would be given to non-executive recruitment during the course of 2023. The sudden resignation of Baroness Neville-Rolfe gave rise to the Board and Committee considering recruitment earlier in 2023 to enhance the mix of skills and experience of the Board and to add further diversity to the Board. The Board has identified the skills and capabilities that would assist the business in the medium to long-term and a role profile, which will be reviewed for gender and other bias prior to being approved, is being developed.

Board policy on diversity

The Board appointment process and composition is overseen by the Nomination Committee. The Committee conducted the annual review of the Board Policy on Diversity, which outlines the Group's commitment to providing equal opportunities and the Board's belief that diversity includes gender, race, ethnicity, age, disability, religious belief, sexual orientation, marital status, gender identity, and pregnancy (together 'diversity'). A copy of the Board Policy on Diversity is available on our Company website.

Any appointments made to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board at the time of the appointment and having regard to long-term planning in relation to Board composition and strategy. The Committee has not set quotas or targets for the Board's composition. The Board had equal representation of men and women throughout the majority of 2022, and currently has a 3:4 split of women:men which is in excess of the 33% target set by the Hampton-Alexander review. Diversity, including ethnic diversity, will continue to be a factor taken into consideration during future appointments and as part of refreshing the Board.

Board training and development

The Board receives detailed reports from executive management on the performance of the Group at its meetings. Updates are provided on relevant legal, corporate governance and financial reporting developments. In addition, the Board, on the recommendation of the Committee, adopted a training programme during 2022 for 2022/23 and received training on strategic, regulatory, ESG, Consumer Duty and Financial Crime matters. This training was delivered through both internal experts and external consultants. Directors are encouraged to attend external seminars on areas of relevance to their role and to keep a record of their external training. A training plan for 2023/24 is being considered and will reflect business, regulatory and governance matters.

On appointment as Consumer Duty Champion, Finlay Williamson received a comprehensive induction programme and a tailored programme upon his appointment to the Audit Committee. Paul Myers also received a tailored induction when he became the Non-Executive Director for Workforce Engagement.

Audit Committee report
Statement by the Chairman of the Audit Committee

"The Committee has been focused on the impact of a volatile macroeconomic environment."

Ann Berresford
Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2022 and this report sets out some of the key matters on our agenda over that period.

One of our significant priorities during 2022 has been the impact of the rising cost of living and customer affordability in what have been volatile economic circumstances. The Committee has spent significant time considering the macroeconomic scenarios and the impact of those on key accounting judgements including those affecting provisions. The Committee has also considered accounting and reporting matters arising from the sale of Debt Managers (Services) Limited's loan portfolio.

The Committee has continued to receive valued support from a number of internal and external stakeholders including the Chief Internal Auditor, Chief Financial Officer, senior members of the Finance team, and the External Auditors. The Committee received an update at every meeting on internal audit activity and I met with the Chief Internal Auditor for a monthly update on progress against the internal audit annual plan. I have also regularly met with the External Audit Partner. Deloitte LLP are approaching the conclusion of their fifth year of appointment and the Committee has assessed the quality and effectiveness of the external audit process. The Committee remain satisfied that it continues to be effective and therefore recommend their reappointment as Auditor for 2023 to the Board at the 2023 Annual General Meeting ('AGM').

During the year, we welcomed Finlay Williamson to the Committee and have benefited from his insight and support since joining. Lucy Neville-Rolfe stepped down from the Committee in September 2022 when she resigned from the Board. I would like to thank Lucy for her contribution during her tenure.

Ann Berresford
Chairman of the Audit Committee

Committee governance

The Audit Committee met four times during the year. Members' attendance is summarised in the table below.

Meetings of the Committee were regularly attended during the year by the Chief Executive Officer, Chief Internal Auditor, the Chief Financial Officer and senior members of the Finance team, as well as the External Audit Lead Partner and other senior members of the External Audit team and other members of the Board at the invitation of the Committee. The Committee maintains a close and open dialogue with the External Auditor and Chief Internal Auditor, routinely holding a private session with them following Committee meetings and as required between meetings.

The Chairman of the Audit Committee reports to the Board on the outcome of Committee meetings and any recommendations arising from the Committee. The Company Secretary, or their alternate, acts as Secretary to the Audit Committee. Committee materials and minutes from the meetings are made available, as appropriate, to all Board members.

The Committee membership complied with the Code provision for independence throughout 2022. Both Ann Berresford and Finlay Williamson are considered by the Board to have recent and relevant financial experience and the Audit Committee, as a whole, has competence relevant to the sector in which the Group operates.

Role of the Audit Committee

The Audit Committee assists the Board in, amongst other matters, discharging its responsibilities with regard to regulatory reporting, financial reporting, including monitoring and reviewing the integrity of the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment, reappointment, removal and independence of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems including the Company's whistleblowing framework. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the Interim Report remains with the Board. The Board confirms the Annual Report, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. The Audit Committee assists the Board in reaching those conclusions, including reviewing significant financial reporting judgements, following appropriate executive governance, and assessing that the narrative reporting in the Strategic Report accurately reflects the financial statements. The Audit Committee is supported in this assessment by an effective external audit, the assessment of internal controls by internal audit and by challenging management on the integrity of financial and narrative statements.

Matters discussed at Audit Committee meetings since 1 January 2022

Meetings of the Audit Committee are scheduled to align with key dates in the Group's financial reporting cycle. The Committee maintains a schedule of meetings with a forward look agenda that facilitates the even distribution of items and the effective management of Committee time. Additionally, the Committee also deals with other matters as they arise.

Audit Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Ann Berresford	4	4
Victoria Stewart	4	4
Finlay Williamson	1	1
Baroness Neville-Rolfe	2	2

Audit Committee report
continued

During the year, the Audit Committee reviewed its Terms of Reference, the forward-look agenda, the Internal Audit Charter, and the engagement contract with the External Auditors. Other principal matters considered are set out as follows:

Financial and regulatory reporting

The Audit Committee has reviewed the following matters in connection with the annual and interim financial statements and considers that the Company has adopted appropriate accounting policies and made appropriate estimates and judgements:

Accounting policies, key judgements and assumptions used in preparing interim and annual financial statements	The Audit Committee reviewed the key accounting judgements proposed by the Executive following rigorous review by the Assumptions Committee in preparing the financial statements for the year ended 31 December 2022, the interim financial statements for the six months ended 30 June 2022, the stock exchange announcements and investor presentations that accompanies those statements. An economic advisory firm was engaged in 2022 to support the Assumptions Committee in formulating the macro-economic scenarios and weightings prior to recommendation to the Committee. The Audit Committee has considered the financial reporting treatment of the sale of Debt Managers (Services) Limited's loan book, including its treatment as discontinued operations. In July 2022 the Audit Committee considered whether Secure Trust Bank ('STB') had sufficient distributable reserves to pay a dividend and confirmed to the Board that the Board could pay an interim dividend on that basis. External factors have continued to evolve following the pandemic and the Committee has considered updates and overlays to judgements and assumptions to take account of developments in the macroeconomic environment and demonstrated impacts on STB. In 2022, the Committee reviewed the outputs from the Group's IFRS 9 models and considered the quantum and rationale for post model adjustments in ensuring the adequacy of the levels of impairment provision. The Committee has approved the inclusion of expert credit judgements regarding cost of living/affordability, new business and to reflect inflated values in the used car market and considered the impact of these on the financial statements. The Audit Committee undertook horizon scanning of future accounting changes, including as a consequence of audit reform, to understand changes or voluntary measures STB may, or will be required to, implement. In making its recommendations to the Board to approve the annual and interim financial statements the Committee has considered matters raised by the External Auditor on matters of judgement.
Use of the going concern basis in preparing the financial statements and long-term viability of the group	The financial statements are prepared on the basis that the Group and Company are each a going concern. The Audit Committee has reviewed management's explanations as to the appropriateness of the going concern basis in preparing the Group and Company financial statements and has not identified any material uncertainties as to the Company's ability to continue as a going concern for the period of 12 months from the approval of the accounts. The Audit Committee has reviewed and challenged the basis for assessing long-term viability, including the period by reference to which viability is assessed, the principal risks to long-term viability and actions taken or planned to manage those risks. This included consideration of specific stress tests and the Committee's conclusions are taken into account in the Board's viability statement on page 35 to 36.
Presentation of a fair, balanced and understandable Annual Report and Accounts	The Audit Committee, having reviewed the content of the Annual Report and considering relevant matters including the presentation of material sensitive items, the representation of significant issues, the consistency of the narrative disclosures in the Strategic Report with the financial statements, the overall structure of the Annual Report and the steps taken to ensure the completeness and accuracy of the matters included, has advised the Board that the 2022 Annual Report and Accounts include a 'fair, balanced and understandable' assessment of the Group and Company's businesses.
Regulatory reporting	The Committee has monitored regulatory reporting processes and oversees developments in the overall control environment for regulatory reporting.

External audit

Deloitte LLP has continued in their position as External Auditor since their appointment in May 2018 and 2022 will be Matthew Perkins' last year as the lead External Audit Partner. The Committee has considered and duly agreed to recommend the reappointment of Deloitte and that a new lead partner be appointed for 2023.

During the year the Committee reviewed and approved the external audit terms of engagement, the scope of the external audit, timetable, materiality and audit strategy as well as the letter of representation.

The Audit Committee reviews reports prepared by the External Auditor setting out their audit approach and conclusions on matters of judgement impacting the financial statements, any internal control findings identified during the external audit, their independence, and approves additional services and related fees. The External Auditor also highlighted upcoming areas of interest to the Committee to assist with their horizon scanning. The principal matters that the Committee discussed with Deloitte are set out in their report starting on page 110.

During 2022, the Committee assessed the effectiveness of the external audit process for 2021. The capabilities of the external audit team, their independence and challenge of management, the scope of the work, the quality of their communications, and fees were all considered. The assessment also considered the views of the finance team. The Committee concluded that the external audit process was satisfactory and that the External Auditor was performing well. The review did not highlight any reason for the Audit Committee not to recommend their reappointment.

The Audit Committee agreed a fee increase with the External Auditor in 2022. After significant discussion, the Committee was satisfied that the level of audit fees payable in respect of the audit services provided, being £757,000 (2021: £689,000) was appropriate and that an effective audit could be conducted for such a fee. The existing authority for the Audit Committee to determine the remuneration of the External Auditor is derived from shareholder approval granted at the AGM held in May 2022 and a similar resolution is proposed at the AGM to be held in May 2023.

Independence of the External Auditor, fees, and non-audit services

Deloitte has confirmed to the Audit Committee that it has policies and procedures in place to satisfy the required standards of objectivity, independence, and integrity, and that these comply with the Financial Reporting Council's Ethical Standards for Auditors.

The Audit Committee has considered matters that might impair the independence of the External Auditor, including the non-audit fees paid to the External Auditor, and has confirmed that it was satisfied as to the independence of the external audit firm Deloitte. As previously mentioned, 2022 will be Matthew Perkins' last year as the lead External Audit Partner and the Committee has considered and agreed with Deloitte that a new lead partner be appointed for 2023.

The Group has agreed a policy on the provision of non-audit services by its external auditor. The policy ensures that the engagement of the external auditor for such services requires pre-approval by appropriate levels of management or the Audit Committee and does not impair the independence of the external auditor, and that such engagements are reported to the Audit Committee on a regular basis. The external auditor will only be selected for such services when they are best suited to undertake the work and there is no conflict of interest.

The total of audit and non-audit fees paid to Deloitte during the period is set out in Note 7 on page 137. The non-audit services fee of £110,000 (2021: £110,000) was in respect of, but not limited to, the review of the interim financial statements and other ad hoc advice. In the case of each engagement, management considered it appropriate to engage Deloitte for the work because of their existing knowledge and experience of the organisation. Non-audit fees represented 14.5% of audit fees in 2022.

Audit Committee report
continued

Internal audit

The Group has an independent Internal Audit function led by the Chief Internal Auditor, augmented by external subject matter experts from a panel of internal audit co-source providers. The Chief Internal Auditor reports to the Chairman of the Audit Committee and they meet frequently through the year.

The primary role of the Internal Audit function is to help the Board and Executives protect the assets, reputation and sustainability of the Group, by providing independent and objective assurance on the design and operating effectiveness of the Group's governance, risk management and control framework and processes, following a risk-based approach.

The Committee reviewed and approved the 2022 internal audit plan and oversaw internal audit activity throughout the year, including adjustments to the plan to respond to external and internal events and priorities including the impact of internal change and external volatility on the Group's processes. In approving the internal audit plan, the Committee was satisfied that the team has the appropriate resource to deliver its plans.

The Committee received and considered all reports issued by the internal audit team. Key themes addressed in 2022 included:

- the effectiveness of governance and second line of defence, including model governance and financial crime risk management;
- Transformation and Change;
- Operational Resilience including IT resilience and risk management;
- working arrangements and culture; and
- Finance, Treasury and Prudential risks.

The Committee also reviewed the Internal Audit function's assessment of the overall effectiveness of the governance and risk and control framework and Internal Audit's conclusions on employee behaviours in the context of the Group's framework of values and culture.

Internal Audit quality and independence

During the year the Committee reviewed the performance and independence of the Internal Audit function and was satisfied as to the effectiveness, quality, experience, expertise and independence of the function and the Chief Internal Auditor.

Internal controls and risk management

The Audit Committee monitors the effectiveness of the Group's governance, risk, and control framework. A statement approved by the Committee regarding the operation of the risk and control framework is set out on page 66.

During 2022, the Committee reviewed the procedures for detecting fraud affecting financial reporting, and a report from the Chief Compliance Officer on the systems and controls for the prevention of bribery.

Whistleblowing

The Audit Committee assumes responsibility for oversight of the effectiveness of whistleblowing arrangements and the Chairman of the Audit Committee is the Whistleblowers' Champion. The Committee receives reports on the effectiveness of whistleblowing arrangements from the Chief Compliance Officer during the year as well as quarterly reports on any issues raised in the period. There was one new case during the year (2021: two). Cases are assessed and, where required, subject to investigation in accordance with the Group's Whistleblowing Policy. An annual report on the whistleblowing incidents is received by the Board.

Audit Committee effectiveness

During the reporting period, Board Alchemy considered the Committee's performance as part of the wider Board effectiveness review. The result of the evaluation was that the Committee and other participants considered that the Committee was performing effectively. Please see the Nomination Committee report starting on page 67 for more information.

Looking ahead

The Committee's priorities for 2023 will include a continuing focus on financial reporting in the context of external market volatility and responding to developments in relation to the UK Government's consultation and proposals for the future of the UK external audit market.

Risk Committee report
Statement by the Chairman of the Risk Committee

> "Understanding and managing our risks are key to our business."

Paul Myers
Chairman of the Risk Committee

I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2022. This year has seen further significant change in the wider macroeconomic environment. The UK has seen heightened geo-political instability, energy cost increases, high levels of inflation and a rapidly rising interest rate environment, all of which contributed to a growing cost of living challenge for UK consumers. The risks to the Group posed by these challenges have featured prominently in discussions at the Committee as we continue to review and challenge existing models to assess whether risk appetite is set appropriately to continue to support the Group's medium-term strategy.

The year was another busy one for the Committee. Additional meetings were held to discuss trending themes such as customer affordability as well as the Group's responses on regulatory matters. The Committee has continued to monitor the full range of risks facing the Group and has overseen the setting of appropriate risk appetites to support the introduction of new products such as the Group's personal contract purchase offering.

The Group has continued to operate the hybrid working model successfully adopted during the COVID-19 pandemic, and the Committee has assessed both the risk challenges and opportunities this presents for customers, employees and the Group's businesses. The Committee reviews the Group's current information security practices and policies to make sure that the Group is abreast of challenges in a continually changing threat landscape.

Throughout 2022, the Committee maintained its focus on financial crime. The Committee has received regular reports on the Group's Financial Crime Transformation Programme ('FCTP'), on progress made to date as well as how it dovetails with other operational efficiency initiatives taking place. The Group continues to invest in the ongoing development of its financial crime risk management framework, efficiencies and capabilities.

Climate risk has been another key area of focus for the Committee. Discussions on the Group's climate exposure, both for the Group and to individual business areas, have been held with challenges made to metrics and thresholds presented by Management. The Committee is mindful of both the direct and indirect impacts of climate risk.

The Committee heard directly from the different business Managing Directors, to discuss performance and risks/challenges relevant to their business area. An overview of the risks associated with the integration of the acquisition of AppToPay technology into the Retail Finance business was also discussed.

Risk Committee report
Statement by the Chairman of the Risk Committee
continued

The Risk and Compliance teams have continued to provide the Committee with effective oversight of the changing risk landscape of the Group. Regulatory updates, including the outputs of the Compliance Monitoring Programme and horizon scanning of emerging regulatory requirements and consequential impacts on the Group were also considered. Formal reporting from the Executive Risk Committee ('ERC') and Assets & Liabilities Committee ('ALCO') has continued to mature during the year and the Committee received updates at each meeting on relevant matters discussed at ERC and ALCO.

We have focused on updating our internal processes in line with regulatory guidance. Considerable time has been spent on hearing how the Group is adopting processes to align with guidance on Operational Resilience, Model Risk and Consumer Duty.

As we look ahead to 2023 and beyond, economic headwinds remain a key focus as consumers adjust to elevated energy costs, general higher levels of inflation and higher interest rates. The assessment of customer affordability is the cornerstone of our lending decisions and the Group will continue to monitor closely its appetite, lending policies and processes in light of changing circumstances. Adjustments will be made where necessary with the underlying aim to continue providing appropriate support to our customers. Further information on the activities of the Committee during the year is provided in the following report and additional information about risk-related matters can be found in the Principal Risks section on pages 25 to 34.

Finally, I would like to thank my Board colleagues for their expert input on risk matters through what has been another busy period for the Committee.

Paul Myers
Chairman of the Risk Committee

Composition

The Group has had separate Audit and Risk Committees for over a decade and both Committees continued to oversee the development and evolution of the risk management and internal control frameworks in 2022, as they have done since inception. The Code provides that where a company has a separate risk committee it should be comprised of independent non-executive directors. The Company considers that it has complied with this provision during 2022. The Risk Committee is required to meet formally at least four times a year and otherwise as required. The Committee had six scheduled meetings and three ad-hoc meetings held during the year, the chart and table below summarises attendance of members during the year. The Company Secretary or their alternate acts as Secretary to the Risk Committee. Other individuals attend at the request of the Committee. During the year the Chief Executive Officer ('CEO'), Chief Risk Officer ('CRO'), Chief Financial Officer ('CFO'), Chief Operating Officer, Group IT Director, Chief Internal Auditor, Chief Compliance Officer, Group Head of Operational Risk, Chief Information Security Officer, Group Treasurer, Head of Financial Crime and other senior managers attended meetings to present their reports and answer questions from the Committee. The Chairman of the Risk Committee reports to the Board on the outcome of each Committee meeting and any recommendations arising from the Committee.

Role of the Risk Committee

The Risk Committee reviews the design and implementation of risk management policies and systems as well as risk-related strategies and the procedures for monitoring the adequacy and effectiveness of this process. It considers the Group's risk appetite in relation to the current and future strategy of the Group; confirms the Group's Recovery Plan, ICAAP and ILAAP scenario selection, and principal risks (see pages 25 to 34 for more information) whilst overseeing the processes and outputs from these; and oversees the risk and credit exposures of the Group. The Committee exercises its internal control and risk management role through the comprehensive management information and reporting it receives across all risk disciplines. This includes regular updates from the ERC (via the CRO), the ALCO (via the CFO) and the Executive Committee, as well as other reports via the Chief Internal Auditor, the CEO, other members of management and other consultants. The Committee assesses emerging trends impacting the Group's inherent risks with particular focus on Operational Resilience and Model Risk.

Risk Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Paul Myers	6	6
Ann Berresford	6	6
Finlay Williamson	6	6

iNED	100
ED	0

Risk Committee report
continued

Matters discussed at Risk Committee meetings since 1 January 2022

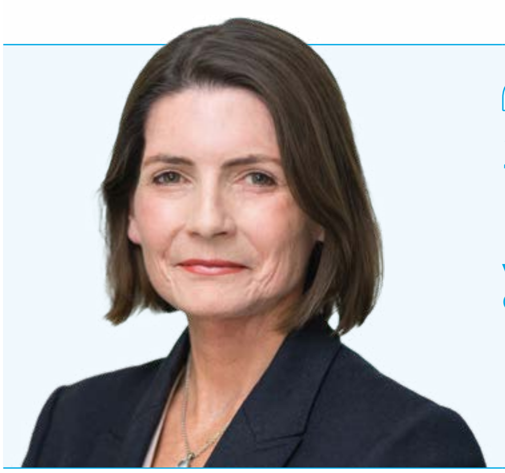
The Risk Committee has a forward look agenda which details standing agenda items for discussion at each of the scheduled meetings. The forward agenda is presented at each scheduled meeting with a 12-month look-ahead. It is updated in real time to include any new or emerging issues pertinent to the Group. The principal matters discussed during the year and up to the date of this report were:

Subject area	Matters considered
Group risk appetite statement and key risk indicators	The Group's key risk appetite metrics, which are reviewed annually and recommended for approval to the Board. The Committee reviewed performance against agreed risk appetites by reference to the key risk indicator metrics and supporting management information provided to each meeting. A number of changes and enhancements were made, reflecting latest views on local and macro risk environments.
Strategic and operational risks	The Committee oversees the management of strategic and operational risk across the Group. The Group Head of Operational Risk presented the outcomes of the Strategic and Operational Risk Review to the Committee and responded to challenges raised on the robustness of the approach taken. Strategic risks were discussed and challenged throughout the year. In assessing strategic risks, the Committee has due regard to the existing process and internal controls in operation and reviews the recommendations from the Risk and Compliance functions on how to adapt the controls to mitigate those risks. During the year, the Group acquired AppToPay Ltd as part of its strategic objective for growth. The Managing Director for Retail Finance presented an overview of how the AppToPay technology would integrate within the Retail Finance business. The Committee has agreed the identified principal risks set out on pages 25 to 34. When reviewing the strategic and operational risks the Committee also considered emerging risks, including the likelihood and impact upon the Group. More information on this process can be found on page 34 and in the Internal Control section on page 66.
Climate risk	The Committee has received reports from Management on the Group's direct and indirect exposure to climate risk. Risk appetite thresholds, such as flood risk for the Real Estate Finance business, have been challenged and approved by the Committee during the year. For further information on the Group's response to climate risk please see the Group's Climate-related financial disclosures on pages 50 to 59 for more information.
Macro risk	Updates from the CRO were provided to the Committee on the impacts of customer affordability, the geopolitical environment, monetary and fiscal policy on the Group.
Credit risk	The Committee receives reports on key risk indicators for credit risk, together with quarterly assessments of each portfolio's credit profile including impairments, bad debts, watch-lists, collections data and any policy exceptions. Credit risk performance for all businesses was kept under regular scrutiny.
Operational resilience and risk, including cyber, information security resilience risk and business continuity	The Committee oversees the operational risk policy including metrics and key risk indicators reporting and business unit management risk and control self-assessment. To assist in understanding how the risk framework is embedded within the Group and to challenge the effectiveness of the risk management function, the Committee receives a quarterly review of material operational risk events/losses, performance against the key Operational Risk Appetite Metrics, together with the key findings from annual Risk and Control Self Assessments. This includes a key focus on the effectiveness of the Operational Resilience control framework and plan. The Committee received updates on the strategies undertaken within the Group to understand, identify, monitor and respond to current and upcoming cyber threats. The Committee reviewed ongoing progress on development of the Operational Resilience Plan and frameworks against agreed tolerances. The Committee challenges Management on the ratings recommended in reporting to assess whether the tolerances applied remain appropriate. The Committee receives regular reporting from the Head of Information Security on the Group's cyber resilience profile. Please see page 49 in Managing our business responsibly for further information on how this has factored into our supplier relationships.

Subject area	Matters considered
Capital and liquidity risk	The Committee has primary responsibility for reviewing and making a recommendation to the Board on the Group's ICAAP, ILAAP and the Resolution and Recovery Plan. The Committee also reviewed key assumptions, stress test scenarios and outputs used in these processes. The Committee also reviewed and approved the Group's annual Pillar 3 disclosures.
Regulatory and conduct risk	The Committee receives regular reports on key risk indicators for regulatory, reputational and conduct risk, regulatory incidents and key advisory activities of note, horizon scanning and actions to implement new and revised regulations or legislation and the outputs of the 2022 Compliance Monitoring Plan. Any exceptions were discussed and challenged with management, including effectiveness and resourcing of the Compliance function. The Committee reviewed the Data Protection Officer's Report, as well as six monthly complaints data. The Committee challenged and approved the Compliance Monitoring Plan for 2023 and reviewed the Group's Consumer Duty implementation plan. The Committee oversees the management of regulatory risk for the Group. Conduct risk and culture remain a key focus within the Group, particularly with the hybrid working model.
Financial crime	The Committee received regular reports from the Financial Crime Team on the progress of the FCTP, the Annual Report from the Money Laundering Reporting Officer and approved the Financial Crime Monitoring Plan for 2023.
Governance	During the year the Risk Committee reviewed its terms of reference and various policies. A full copy of the terms of reference for the Risk Committee can be obtained via the Group's website at: www.securetrustbank.com. During the reporting period, Board Alchemy considered the Committee's performance as part of the wider Board effectiveness review. The result of the evaluation was that the Committee and other participants considered that the Committee was performing effectively. Please see the Nomination Committee report starting on page 67 for more information.

This table is not a complete list of matters considered by the Committee but highlights the most significant matters for the period in the opinion of the Risk Committee. For more information on the framework for managing risks within the business please see the Principal risks and uncertainties section on pages 25 to 34.

Directors' Remuneration Report
Statement by the Chairman of the Remuneration Committee



"2022 has focused on the cost of living impact on our employees."

Victoria Stewart
Chairman of the Remuneration Committee

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial period which ended on 31 December 2022.

This has been a busy year for the Committee in which we have further developed our oversight of remuneration practices across the Group in a number of areas, with a particular focus on monitoring the outcomes of our senior management scorecards as well as making sure that all our employees receive appropriate remuneration.

2022 – a year of reflection

Considerable thought has been given to the cost of living impact on our employees. A one-off cost of living payment was made during the year to all our employees earning less than £35,000 per year. This was viewed by the Committee as a positive step to address the concerns of our employees and retaining their commitment to our business in this uncertain time. This was in addition to a salary review in Q1 2022 that targeted higher than average increases to the lower salary bands (further detail can be found on page 83).

A similar approach to 2022 has been adopted in 2023. Whilst average pay increases will be 5.8%, these are again higher than average for the lower paid roles (between 5% and 7%) and limited to 3% for senior management.

Executive remuneration – pay and performance

During the year, the Committee agreed the performance metrics for each of the Executive Directors as well as Senior Management within the Group. In 2022, the Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') had shared financial objectives and tailored non-financial objectives (see pages 86 and 87).

The Committee received a detailed 'Quality of earnings' report covering the financial out-turn for 2022 against the agreed metrics. After two volatile years driven by lock-down impacts on the business, it is encouraging to note a steady and slightly ahead of target overall performance for 2022 despite significant external events including the Ukraine war and inflation.

The Committee approved the out-turn of 31.59% (out of a possible 65%) for financial performance metrics. This was largely driven by outperformance on costs offset by underperformance on return on average equity ('ROAE'), driven in large part by changes to tax rates, and common equity tier 1 ratio due to the mix of risk weighted assets. The out-turn for non-financial metrics was 22.5% (out of a possible 35%), which resulted in an overall bonus of 54.09% (out of a possible 100% of base salary) for each of the Executive Directors. More detail is shown on pages 86 and 87.

In accordance with the existing Directors' Remuneration Policy ('DRP'), 50% of bonus outcomes for Executive Directors are deferred into shares under the Deferred Bonus Plan ('DBP'). Deferred shares will vest in equal tranches after one, two and three years following deferral.

Use of discretion during 2022

During the year, the Committee did not exercise discretion in assessing performance for any incentive plans. For completeness, neither Executive Director had Long Term Incentive Plan ('LTIP') awards which have vested during the period. The 2020 LTIP awards, which the CFO is a participant of, are still within their performance period and will be reported on in the 2023 Annual Report and Accounts.

Forward look

No significant change to the structure of Executive Director reward is proposed under the 2023 DRP. The Committee has taken time to carefully consider both the annual bonus metrics and LTIP performance metrics for awards due to be granted this year. For the 2023 LTIP grant, we have returned to financial metrics and the 2023 LTIP metrics will include ROAE, and earnings per share ('EPS'), as well as relative total shareholder return ('TSR') and risk (please see page 93 for more information).

Discussions have also been held on our reward structures, including the Sharesave Scheme, and the dilutive impact of share awards from new issue shares. After a comprehensive discussion, the Board approved the establishment of an Employee Benefit Trust ('EBT') and the intention is to use the EBT to satisfy certain future awards by market purchase shares.

Proposed Directors' Remuneration Policy 2023-2025 ('2023 DRP')

During the second half of 2022, the Committee agreed the 2023 DRP which will be put to shareholders for approval at the 2023 Annual General Meeting ('AGM'). This involved discussions with the Executive Directors as well as communication with our top shareholders. In designing the 2023 DRP, we listened carefully to advice from FIT Remuneration Consultants LLP ('FIT') which incorporated Market Practice trends as well as Proxy Voting Agency views, and considered the recommendations with regard to Executive Remuneration in the latest Corporate Governance Code. Feedback was not sought from the Group Employee Council, but the remuneration of the Executive Directors was discussed at that forum. The 2023 DRP can be found on pages 94 to 104 of this report.

There are no increases to quantum of opportunity proposed and the changes proposed are designed to further align the Executive Director interests with shareholder interests. The changes proposed are as follows:

- Increase the Executive Director minimum shareholding requirement from 100% to 200% of salary.
- Implement a post-vesting holding period of two years for shares resulting from vested share awards.

Concluding thoughts

Baroness Neville-Rolfe stepped down from the Committee in September 2022, following her departure from the Board. I would like to thank her for her contributions made to discussions whilst on the Committee and to further thank all the Committee members for their contributions this year.

As Secure Trust Bank continues to execute its strategy, the Committee is satisfied that the 2023 DRP is appropriate and that the management team is aptly incentivised and retained. The Committee welcomes all input on remuneration and if you have any comments or questions on any element of the Annual Report on Remuneration please email me via Mark Stevens, Group Company Secretary, at companysecretariat@securetrustbank.co.uk.

Finally, I would like to thank our shareholders for their continued support throughout the year.

Victoria Stewart
Chairman of the Remuneration Committee

Directors' Remuneration Report
continued

Remuneration Committee attendance and composition

Members	No. of scheduled meetings eligible to attend	Attended
Victoria Stewart	5	5
Lord Forsyth	5	5
Paul Myers	5	5
Baroness Neville-Rolfe	4	4

iNED	3
ED	0

Executive Directors: Remuneration at a glance

Executive Director	Pay as at 31 December 2022
David McCreadie Appointed CEO 5 January 2021	• Base salary – £669,500 per annum • Pension contribution – 5% base salary • Annual bonus – 100% base salary maximum bonus • LTIP – to participate in 2023 LTIP; annual award 100% base salary
Rachel Lawrence Appointed CFO 7 September 2020	• Base salary – £420,240 per annum • Pension contribution – 5% base salary • Annual bonus –100% base salary maximum bonus • LTIP – to participate in 2023 LTIP; annual award 100% base salary

As at 31 December 2022, the Remuneration Committee comprised three members and was compliant with the Code provision, to be formed of at least two independent Non-Executive Directors, throughout the year. The Company Chairman may also be a member of the Committee where, as is the case with Secure Trust Bank PLC, he was considered independent on appointment as Chairman.

The Remuneration Committee meets at least twice and ordinarily four times a year and when required to address non-routine matters. The Committee had five scheduled and one ad hoc meeting during the course of 2022.

The Company Secretary or their alternate acts as Secretary to the Remuneration Committee. Other individuals attend at the request of the Remuneration Committee Chairman and during the year the CEO, HR Director, Chief Internal Auditor, other senior managers and the external remuneration consultant attended meetings to report to or advise the Committee.

The Chairman of the Remuneration Committee reports to the Board on the outcome of Committee meetings and any recommendations arising from the Committee.

A copy of the Committee's terms of reference can be obtained via the Group's website at **www.securetrustbank.com**

Role of the Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, determining the policy for the individual remuneration and benefits packages of the Executive Directors and the senior management below Board level. The Committee also reviews workforce remuneration, related policies and how executive and wider workforce pay are aligned to the culture of the Group.

Key matters considered by the Committee from 1 January 2022 to 31 December 2022 were:

Subject area	Matters considered
Executive Directors' remuneration	The Committee reviewed the recommendations and approved the annual bonus outcomes for both the CFO and CEO for the 2021 performance year as well as their respective salary increases for 2022, which were made broadly in line with the average employee salary increase.
Senior Managers' remuneration	The Committee identified and approved individual remuneration for Material Risk Takers ('MRTs') using benchmarking data and assessed the outcomes of scorecards used to assess performance for bonuses. The Committee approved the quantum of awards used for the LTIP and DBP grants. The Committee reviewed and approved remuneration packages for several senior roles within the business, balancing the need for packages to remain competitive whilst appropriate for a group the size of Secure Trust Bank PLC.
Chairman's remuneration	The Committee considered the Chairman's fee during the year. The Chairman received an increase in line with the all-employee population and other Non-Executive Directors. A mechanical process was implemented in 2019 to increase the Chairman's and Non-Executive Directors' fees in line with employees' average salary increases in the prior year. The Committee decided, after consideration, not to deviate from this process in the current year.
Wider workforce remuneration	In March 2022, the Committee reviewed the proposed Group bonus pool to be paid in April 2022 in respect of performance for the 2021 financial year. The Committee, having regard to the guidelines issued by institutional investors regarding reward, guidance from the Group's regulators, as well as the review of the going concern and viability statements conducted by the Audit Committee and conduct review by the Chief Risk Officer, concluded that the payment of a bonus to all employees was appropriate and in the best interests of the Company. The Committee reviewed and agreed management's recommendation concerning the distribution and quantum of the Group bonus pool. The Committee reviewed the dashboard information, processes and guidelines for annual remuneration for the entire employee workforce including the compliance and risk functions. Pay rises were focused towards junior employees and increases to entry level salaries were approved. The Committee reviewed the Group's benefits package and recommended approvals to the Board. The Committee also reviewed the outcomes of the Group's gender pay gap reporting which, whilst not where we would seek it to be, has improved year on year. The Committee spent considerable time discussing the consequential impact of the rise in living costs for employees and over the Summer in 2022 approved an ad hoc payment to employees who earn less than £35,000 a year.
Discretionary share plans	The Committee reviewed the performance metrics for the 2019 LTIP grant, which matured in April 2022 with a 40.63% vesting. The Committee elected not to utilise its discretion to modify the formulaic outcome of the vesting of the awards. The Committee reviewed the metrics for the 2022 LTIP grant which were agreed to remain the same as those for the 2020 and 2021 LTIP grant, focusing on TSR and risk management. The Committee considered that the performance metrics were appropriate, given the market conditions at the time of grant, as well as stretching and in line with shareholders' interests, please see page 88 for more detail. Malus and clawback provisions were reviewed, and clauses were updated for inclusion in all LTIP and DBP standard documentation. The 2023 LTIP grant performance conditions were also discussed during the year. The Committee agreed to reintroduce an EPS performance criteria, which further aligns the LTIP with shareholders and was previously used in LTIP grants prior to 2020, and also agreed to introduce a ROAE metric which is reflective of the Group's medium-term targets. The relative TSR and risk management performance metrics have been retained. The Committee discussed the dilution impact to shareholders as a result of settling awards via new issue shares. Accordingly, a recommendation for an EBT was presented to the Committee. After rigorous review, the EBT was approved by the Board and established in October 2022.
All-Employee Sharesave plan and dilution	The Committee reviewed and approved the 2022 Sharesave plan invite to all eligible employees.
Directors' Remuneration Report ('DRR') and other disclosures in the Annual Report and Accounts	The Committee considered the disclosures required in the Annual Report and Accounts and recommended its approval to the Board. The Committee received advice from the Company Secretary, HR Director and FIT Remuneration Consultants when compiling the DRR and the additional disclosures in the Annual Report and Accounts.

Directors' Remuneration Report
continued

Item	Comment
Directors' Remuneration Policy ('DRP') 2023–2025	The Committee started the triennial review process of the existing DRP, taking into account changes to the Code and current market practice, culminating in the drafting of the new 2023 DRP.
Governance matters	The Committee received and reviewed the outcomes of the annual internal audit of the implementation of the remuneration policy. During the reporting period, Board Alchemy considered the Committee's performance as part of the wider Board effectiveness review. The result of the evaluation was that the Committee and other participants considered that the Committee was performing effectively. Please see the Nomination Committee report (starting on page 67) for more information. The Committee has reviewed a number of workforce policies including the Application of Proportionality and Material Risk Takers policies as well as the All-Employee Remuneration Policy. The Remuneration Policy Statement was also approved. The Committee agreed a forward look agenda for 2023. Four meetings are scheduled to be held in 2023 to address routine matters. A review of the effectiveness of FIT as remuneration advisers took place in February 2023. It was concluded that they remained appropriate advisers for Secure Trust Bank.

This table is not a complete list of matters considered by the Committee but highlights the most significant matters for the period in the opinion of the Remuneration Committee.

Remuneration Consultant and Committee advice

During the year, the Committee received external advice from FIT. The appointment of FIT to advise the Committee was made in September 2020 following a competitive tender process.

FIT has no other significant connection with the Group or its Directors other than the provision of advice on executive and employee remuneration, and related matters. FIT is a member of the Remuneration Consultants' Group and abides by its code of conduct that requires remuneration advice to be given objectively and independently. The total fee paid for the provision of advice to the Committee during the year was £104,221 (excluding VAT). FIT also provided support to the HR and Legal teams on remuneration implementation. The Committee is satisfied that the advice provided in the year by FIT on remuneration matters is objective and independent.

The Committee received advice on specific matters from internal advisers, management and the Company Secretary.

The Committee is satisfied that the Committee has exercised independent judgement when evaluating the advice received from all its advisers.

Directors' Remuneration Report

The information contained in the Directors' Remuneration Report is subject to audit, where indicated in the Report, in accordance with The Large and Medium- sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The Directors' Remuneration Report contains the Annual Remuneration Report which explains the operation of remuneration-related arrangements for 2022. The 2023 DRP for Executive and Non-Executive Directors, which is subject to shareholder approval at the 2023 Annual General Meeting and an illustration of the application of that Remuneration Policy in 2023, is included after this Report.

A full copy of the existing Directors' Remuneration Policy, which was approved by shareholders at the 2020 Annual General Meeting, can be found on the Company's website at **www.securetrustbank.com.**

How we link executive remuneration to our strategy

The key principles behind the Directors' Remuneration Policy are to:

- be simple and transparent in order to reflect the Group's purpose;
- promote the long-term success of the Group, with transparent and demanding performance conditions;
- provide alignment between executive reward and the Group's values, risk appetite and shareholder returns; and
- have a competitive mix of base salary and short and long-term incentives, with an appropriate proportion of the package linked to the delivery of sustainable long-term returns.

In developing and implementing the Remuneration Policy we have also had regard to regulatory requirements for senior managers under the Senior Manager Regime. The Group is currently a Level 3 firm within the classifications applied by the financial regulators for regulated entities. This means that the Group is not required to satisfy in full all elements of the remuneration codes. Notwithstanding this, in formulating and applying the Remuneration Policy the Committee has had regard to the remuneration codes when considering existing and proposed remuneration. The Committee has been compliant with the existing DRP approved by shareholders at the 2020 AGM and Principles P, Q and R of the Code. With the adoption of the new 2023 DRP at the 2023 AGM, the Committee takes account of compliance with remuneration provisions 32–41.

Single figure table (audited information)

The following table sets out total remuneration earned for each Director in respect of the year ended 31 December 2022 and the prior year.

	Salary and fees[1]		Benefits		Annual bonus[2]		Pension		Shares[3]		Total remuneration		Total fixed remuneration		Total variable remuneration	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Executive Directors																
D McCreadie[4]	665	650	1	1	362	485	32	32	–	2	1,060	1,170	698	683	362	487
R Lawrence	417	406	22	22	227	304	21	20	–	–	687	752	460	448	227	304
Non-Executive Directors[5]																
M Forsyth	224	217	2	3	–	–	–	–	–	–	226	220	–	220	–	–
A Berresford	118	116	1	1	–	–	–	–	–	–	119	117	–	117	–	–
P Myers[6]	98	92	–	–	–	–	–	–	–	–	98	92	–	92	–	–
V Stewart	98	96	1	1	–	–	–	–	–	–	99	97	–	97	–	–
F Williamson[7]	79	38	1	1	–	–	–	–	–	–	80	39	–	39	–	–
Former Director																
L Neville-Rolfe[8]	62	80	–	–	–	–	–	–	–	–	62	80	–	80	–	–
Total	**1,761**	1,695	**28**	29	**589**	789	**53**	52	**–**	2	**2,431**	2,567	**1,158**	1,776	**589**	791

1. The 2022 base salary figures are based on 3 months of salaries approved in April 2021 (David McCreadie £650,000 and Rachel Lawrence £408,000), and 9 months of salaries approved in April 2022 (David McCreadie £669,500 and Rachel Lawrence £420,240). The 2021 base salary figures are based on salaries on appointment for David McCreadie (£650,000 – appointed 5 January 2021) and Rachel Lawrence's is based on 3 months of her salary on appointment (£400,000) and 9 months of (£408,000) approved in April 2021.
2. In respect of the 2022 financial year, David McCreadie received an annual bonus of £362,135 of which £181,068 will be deferred into share awards and Rachel Lawrence received an annual bonus of £227,310 of which £113,655 will be deferred into share awards.
3. This includes the value of the Sharesave option granted to David McCreadie on 20 September 2021 (calculating the number of shares in the option (1,683 shares) multiplied by the difference in the option price (1,069.4p) and the market value of the shares on 21 September 2021 (1,192.5p)). Details of awards made under the LTIP and DBP can be found on pages 88 and 89.
4. David McCreadie was appointed as CEO on 5 January 2021.
5. Non-Executive Directors are reimbursed expenses that are incurred for business reasons. Any tax that arises on these reimbursed expenses is paid by the Company. These expenses and the related tax have not been included in benefits listed in the table above.
6. Paul Myers was appointed as the Non-Executive Director designated for workforce engagement on 27 October 2022 and his fee was increased accordingly (please see page 93 for more information).
7. Finlay Williamson was appointed to the Board on 30 June 2021 and was appointed to the Audit Committee and appointed as the Consumer Duty Champion with effect from 27 October 2022 and his fee was increased accordingly (please see page 93 for more information).
8. Baroness Neville-Rolfe stepped down from the Board on 21 September 2022.

The figures in the single figure tables above are derived from the following:

Salary and fees	The amount of salary/fees received in the year.
Benefits	The taxable value of benefits received in the year. These are principally private medical health insurance, and car and travel allowances.
Annual bonus	The value of the bonus earned in respect of the financial year (including the proportion of the amount earned which is subject to deferral).
Pension	The amount of payments in lieu of Company pension contributions received in the year.
Shares	The value of share options received in the year. These are the value of Sharesave options granted during the year. Sharesave options are valued based on the difference between the market value of the shares at grant and the exercise price.

Directors' Remuneration Report
continued

Additional disclosures in respect of the single figure table (audited information)

Base salary and fees

Base salaries for the Executive Directors in respect of the year ended 31 December 2021 and 31 December 2022 are as follows:

	2022 base salary £'000	2021 base salary £'000
D McCreadie	**670**	650
R Lawrence	**420**	408

The Executive Director base salaries are the annual salaries as agreed by the Remuneration Committee for each year.

Bonus arrangements

For the financial year ended 31 December 2022, Executive Directors were eligible for an annual bonus award of up to 100% of salary; 65% of the bonus was subject to financial metrics and risk performance metrics and 35% of the bonus was subject to a mixture of strategic, customer, operational and employee performance ('Non-financial') metrics.

Financial and risk performance metrics

The financial and risk performance metrics were based on the delivery of Board agreed key performance indicators in accordance with the schedule below.

					Executive Directors	
Metric	Threshold (0% payable)	On-target (50% payable)	Stretch (100% payable)	Achieved	Metric weight	Bonus payable
Grow						
Underlying continuing profit before tax[1,2]	£36.0m	£40.0m	£44.0m	£40.15m	25%	12.98%
Continuing return on average equity[3]	9.00%	10.00%	11.00%	9.44%	10%	2.21%
Sustain						
Underlying continuing costs[2]	£100.4m	£95.6m	£90.8m	£91.98m	10%	8.79%
Cost of risk[3]	1.50%	1.40%	1.30%	1.38%	10%	5.83%
Common Equity Tier 1 ratio[3]	13.10%	13.80%	14.50%	13.36%	10%	1.79%
Total					**65%**	**31.59%**

1. Figures include continued operations only which have been adjusted for one off costs.
2. Underlying continuing profit before tax and underlying continuing costs for annual bonus calculations were adjusted to exclude corporate costs incurred in relation to exploring actions in the year which were not anticipated at the time that the 2022 targets for these metrics were established. The Committee was satisfied that the steps taken which resulted in the costs being incurred were fully in the shareholders' best interests and accordingly excluding these unforeseen costs maintained the integrity of the 2022 bonus relative to the original full year business plan.
3. Please refer to the key performance indicators on pages 2 and 3 for an explanation of why these are measured and how they are linked to our strategy. To see how we have progressed against our strategic priorities during the year please see page 11.

Non-financial metrics

	Objective	Targets (summary)	Achievement	Weight	Bonus payable CEO	Bonus payable CFO
CEO	Improve operating effectiveness of the Group	• Develop a plan to deliver operational effectiveness across the Group. • Develop and agree plans for the delivery of cost savings. • Develop a new property strategy for the Group following the implementation of the Hybrid Working Policy.	• Successfully implemented a plan to deliver operational effectiveness. • Annualised cost savings of £3 million delivered. Five year benefits of in excess of £15 million expected. • Property strategy developed to complement hybrid working arrangements with cost savings expected in 2023.	10%	5%	N/A
CFO	Develop the Group's medium to long-term capital plan in line with Group strategy	• Reforecast the medium to longer-term capital plan and develop a plan for the raising of any additional capital in 2023.	• A plan was developed in 2022 to raise additional capital in an unprecedented economic and political environment. This was successfully delivered in Q1 2023.	10%	N/A	5%
Shared objectives	Streamline the business in line with Group strategy	• Progress sale and wind down of discontinued business streams in line with regulatory expectations and with clear communications to all stakeholders.	• Debt Manager (Services) Limited loan portfolio sale completed in Q4 2022 with a pre-tax gain of £6.1 million recognised in 2022 (please see Note 10 to the Financial Statements for more information). Effective communication was issued to all stakeholders including customers, employees, regulators, and shareholders.	10%	7.5%	7.5%
	Stakeholder engagement	• Maintain effective and constructive relationships with the Group's various stakeholders. • Develop a plan for development of the Group's commitments to managing Climate change risks. • Deliver an improvement in the employee survey trust index score.	• Meetings held with shareholders and prospective shareholders. Two new brokers covering the Group during the year and a new Head of Investor Relations appointed to increase dialogue with investors. • Maintained close relationship with Prudential Regulation Authority. • Plan developed and agreed by Board to reduce Scope 1 and Scope 2 CO_2e emissions by 50% by December 2025. Further detail can be found on pages 50 to 59. • High customer service ratings maintained and improved during the year. Please see pages 40 and 41 for more information. • Employee survey trust index score in 'Your Voice' survey improved to 85% from 80% in 2021. Please see page 43 for more information.	10%	7.5%	7.5%
	Diversity and inclusion	• Develop effective strategies to recruit and attract a more diverse applicant pool for all role vacancies. • Develop plans to improve diverse talent pipeline for senior levels.	• Recruitment process enhanced, implemented and operating to increase diversity in candidate pools. In 2022, a number of senior roles were filled by female applicants. • Women in Finance Charter signed, and headline gender diversity targets set for Group Executive Committee. All members of the Executive Committee have a shared diversity and inclusion shared objective. • Awarded the Silver Award for the Talent Inclusion and Diversity Evaluation ('TIDE') Mark for second year by the Employers Network for diversity and inclusion improving the Group's TIDE score to 78%. • Listed as a UK's Best Workplaces™ for Women for the 4th year in a row.	5%	2.5%	2.5%
Totals:				**35%**	**22.5%**	**22.5%**

Directors' Remuneration Report
continued

2020 LTIP awards maturing by reference to 2022 performance

LTIP awards were granted on 22 October 2020 which are capable of vesting by reference to performance conditions measured to 30 September 2023. Within the current Executive Directors, only Rachel Lawrence received these awards as David McCreadie was not appointed as CEO until January 2021. Nil value is shown in the single figure table for shares for Rachel Lawrence as these awards have not yet reached the performance assessment date. Outcomes will be disclosed in the 2023 Annual Report and Accounts.

Awards exercised during the financial year (audited information)

Neither Executive Director exercised an award during 2022.

Awards granted during the financial year (audited information)

2017 Long Term Incentive Plan ('LTIP')

Nominal-cost share options were granted to Executive Directors on 5 April 2022 in accordance with the rules of the LTIP as follows:

Recipient	Date of grant	Basis of award	Number of shares	Face value of award £'000[1]	Performance period
D McCreadie	05-Apr-22	100% of salary	53,065	670	1 January 2022 to 31 December 2024
R Lawrence	05-Apr-22	100% of salary	33,308	420	1 January 2022 to 31 December 2024

1. Based on a share price of £12.6166 being the average mid-market price determined between 31 March 2022 and 4 April 2022.

Vesting of the share options is subject to a blend of three TSR and risk management performance metrics, assessed over a three-year performance period as summarised below.

Measurement basis and % weighting	Relative TSR vs peer group (25%)	Relative TSR vs FTSE SmallCap (ex. investment trusts) (25%)	Absolute TSR (25%)	Risk management (25%)
Target range	Median to upper quartile Peer group is: Arbuthnot Banking Group, Close Brothers, OSB Group, Metro Bank, Paragon Banking Group, Vanquis Bank and S&U.	Median to upper quartile. Measured against constituents of FTSE SmallCap (excluding investment trusts).	10% to 30% 3-year CAGR	Maintaining appropriate risk practices over the performance period reflecting the longer-term strategic risk management of the Group, including consideration of: • the number of customer complaints received; • the number and nature of material risk events within the Group; • credit losses compared to the Board's assessment of the Group's risk appetite; and • management of regulatory capital limits.
Underpin	Vesting for TSR elements also subject to an underpin as follows: (a) the Board's assessment of the Company's general financial performance and shareholder experience over the performance period; (b) the Board's assessment of the Company's risk management performance over the performance period; and (c) the Board's assessment of progress against, in particular growth in responsible lending, progress on balance sheet management and customer satisfaction.			

For each metric, threshold attainment is 25% of that part, with vesting on a straight-line basis to 100% for maximum attainment.

For all TSR elements, TSR will be measured using a market normal three-month average TSR to the beginning and end of the performance period (which is the three year period from 1 January 2022).

Awards vest to the extent that the performance metrics are achieved and are subject to a further two-year holding period.

2017 Deferred Bonus Plan ('DBP')

Nominal-cost share options were granted to Executive Directors on 5 April 2022 in accordance with the rules of the DBP as follows:

Recipient	Date of grant	Number of shares	Tranche 1	Tranche 2	Tranche 3	Face value of award £'000[1]
D McCreadie	05-Apr-22	19,216	6,405	6,405	6,406	242
R Lawrence	05-Apr-22	12,062	4,020	4,020	4,022	152

1. Based on a share price of £12.6166 being the average mid-market price determined between 31 March 2022 and 4 April 2022.

Statement of Directors' shareholding and share interests (audited information)

A formal shareholding guideline requires Executive Directors to build up and maintain a shareholding of at least 100% of base salary, over time, by retaining shares from awards granted under the Group's share plans that vest (net of income tax and National Insurance).

The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2022 were as set out below. Any changes to a Director's shareholding are set out in the notes below the table.

Directors' shareholding and share interests

Director	Type	Total as at 1 January 2022	Shares purchased during the year	Options granted during the year	Options (exercised) during the year	Options (lapsed) during the year	Total as at 31 December 2022	Owned outright	Vested but unexercised	Unvested, not subject to performance conditions	Unvested, subject to performance conditions
D McCreadie[1,2]	Shares	5,000	5,847[3]	–	–	–	10,847	10,847	–	–	–
	2017 LTIP	55,319	–	53,065[4]	–	–	108,384	–	–	–	108,384
	2017 DBP	–	–	19,216[5]	–	–	19,216	–	–	19,216	–
	2017 SAYE	1,683	–	–	–	–	1,683	–	–	1,683	–
R Lawrence[1,2]	Shares	–	3,648[6]	–	–	–	3,648	3,648	–	–	–
	2017 LTIP	44,927	–	33,308[4]	–	–	78,235	–	–	–	78,235
	2017 DBP	–	–	12,062[5]	–	–	12,062	–	–	12,062	–
	2017 SAYE	3,388	–	–	–	–	3,388	–	–	3,388	–
M Forsyth	Shares	6,500	–	–	–	–	6,500	6,500	–	–	–
A Berresford	Shares	–	–	–	–	–	–	–	–	–	–
P Myers	Shares	5,500	–	–	–	–	5,500	5,500	–	–	–
V Stewart	Shares	–	–	–	–	–	–	–	–	–	–
F Williamson	Shares	–	–	–	–	–	–	–	–	–	–
Former Director											
L Neville-Rolfe	Shares	1,271	–	–	–	–	1,271[7]	1,271	–	–	–
		123,588	**9,495**	**117,651**	**–**	**–**	**250,734**	**27,766**	**–**	**36,349**	**186,619**

1. Executive Directors are required to hold shares not purchased on the open market post their employment in line with the minimum shareholding requirements policy.
2. Neither David McCreadie nor Rachel Lawrence have achieved the required 100% of base salary shareholding requirement based on shares owned outright. Both are calculated using the number of shares owned outright, the Group's Sharesave or 53% of unvested share awards that are not subject to performance conditions (2017 DBP). Shares held by David McCreadie (23,344 shares), are worth £175,080 when using the 2022 year end share price of £7.50 (26.15% of 2022 annual base salary). Shares held by Rachel Lawrence (13,428 shares) are worth £100,710 when using the 2022 year end share price of £7.50 (23.96% of base salary).
3. David McCreadie purchased 1,808 shares on 31 May 2022. On 2 September 2022 David, and a person closely associated to him, collectively purchased 4,039 shares.
4. Awards granted under LTIP rules on 05 April 2022 are set out on page 88.
5. Awards granted under DBP rules on 05 April 2022 are set out above.
6. On 5 August 2022, Rachel Lawrence, and a person closely associated to her, collectively purchased 3,648 shares.
7. The number of shares for Baroness Neville-Rolfe is based on disclosed shareholdings at the date of her resignation.

Directors' Remuneration Report
continued

Payments made to former Directors during the year (audited information)

No payments were made to former Directors during 2022 other than for Baroness Neville-Rolfe for the period that she was a Non-Executive Director (2021: nil).

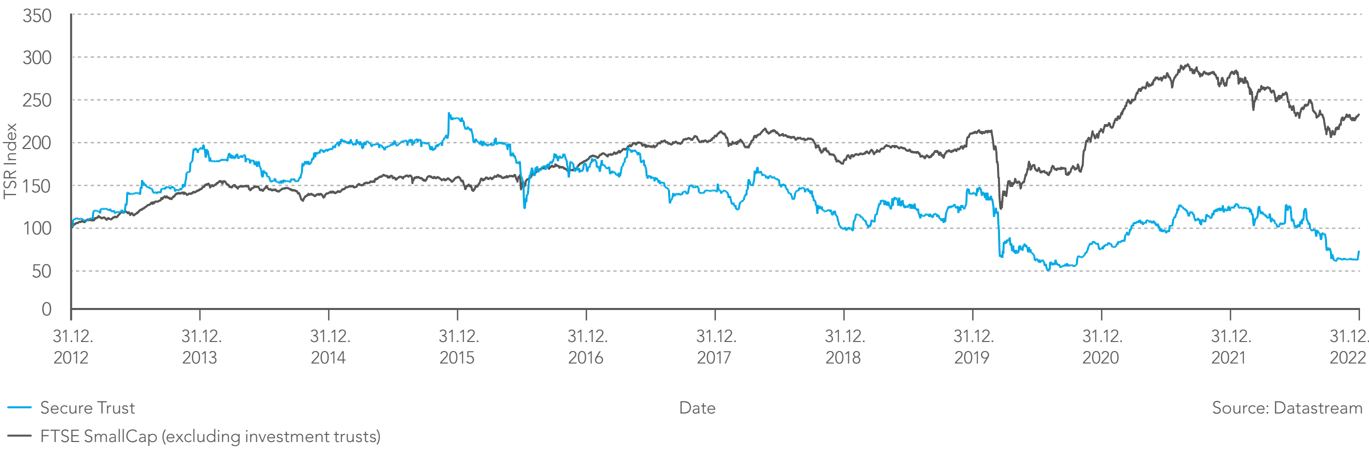
Payments for loss of office made during the year (audited information)

No payments for loss of office were made in the year to any Director of the Company.

Performance graph and historical CEO remuneration outcomes

Total shareholder return

The graph below shows the TSR performance for the Company's shares in comparison to the FTSE SmallCap Index (excluding investment trusts) for the period from 1 January 2012 to 31 December 2022. For the purpose of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 31 December 2022, of £100 invested in the Group over the period compared with £100 invested in the FTSE SmallCap Index (excluding investment trusts). The FTSE SmallCap Index (excluding investment trusts) has been chosen as a comparator as this is the most appropriate reference point given the market capitalisation of the Company.



The table below shows details of the total remuneration, bonus and share options vesting (as a percentage of the maximum opportunity) for the CEO over the last ten financial years.

	Total remuneration £'000	Bonus as a % of maximum opportunity[1]	LTIP as a % of maximum opportunity[2]
2022[3]	**1,060**	**53.1**	**N/A**
2021[3]	1,170	74.6	N/A
2020	1,045	nil	nil
2019	1,804	45	15
2018	1,857	50	N/A
2017	1,657	33.3	N/A
2016	5,542	N/A	100
2015	1,459	N/A	N/A
2014	3,671	N/A	100
2013	1,031	N/A	N/A
2012	870	N/A	N/A

1. Pre Main Market admission, bonuses were determined by the Committee on a discretionary basis taking into account Group financial and individual performance during the financial year.
2. No LTIP shares were eligible to vest in respect of the years 2012, 2013, 2015, 2017, 2018, 2021 and 2022.
3. 2021 and 2022 reflects David McCreadie as CEO.

Directors' pay increase in relation to all employees

The table below shows the percentage change in remuneration of the Directors and employees of the business between 2019, 2020, 2021 and 2022 financial years.

	2022 Salary or base fee	2022 Benefits	2022 Bonus	2021 Salary or base fee	2021 Benefits	2021 Bonus	2020 Salary or base fee	2020 Benefits	2020 Bonus
Employees[1]	**2.9%**[2]	**0.0%**	**(3.3)%**	2.9%[2]	0%	6.9%	2.9%[2]	2%	6.8%
Executive Directors:[3]									
D McCreadie[4]	**3.0%**	**0.0%**	**(25.4)%**	N/A	N/A	N/A	2.9%[4]	0.0%	N/A
R Lawrence[5]	**3.0%**	**0.0%**	**(25.3)%**	2.0%	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors:[3,6]									
M Forsyth	**2.9%**	**0.0%**	**N/A**	3.0%	0.0%	N/A	2.9%	0.0%	N/A
A Berresford	**2.9%**	**0.0%**	**N/A**	3.0%	0.0%	N/A	2.9%	0.0%	N/A
P Myers	**2.9%**	**0.0%**	**N/A**	3.0%	0.0%	N/A	2.9%	N/A	N/A
V Stewart	**2.9%**	**0.0%**	**N/A**	3.0%	0.0%	N/A	2.9%	0.0%	N/A
F Williamson	**2.9%**	**0.0%**	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A
Former Director: [3,6]									
L Neville-Rolfe	**2.9%**	**0.0%**	**N/A**	3.0%	0.0%	N/A	2.9%	N/A	N/A

1. The strict legal requirement is to only provide details of employees of Secure Trust Bank plc, however we have decided to voluntarily disclose in respect of all Group employees.
2. The calculation is prepared on a full time equivalent basis.
3. Where figures are shown as N/A it reflects that the individual commenced a role part way through the relevant year or left during the relevant year; and accordingly, there is no comparable previous year figure.
4. David McCreadie was appointed as CEO with effect from 5 January 2021 therefore no increase in salary, benefits or bonus was awarded for 2021. In 2020 David McCreadie was a Non-Executive Director.
5. Rachel Lawrence received an increase to salary in line with employees for 2021, adjusted to reflect her joining the Group part way through the year.
6. Each of the Non-Executive Directors received a 2.9% increase to their base fee with effect from 1 January 2022 which was based on the employee salary increase for 2021.

2022 CEO pay ratio

Our finalised CEO pay ratio for 2022 is set out in the table below. These figures are on a Group-wide basis, as per the regulations:

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	**Option A**	**40:1**	**29:1**	**17:1**
2021	Option A	43:1	31:1	17:1
2020	Option A	47:1	36:1	19:1
2019	Option A	96:1	71:1	36:1

Total UK employee pay and benefits figures used to calculate the CEO pay ratio for 2022:

	25th percentile	Median	75th percentile
Salary	£25,000	£33,000	£58,000
Total pay and benefits	£26,000	£36,000	£62,000

The Company has chosen Option A methodology to prepare the CEO pay ratio calculation as this is the most statistically robust method and is in line with the general preference of institutional investors. The value of each employee's total pay and benefits, as at 31 December 2022, was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed.

The Committee considers that the median pay ratio for 2022 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

Directors' Remuneration Report
continued

Spend on pay

The following table sets out the percentage change (from the financial year ended 31 December 2021) in dividends and the overall expenditure on pay (as a whole across the organisation). The increase in overall expenditure on pay is driven primarily by the increased size of Group's workforce, as set out in Note 8 to the Financial Statements.

	2022 £million	2021 £million	Change %
Dividends, excluding special dividends, and share buybacks	**8.4**	11.4	(26.3)
Dividends, including special dividends, and share buybacks	**8.4**	11.4	(26.3)
Overall expenditure on pay[1]	**55.7**	55.2	0.9

1. Further information can be found in Note 7 to the Financial Statements.

Service agreements and letters of appointment

Details of the Directors' service agreements, letters of appointment and notice periods are set out below:

Name	Commencement of current service agreement/letter of appointment[1,2,3]	Notice period
D McCreadie	5 January 2021	12 months
R Lawrence	11 May 2020	12 months
M Forsyth[4]	6 October 2016	6 months
A Berresford	22 November 2016	6 months
P Myers	28 November 2018	6 months
V Stewart	22 November 2016	6 months
F Williamson	30 June 2021	6 months
Former Director		
L Neville-Rolfe	28 November 2018	6 months

1. Each of the Non-Executive Directors' letter of appointment was amended in 2023 by a side letter confirming their respective Committee membership and their total fee. No other changes were made to their existing letter of appointment.
2. All Directors are subject to annual re-election by shareholders.
3. Those Non-Executive Directors who are members of the Remuneration Committee are set out on page 82.
4. Entered into new letters of appointment prior to the Company's transition from AIM to the Main Market.

Implementation of Directors' Remuneration Policy for the financial year ending 31 December 2023

Details on how Secure Trust Bank intends to implement the 2023 DRP for the financial year ending 31 December 2023 are set out as follows.

Salary

As at the date of this report David McCreadie receives an annual base salary of £669,500. Rachel Lawrence receives an annual base salary of £420,240.

The annual salary review date is 1 April 2023, and if any increases are made to the above base salary levels these will be in line with firm-wide employee level salary increases.

Pensions

David McCreadie and Rachel Lawrence will each receive a c.5% of base salary pension contribution, being aligned to the rate of pensions contribution for the majority of Group employees.

Implementation of Directors' Remuneration Policy for the financial year ending 31 December 2023 continued

Fees

The following table sets out the Non-Executive Director fee structure effective from 1 January 2023.

Role	2023 fee £'000
Chairman[1]	230
Non-Executive Director (basic fee)[2]	75
Senior Independent Director and Committee Chairman	20
Member of Audit, Risk or Remuneration Committee	5
Designated Non-Executive Director with responsibility for workforce engagement	5
Consumer Duty Champion	5

1. The Chairman does not receive any additional fees for his membership of any of the Board's committees.
2. With effect from 2020 the base fee payable to the Chairman and the Non-Executive Directors increases in line with the average increase of remuneration for employees implemented within the annual review of remuneration in the previous year. The increase takes effect from 1 January each year in respect of the preceding employee level salary increase.

Annual bonus

The proposed maximum annual bonus opportunity for the year ending 31 December 2023 will be equal to 100% of salary. The bonus will be subject to stretching performance metrics based on a balanced scorecard. 65% of the bonus will be subject to financial and risk performance metrics and 35% of the bonus will be subject to a mixture of non-financial strategic, customer, operational and employee performance metrics. The financial metrics will include profit before tax (25%), net interest margin (10%), costs (10%), capital ratios (10%) and risk (10%). The shared non-financial metrics will include strategic development (20%) as well as diversity and inclusion (5%). The CEO and CFO each have a 10% weighting for personal objectives.

The Committee is able to consider corporate performance on environmental social and governance ('ESG') issues when setting Executive Director remuneration and has considered whether the incentive structure for senior management raises ESG risks by inadvertently motivating irresponsible behaviour.

The Committee considers that the targets are commercially sensitive. A description of the performance targets will be disclosed in the Annual Report on Remuneration for the year ending 31 December 2023 or at such time when the targets are no longer considered commercially sensitive.

50% of any bonus earned will be deferred into shares under the DBP. Deferred shares will vest in equal tranches after one, two and three years following deferral.

LTIP

The Company proposes to grant LTIP awards to the Executive Directors in the form of nominal share options at the level of up to 100% of salary for the CEO and CFO. For the 2023 LTIP grant, the performance metrics are 25% relative TSR (measured against constituents of the FTSE SmallCap (excluding investment trusts)), 25% return on average equity (target range of 14% – 16%), 25% EPS growth (target range of 3-year CAGR 20% – 30%, measured from 2022 EPS for continuing businesses) and 25% risk management.

Statement of voting at AGM

The existing DRP was approved by shareholders at the AGM in 2020. The most recent Directors' Remuneration Report was approved at the AGM in 2022; the votes cast were as detailed below.

Resolution	Proxy votes for	% of proxy votes cast	Proxy votes against	% of proxy votes cast	Votes withheld
To approve the Directors' Remuneration Policy (2020 AGM)	13,595,855	98.57	197,730	1.43	2,323,180
To receive and approve the Directors' Remuneration Report (2022 AGM)	12,811,078	93.70	860,993	6.3	3,162,020

Approval

This Report was approved by the Board on 29 March 2023 and signed on its behalf by:

Victoria Stewart
Chairman of the Remuneration Committee

Proposed Directors' Remuneration Policy

This Directors' Remuneration Policy will be submitted to the 2023 AGM for shareholder approval. If approved by shareholders, it will formally take effect from the date of the AGM. The Directors' Remuneration Policy has been prepared in accordance with the regulations set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

The policy will apply for three years beginning with the date of its approval unless a new policy is presented in the interim.

Policy table for Executive Directors

The Directors' Remuneration Policy proposed for approval by shareholders at the 2023 AGM is substantially consistent with the prior policy approved by our shareholders at the 2020 AGM. Where any material changes from the prior policy are proposed these are shown as indicated.

Operation	Maximum opportunity	Performance metrics	Changes from prior Remuneration Policy
Base salary **Purpose: To enable the Group to recruit and retain the services of individuals of a suitable calibre.**			
Salaries are usually reviewed annually taking into account: • underlying Group performance; • role, experience and individual performance; • competitive salary levels and market forces; and • pay and conditions elsewhere in the Group.	While there is no maximum salary, increases will normally be in line with the typical range of salary increases awarded (as percentage of salary) to other employees in the Group. Salary increases above this level may be awarded to take account of individual circumstances, such as, but not limited to: • where an Executive Director has had an increase in responsibility; • where an Executive Director has been promoted or has had a change in scope; • an individual's development or performance in role (e.g. to align a newly appointed Executive Director's salary with the market over time); and • where an Executive Director's salary is no longer market competitive (e.g. due to an increase in size and complexity of the business). Increases may be implemented over such time period as the Committee deems appropriate.	N/A	No material changes.

Operation	Maximum opportunity	Performance metrics	Changes from prior Remuneration Policy
Benefits **Purpose: To provide benefits that will be valued by the recipient.**			
Executive Directors receive benefits in line with market practice, and these include a car allowance, medical insurance, life assurance and disability insurance. Other benefits may be provided based on individual circumstances. These may include, for example, relocation and travel allowances. Any reasonable business-related expenses (including tax thereon if determined to be a taxable benefit) can be reimbursed.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.	N/A	No material changes.
Pension **Purpose: To provide an appropriate level of retirement benefit (or cash allowance equivalent).**			
Executive Directors are eligible to participate in the Group defined contribution pension plan. In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors may be permitted to take a cash supplement in lieu of contributions to a pension plan.	Employer pension contributions are limited to 5% of base salary. The maximum cash supplement in lieu of pension is 5% of base salary.	N/A	No material changes.

Proposed Directors' Remuneration Policy
continued

Operation	Maximum opportunity	Performance metrics	Changes from prior Remuneration Policy
Annual bonus **Purpose: Rewards performance against targets which support the strategic direction of the Group.**			
Awards are based on performance (measured over a year) against metrics determined by the Committee. Pay-out levels are determined by the Committee after the year-end based on performance against those targets. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. To further link the Executive Directors' pay to the interests of shareholders, Executive Directors are required to defer 50% of any bonus earned into shares under the Deferred Bonus Plan ('DBP'). Deferred share awards vest in equal tranches after one, two and three years following deferral. Deferred share awards will typically take the form of a nil-cost/nominal-cost share option but may be structured as an alternative form of share award. The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred is less than £50,000 and would therefore, in the opinion of the Committee, make operation of the DBP administratively burdensome. Clawback provisions will apply to annual bonus awards and malus and clawback provisions will apply to deferred share awards as detailed on page 99.	The maximum annual bonus opportunity is 100% of base salary.	Targets are set annually reflecting the Group's strategy and aligned with key financial, strategic and/or individual targets. The annual bonus will be assessed against key financial performance metrics of the business and non-financial strategic/personal objectives, in such proportions as the Committee considers appropriate. **Financial metrics** No more than 50% of the maximum potential will be paid for on-target performance and all of the maximum potential will be paid for outstanding performance. **Non-financial strategic or individual metrics** Outcomes for the non-financial strategic or individual metrics will apply on a scale between 0% and 100% based on the Committee's assessment of the extent to which a non-financial performance metric has been met. Deferred share awards are not subject to any additional performance metrics. The Committee applies a holistic overview of performance for annual bonuses before confirming outcomes.	The following points have been clarified: • 100% of base salary is the maximum annual bonus opportunity under this policy. Within the prior policy there was scope to pay bonuses above 100% of salary in exceptional cases. • Clarified that the Committee applies a holistic overview of performance for annual bonuses before confirming outcomes.

Operation	Maximum opportunity	Performance metrics	Changes from prior Remuneration Policy
Long Term Incentive Scheme ('LTIP') **Purpose: To provide an effective long-term incentive award to motivate, incentivise and assist in the retention of the services of key individuals.**			
Awards will be in the form of nil-cost/nominal-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the Committee, normally over a three-year performance period. Awards will usually be subject to a two-year holding period following the end of the performance period (with the exception that sufficient shares may be sold to meet income tax and National Insurance liabilities). Awards may be settled in cash (or granted as a right to a cash amount) in exceptional circumstances at the election of the Committee. Malus and clawback provisions will apply to awards as detailed on page 99.	The maximum award is 100% of salary in respect of a financial year. The Committee will take into account Company and personal performance during the preceding financial year when determining the maximum award to be granted.	Performance metrics are selected that reflect underlying business performance. Performance metrics and their weighting where there is more than one metric are reviewed annually to maintain appropriateness and relevance. Awards will vest between 25% and 100% for performance between 'threshold' performance (the minimum level of performance that results in any level of vesting) and 'maximum' performance. The Committee has the discretion to override the formulaic out-turn of the award if appropriate to do so to take into account the overall financial and operational performance of the Company.	No material changes.
All employee share schemes **Purpose: To create alignment with the Group and promote a sense of ownership.**			
Executive Directors are eligible to participate in a HMRC tax-qualifying all-employee Sharesave Scheme under the same terms as other Group employees.	Participant limits are those set by the UK tax authorities from time-to-time.	N/A	No material changes.

Proposed Directors' Remuneration Policy
continued

Operation	Maximum opportunity	Performance metrics	Changes from prior Remuneration Policy
Minimum shareholding requirements and post-cessation requirements **Purpose: To provide a continued focus on long-term sustainable value creation and to further align Executives' and shareholders' interests.**			
Executive Directors are required to build up a shareholding in the Company equal to 200% of salary. Executive Directors are expected to retain a proportion of the shares vesting under the Company's share plans until the guideline is met. Any LTIP performance vested shares subject to a holding period and any shares awarded in connection with annual bonus deferral will be credited for the purpose of the guidelines (discounted for anticipated tax liabilities). In addition, a post-cessation shareholding requirement will apply to Executive Directors who leave the Company. Leavers will have a requirement to hold the share ownership requirement or, if lower, the level of their pre- cessation actual shareholding for 2 years from ceasing to work (the earlier of commencing garden leave or termination of service).	N/A	N/A	The period for application of post-cessation shareholding requirements is extended to 2 years (from one year). The level of share ownership guidelines are increased to 200% of salary (from 100% of salary). Clarified that Executive Directors are expected to retain shares from share plans to attain the guideline requirements.

Application of malus and clawback

Malus: The ability to reduce, cancel or impose further conditions on unvested awards, in the circumstances set out below.

Clawback: The ability to cancel an award that has vested but not yet been released (in relation to an award which is subject to a holding period) or exercised (in relation to share options), or require the repayment of some or all of an award in the circumstances set out below.

Malus and clawback may apply in the following circumstances:

- Discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company.
- The assessment of any performance target or condition in respect of an award was based on material error or materially inaccurate or misleading information.
- The discovery that any information used to determine the DBP and/or LTIP was based on material error, or materially inaccurate or misleading information.
- Action or conduct of an Executive Director which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct.
- The Executive Director is subject to regulatory censure in respect of a material failure in control.
- The Executive Director's service agreement is terminated for gross misconduct or the Executive Director receives a formal written warning for gross misconduct, as defined by the Company's disciplinary policy.
- The Company suffers a material loss arising from the Executive Director operating outside of agreed risk policy parameters, and as such the Committee considers a material failure in risk management has occurred.
- The level of the award is not considered sustainable when assessing the overall financial viability of the Company.
- The Company has suffered corporate failure such as, although not limited to, the appointment of an administrator or a liquidator or the Company entering into an agreement with its creditors.
- A material failure of risk management and/or regulatory non-compliance resulting in damage to the Company's business or reputation.
- Any other circumstances that the Board considers to have a similar nature or effect.

Malus and clawback provisions will apply over the following time periods:

Element	Malus	Clawback
Annual bonus award	To such time as payment is made.	Up to three years following payment.
Deferred bonus award	To such time as the award vests.	Tranche of award deferred for one year: Up to two years following vesting. Tranche of award deferred for two years: Up to one year following vesting. Tranche of award deferred for three years: No clawback provisions apply.
LTIP award	To such time as the award vests.	Up to two years following vesting.

Discretions retained by the Committee in operating the LTIP and other variable pay schemes

The Committee operates the Group's various incentive plans according to their respective rules and (where applicable) in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee.

These include but are not limited to:

- determining who may participate in the plans;
- determining the timing of grants of awards and/or payments under the plans;
- determining the quantum of any awards and/or payments (within the limits set out in the policy table above);
- in exceptional circumstances, determining that a share-based award shall be settled (in full or in part) in cash;
- determining the performance measures and targets applicable to an award (in accordance with the statements made in the section below);
- discretion to override formulaic outcomes;
- where a participant ceases to be employed by the Company, determining whether 'good leaver' status shall apply;
- determining the extent of vesting or payment of an award based on assessment of the performance conditions and the overall performance of the Company, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);

Proposed Directors' Remuneration Policy continued

- whether, and to what extent, pro-rating shall apply in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events;
- discretion to vary shareholding and post-cessation holding requirements in exceptional circumstances;
- whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply; or
- making appropriate adjustments to awards on account of certain events, such as major changes in the Company's capital structure.

Explanation of performance metrics chosen

Performance metrics are selected that are aligned with the performance of the Group and the interests of shareholders.

Stretching performance targets are set each year for the annual bonus and LTIP awards. When setting these performance targets, the Committee will take into account a number of different reference points, which may include the Group's business plans and strategy and the economic environment. Full vesting will only occur for what the Committee considers to be stretching performance.

The annual bonus performance targets have been selected to provide an appropriate balance between incentivising Directors to meet financial targets for the year and achieving strategic and/or personal objectives.

Long-term performance metrics provide a robust and transparent basis on which to measure the Group's performance over the longer-term and provide further alignment with the business strategy.

The Committee retains the ability to adjust or set different performance metrics or targets if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the metrics are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards and options may be adjusted in accordance with the scheme rules in the event of a variation of share capital, demerger, delisting, special dividend or other event which may affect the Company's share price.

Policy for the remuneration of employees more generally

Remuneration arrangements are determined throughout the Group based on the same principle that reward should be achieved for delivery of the business strategy and should be sufficient to attract and retain high calibre talent.

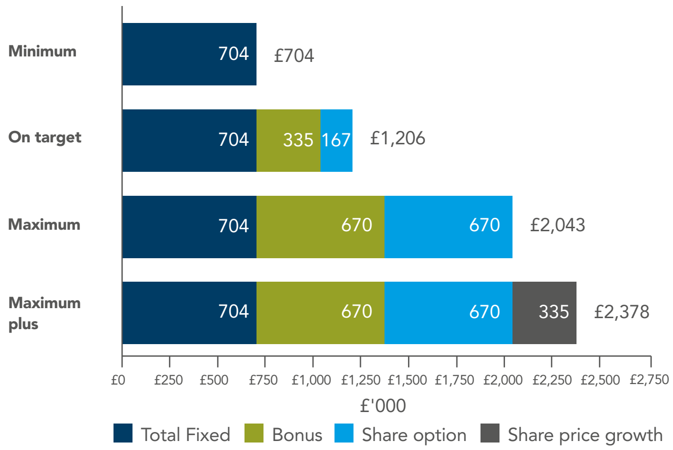
Non-Executive Directors

Element and purpose	Approach of the Company
Chairman and Non-Executive Director fees To enable the Group to recruit and retain Non-Executive Directors of a suitable calibre.	Fees are normally reviewed annually. Fees paid to Non-Executive Directors for their services are approved by the Board. Fees may include a basic fee and additional fees for further responsibilities (for example, chairmanship and membership of Board committees or holding the office of Senior Independent Director). Fees are based on the level of fees paid to Non-Executive Directors serving on the board of similar-sized UK listed companies and those in the financial services sector, as well as the time commitment and contribution expected for the role. Non-Executive Directors cannot participate in any of the Company's share schemes or annual bonus and are not eligible to join the Company's pension scheme. Non-Executive Directors may be eligible to receive benefits such as private medical insurance, the use of secretarial support, travel costs or other support that may be appropriate. Any reasonable business-related expenses (including tax thereon if determined to be a taxable benefit) can be reimbursed.

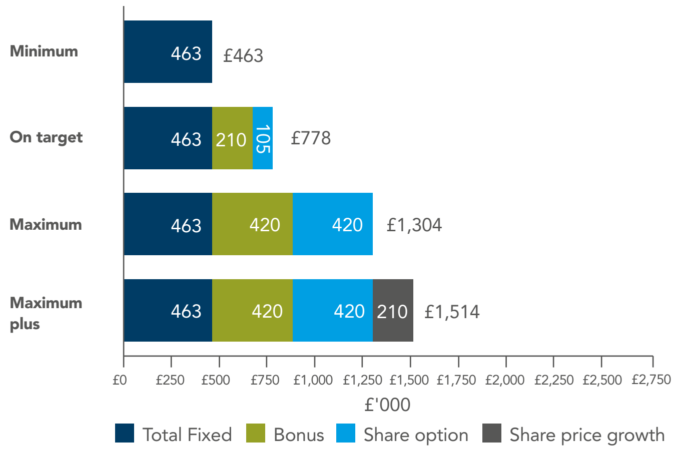
Illustrations of application of remuneration policy

The chart below sets out for the CEO and CFO an illustration of the application for 2023 of the remuneration policy set out above. The charts show the split of remuneration between fixed pay, annual bonus (including amounts deferred under the DBP) and LTIP on the basis of minimum remuneration, remuneration receivable for performance in line with the Company's expectations, maximum remuneration (not allowing for any share price appreciation) and maximum remuneration (allowing for 50% share price appreciation on the LTIP award). Amounts shown are in £ thousands.

CEO



CFO



In illustrating the above potential reward, the following assumptions have been made:

Scenario	Description	Assumptions
Minimum performance	Minimum remuneration receivable.	Fixed elements of remuneration only – salary as at 1 January 2023, benefits and pension. No payments under incentive plans.
Target performance	Remuneration receivable for achieving performance in line with expectations.	Fixed elements of remuneration (as above). 50% of maximum annual bonus earned. 25% of maximum LTIP award vesting.
Maximum performance	Remuneration receivable for achieving performance in excess of the maximum performance targets.	Fixed elements of remuneration (as above). 100% of maximum annual bonus earned. 100% of maximum LTIP award vesting.
Maximum performance including share price growth	Remuneration receivable at maximum performance, plus 50% share price growth on the LTIP vesting value.	Fixed elements of remuneration (as above). 100% of maximum annual bonus earned. 100% of maximum LTIP award vesting plus 50% share price growth.

Recruitment remuneration

The policy aims to facilitate the appointment of individuals of a suitable calibre. When appointing a new Executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Group and not to pay more than is appropriate.

The Committee will take into consideration a number of relevant factors, which may include the calibre of the individual, the candidate's existing remuneration package, and the specific circumstances of the individual including the jurisdiction from which the candidate was recruited.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above policy.

Proposed Directors' Remuneration Policy
continued

The Committee may include other elements of pay which it considers are appropriate, however, this discretion is capped and is subject to the principles and the limits referred to below:

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension and benefits will be provided in line with the above policy.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short-term basis;
  - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
  - if the Executive Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee may also alter the performance metrics, performance period and vesting period of the annual bonus, DBP or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buy out' awards as referred to below) will be within the maximum limits set out in the policy table.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans.

If necessary, and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

The Committee may make payments or awards in respect of hiring an employee to 'buy out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested.

The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited. Any such payments or awards are limited to the expected value of the forfeited awards. Where considered appropriate, such special buy-out awards will be liable to forfeiture or 'malus' and/or 'clawback' on early departure.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service agreements and letters of appointment

Executive Directors' service agreements are on a rolling basis and may be terminated on 12 months' notice by the Company or the Executive Director. Service agreements for new Executive Directors will generally be limited to 12 months' notice by the Company.

All Non-Executive Directors' letters of appointment are on a rolling basis and may be terminated on six months' notice by the Company or the Non-Executive Directors. All Non-Executive Directors are subject to re-election at intervals of not more than three years.

Details of the Directors' service agreements, letters of appointment and notice period are set out on page 92.

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below:

Scenario	Description
Payment in lieu of notice	The Company has discretion to make a payment in lieu of notice to Executive Directors and Non-Executive Directors. Such a payment would include base salary or fees for the unexpired period of notice.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will be paid only to individuals considered to be a 'good leaver' and will be pro-rated for time in service during the annual bonus period and will, subject to performance, normally be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any annual bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
Deferred Bonus Plan	The extent to which any unvested award will vest will be determined in accordance with the rules of the DBP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the award will vest at the normal vesting date other than in the case of death where vesting shall be accelerated or in the other cases only exceptionally at the discretion of the Committee. In either case, the extent of vesting will be determined by the Committee, taking into account, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the deferral period. Awards in the form of nil-cost or nominal-cost share options may then be exercised during such period as the Committee determines. Awards in the form of nil-cost or nominal-cost share options which have vested and been released but remain unexercised at the date of cessation may be exercised if a participant leaves for any reason (other than summary dismissal). Awards may then be exercised for such period as the Committee determines.
LTIP	The extent to which any unvested award will vest will be determined in accordance with the rules of the LTIP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the award will vest at the normal vesting date other than in the case of death where vesting shall be accelerated or in the other cases only exceptionally at the discretion of the Committee. In either case, the extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards in the form of nil-cost or nominal- cost share options may then be exercised during such period as the Committee determines. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a 'holding period'), his award will ordinarily continue until the normal release date when it will be released. The Committee retains the discretion to release awards when the participant leaves. The Committee will normally align continuing holding periods after termination with the two year period after termination for share ownership guidelines.

Proposed Directors' Remuneration Policy
continued

Scenario	Description
Change of control	The extent to which unvested awards under the DBP and LTIP will vest will be determined in accordance with the rules of the relevant plan. Awards under the DBP may vest in full in the event of a takeover, merger or other relevant corporate event unless the Board determines the award will be subject to roll-over. Awards under the LTIP may vest early on a takeover, merger or other relevant corporate event unless the Board determines the award will be subject to roll-over. The Committee will determine the level of vesting taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period.
Mitigation	Termination payments may be reduced where the Executive Director commences alternative employment during the notice period.
Other payments	Payments may be made either in the event of a loss of office or a change of control under the Sharesave Scheme, which is governed by its rules and the legislation relating to such tax-qualifying plans. There is no discretionary treatment for leavers or on a change of control under these plans. In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.

Where a buy-out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in the discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment. Contributions may be made to legal fees or for outplacement support.

Where the Committee retains discretion it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

There is no entitlement to any compensation in the event of a Non-Executive Director's fixed-term agreements not being renewed or the agreement terminating earlier with the exception of a payment in lieu of notice as detailed in the table on page 103.

Consideration of employment conditions elsewhere in the Company

The Committee considers the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors.

Shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration. Should any significant changes be proposed to the policy going forward, the Company will engage with its shareholders to seek their views.

Existing remuneration arrangements

The Committee retains the discretion to make any remuneration payment or payment for loss of office outside the policy in this report:

- where the terms of the payment were agreed before the policy came into effect; and/or
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company, and in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company.

For these purposes, 'payment' includes the satisfaction of awards of variable remuneration, and in relation to an award involving shares the terms of the payment are agreed at the time the award is granted.

Directors' report

The Directors submit their report, the related Strategic Report and Corporate Governance Report, and the audited financial statements of Secure Trust Bank PLC and its subsidiaries (the 'Group') for the year ended 31 December 2022.

Relevant information required to be included in the Directors' Report includes disclosures required by the FCA's Disclosure and Transparency Rules and Listing Rules (LR 9.8.4) and is incorporated by reference into this report as well as the following sections:

Item	Page/Note reference	Further detail
Strategic report	Pages 2 to 59	Includes particulars of important events affecting the Company to have occurred since the end of the financial year.
Business review and information about future development	Pages 5 to 24	Describes the principal activity as a bank (including deposit taking and secured and unsecured lending).
Key performance indicators	Pages 2 to 3	
Principal risks	Pages 25 to 34	
Corporate Governance Report	Pages 60 to 109	Contains information about the Group's corporate governance arrangements.
Statement of compliance with UK Corporate Governance Code in respect of the year	Page 64	
Results	Pages 12 to 17	The Group made a total profit before tax of £44.0 million (2021: £56.0 million). For the purposes of DTR 4.1.5R2 and DTR 4.1.8 this Directors' report and the Strategic report on pages 2 to 59 comprise the management report.
Share capital	Note 34, Page 166	Details of the Company's share capital and movements in the Company's issued share capital during the year.
Allotments of cash or equity securities otherwise than to shareholders in proportion to their holdings	Note 34, Page 166	In accordance with LR 9.8.4R
Share plans	Note 36, Pages 166 to 170	The Company operates a Long Term Incentive Plan, Sharesave Plan and a Deferred Bonus Share Plan. Upon exercise, shares awarded under these plans have the same rights and rank pari passu with existing ordinary shares.
Details of any long-term incentive plans	Pages 80 to 104 and Note 36, Pages 167 to 168	In accordance with LR 9.8.4R
Directors in office during the year	Pages 61 to 63	Baroness Neville-Rolfe stepped down from the Board on 21 September 2022. All Directors will be retiring and standing for either election or re-election at the Annual General Meeting to be held on 18 May 2023.
Directors' interests in share capital	Pages 80 to 93	Including connected persons.
Related party transactions	Note 44, Pages 179 to 180	
Going concern and viability	Pages 35 to 36	
Future developments	Page 11	
Financial risk management objectives and policies	Page 25	Financial risk management objectives and policies in relation to the use of financial instruments can be found on the Group's website: www.securetrustbank.com/our-corporate-information/risk-management
Climate related financial disclosures	Pages 50 to 59	Required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 and LR 9.8.6R.

Directors' report
continued

Item	Page/Note reference	Further detail
Engagement with Stakeholders	Pages 40 to 49	Relevant information related to s.172 of the Companies Act 2006, Companies (Miscellaneous Reporting) Regulations 2018.
TCFD Disclosures	Pages 50 to 59	Explains how we have complied and details any non-compliance under Taskforce on Climate-Related Financial Disclosures ('TCFD').

Dividends

The Board recommends the payment of a final dividend of 29.1 pence per share which represents total dividends for the year of 45.1 pence per share (2021: 61.1pence per share). The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 25 May 2023 to shareholders on the register at the close of business on 28 April 2023.

Dividend Policy

The Board has adopted a dividend policy which takes into account the Company's capital requirements, earnings and cash flow in the long-term balanced with an intention that the Company will distribute 25% of its annual earnings by way of dividend.

The Directors will have regard to current and projected capital, liquidity, earnings and market expectations in determining the amount of the dividend. On occasion, the Company may declare and pay a special dividend resulting from special circumstances, however no such special dividend is currently envisaged.

Share capital

The share capital of the Company comprises one class of ordinary shares with a nominal value of 40 pence each. As at 31 December 2022 the Company had 18,691,434 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

An additional 43,629 ordinary shares of 40 pence each were issued during 2022 (2021: 14,143) subsequent to requests to exercise under STB's employee share schemes and as authorised by shareholders at the 2022 AGM. Since 1 January 2023 and until the date of the report, a further 6,414 ordinary shares of 40 pence each were issued in the Company. All the ordinary shares are fully paid and rank equally in all respects and there are no special rights to dividends or in relation to control of the Company.

The powers of the Directors, including in relation to the issue or buyback of the Company's shares are set out in the Companies Act 2006 and the Company's Articles of Association. Shareholders will be asked to grant authority to the Directors to issue and allot shares at the 2022 Annual General Meeting.

Under section 551 of the Companies Act 2006, the Directors may allot equity securities only with the express authorisation of shareholders which may be given in General Meeting, but which cannot last more than five years.

Under section 561 of the Companies Act 2006, the Board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by special resolution of the shareholders.

Resolutions permitting such actions will be proposed at the 2023 Annual General Meeting. Details of the resolutions for such authority are included in the Notice of the 2023 Annual General Meeting and in the related explanatory notes.

The Notice of the 2023 Annual General Meeting also includes resolutions specifically relating to the issue of shares associated with an issue of Additional Tier 1 Securities. These resolutions are in a similar form to the resolutions proposed and passed at the 2022 AGM.

Under section 701 of the Companies Act 2006 a company may make a market purchase of its own shares if the purchase has first been authorised by a resolution of the company.

The Company did not repurchase any of the issued ordinary shares during the year or up to the date of this report, although it was granted authority to do so by shareholders at the 2022 Annual General Meeting on 12 May 2022. That authority expires on 12 August 2023 or, if earlier, the conclusion of the 2023 Annual General Meeting.

At the 2023 Annual General Meeting a special resolution will be proposed authorising the Company to make market purchases of ordinary shares within the limits set out in the resolution.

The resolution is in a similar form to that proposed at the 2022 Annual General Meeting. The Directors have no present intention of exercising the authority granted by the resolution but regard it as a useful tool to have available.

On a show of hands, each member has the right to one vote at General Meetings of the Company. On a poll, each member is entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Voting at the 2023 AGM will be conducted on a poll.

There are no specific restrictions on the transfer of the shares in the Company which are governed by the general provisions of the Articles of Association and prevailing legislation.

Substantial shareholders

In accordance with Disclosure and Transparency Rules DTR5, the Company as at 29 March 2023 (being the latest practicable date before publication of this report), has been notified of disclosable interests in its issued ordinary shares as set out in the table below.

Substantial shareholders	No. of ordinary shares	%
Columbia Threadneedle Investments	2,889,838	15.46
Fidelity International	1,853,050	9.91
Wellington Management	1,779,515	9.52
Mr. Steven Cohen	1,510,412	8.08
Invesco	1,324,818	7.09
Unicorn Asset Management	1,091,156	5.84
Premier Miton Investors	1,039,988	5.56
Ennismore Fund Management	960,757	5.14

Powers of Directors

The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association.

Appointment and retirement of Directors

The appointment and retirement of the Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code and the Companies Act 2006. Further details can be found in the explanatory notes included in the Notice of 2023 Annual General Meeting.

Directors' indemnities

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any Director or former Director of the Company or any associated company against any liability and may purchase and maintain for any Director or former Director of the Company or any associated company insurance against any liability.

The Group has maintained Directors' and Officers' liability insurance throughout 2022.

The letters of appointment of the Non-Executive Directors incorporate by reference the provisions of the Articles of Association in relation to the indemnity of Directors into the contract established by the letter of appointment between the Non-Executive Director and the Company.

Conflicts of interest

Directors are invited to declare new conflicts of interest at each Board meeting and where an actual or potential conflict of interest has been identified appropriate steps are taken to deal with the conflict.

A separate register of Directors' conflicts of interest is maintained by the Company.

Significant contracts

There are no contracts of significance in which a Director is interested.

There are no agreements between any Group company and any of its employees or any Director of any Group company which provide for compensation to be paid to an employee or a Director for termination of employment or for loss of office as a consequence of a takeover of the Company.

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control following a takeover bid for the Company.

Employment policies and equal opportunities

The Group is an inclusive and equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities will be considered fairly and if existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

Group policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind is not tolerated. This principle applies to all aspects of employment from recruitment and promotion, through to termination and all other terms and conditions of employment.

Directors' report
continued

The Group has processes in place for communicating with its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage employees to get involved in social or community events. These communications aim to achieve a common awareness for all employees of the financial and economic factors affecting the performance of the Group. Further information on how the Group communicates with its employees is set out in the 'Managing our business responsibly' section starting on page 43.

Research and development

The Group does not undertake research and development activities.

Political donations and expenditure

The Group made no political donations and incurred no political expenditure during the year (2021: £nil).

Post balance sheet events

For details of non-adjusting post balance sheet events see Note 47 to the Financial Statements on page 180.

Disclosure of information to Auditor

Each Director in office at the date of this Directors' report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director has taken all reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Fair, balanced and understandable

The Directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, strategy and business model.

Internal control and risk management

The Directors confirm that they have carried out a robust assessment of the principal and emerging risks facing the Group. Including those that would threaten its business model, future performance, solvency or liquidity. The Board considers that the information it receives enables it to review the effectiveness of the Group's internal controls in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Areas where financial control can be improved are identified and appropriate actions agreed as part of our internal control systems. Senior Management, the Board and the Risk Committee regularly monitor progress towards completion of these actions. The Board considers that none of the identified areas for improvement constitute a significant failing or weakness.

Articles of Association

Changes to the Company's Articles of Association must be approved by shareholders by way of a special resolution and must comply with the provisions of the Companies Act 2006 and the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Auditor

Deloitte LLP was reappointed as Auditor at the Annual General Meeting held in 2022. As detailed on page 73 in the Audit Committee report, the Board is recommending the reappointment of Deloitte LLP as Auditor at the 2023 Annual General Meeting.

Annual General Meeting

The 2023 Annual General Meeting will be held at 3 pm on 18 May 2023 at the office of Simmons & Simmons LLP, CityPoint, 1 Ropemaker Street, London EC2Y 9SS. For more information, please see the Notice of Meeting.

By order of the Board.

M P D Stevens
Company Secretary

Directors' responsibility statement

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial statements in accordance with United Kingdom adopted international accounting standards. The Financial Statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. The Directors have also chosen to prepare the parent Company Financial Statements under United Kingdom adopted international accounting standards. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

Responsibility statement

Each of the Directors who are in office at the date of this report and whose names and roles are listed on pages 61 to 63 of this Annual Report confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 29 March and is signed on its behalf by:

Lord Forsyth
Chairman
29 March 2023

David McCreadie
Chief Executive Officer
29 March 2023

Independent Auditor's report to the members of Secure Trust Bank PLC

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the Financial Statements of Secure Trust Bank PLC (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the Company Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company statements of cash flows; and
- the related notes 1 to 47.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law.
Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in Note 7 to the Financial Statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Impairment of loans and advances to customers. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used for the Group Financial Statements and Company Financial Statements was £2.4 million (2021: £2.3 million) and £2.3 million (2021: £2.2 million) respectively. This was determined using 0.75% of net assets.
Scoping	We have performed a full scope audit on the Company and V12 Retail Finance Limited with the remaining entities subject to testing of specific account balances.
Significant changes in our approach	The Debt Managers (Services) Limited ('DMS') debt collection portfolio was sold in May 2022.Therefore we no longer identify a key audit matter relating to the valuation of purchased debt.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluated the going concern assessment, to understand the key judgements;
- Obtained an understanding of relevant controls around the going concern assessment including Board approval;
- With the involvement of prudential regulation specialists, we read the most recent Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') documents, assessed the capital and liquidity projections, assessed the results of the capital and liquidity stress testing, evaluating key assumptions and methods used in the capital and liquidity stress testing models, and tested the mechanical accuracy of the forecasts;
- Read correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators, and evidence any changes to those requirements;
- Obtained the capital and liquidity forecasts and assessed key assumptions and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;
- Assessed the historical accuracy of forecasts; and
- Assessed the appropriateness of the disclosures made in the Financial Statements in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's report
continued

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Impairment of loans and advances to customers

Key audit matter description	The Group held allowances for impairment of loans and advances to customers of £78.0 million (2021: £67.5 million) against loans and advances to customers of £2,997.5 million (2021: £2,598.1 million). For financial assets measured at amortised cost, IFRS 9 Financial Instruments requires the carrying value to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses ('ECL') is complex and involves judgements and estimates relating to probability of default ('PD'), exposure at default, loss given default ('LGD') including collateral valuations, significant increases in credit risk ('SICR') and macroeconomic scenario modelling. These assumptions are informed using historical behaviour and the Director's experience. The uncertain economic environment continues to increase the complexity in estimating ECLs, particularly with regards to determining appropriate forward-looking macroeconomic scenarios and the requirement for post model expert credit judgements ('ECJs'). The ECL provision requires the Director's to make significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Group's allowance for impairment. We identified three specific areas in relation to the ECL that require significant judgement or relate to assumptions to which the overall ECL provision is particularly sensitive: • The valuation of model adjustments and post model ECJs applied to the consumer lending portfolios; • The accuracy of the macroeconomic scenarios applied to the consumer and Real Estate Finance ('REF') lending portfolios; and • The accuracy of the vehicle recovery rate component of the LGD applied in the Vehicle Finance lending portfolio. In the prior year, our key audit matter in respect of the impairment of loans and advances to customers also included the impact of cure rates on the Vehicle Finance LGD. This is no longer considered a key audit matter given the reduced estimation uncertainty associated with this assumption and its sensitivity to reasonably possible changes. Impairment of loans and advances to customers, including associated accounting policies is included in Note 17 of the Financial Statements. The corresponding area in the Audit Committee report is on page 72.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the impairment provision with particular focus on controls over significant assumptions and judgements used in the calculation of ECL. To challenge the consumer portfolio model adjustments and ECJs we: • Assessed the rationale for the model adjustments and ECJs applied; • With the involvement of credit risk specialists, we assessed and tested the methodology applied, including the mechanical accuracy of model adjustments and ECJ calculations; and • Tested the completeness and accuracy of the data used in deriving these adjustments and ECJs. For the macroeconomic scenarios we: • With engagement of our economic specialist, assessed the scenarios and weightings provided by the external economic provider and adopted by the Directors; • Compared the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders; and • Evaluated the competence, capabilities and objectivity of the external economic provider. For the Vehicle Finance LGD we: • Assessed both the historical and forecast data used to support the vehicle recovery rate, including completeness and accuracy; and • Considered how the forecast rate may be impacted by both internal and external factors. As part of our wider assessment of impairment of loans and advances to customers we: • Tested the source data and report logic used to extract source data from the underlying lending systems for input into the impairment models; • With engagement of our real estate valuation specialists, assessed a sample of collateral valuations used in the LGD calculation for the REF portfolio; • Reconciled the impairment models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate; • Assessed the quantitative and qualitative factors used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three; • Tested the completeness and accuracy of data used in applying the quantitative and qualitative criteria in the SICR assessment on whether loans are assigned to the correct stage; and • As a stand back test, considered potential contradictory evidence, assessed changes in the overall coverage ratios and the completeness of key judgements adopted by the Directors through comparison to industry peers.
Key observations	Based on the evidence obtained, we found that the judgements and assumptions underpinning the allowances for impairment of loans and advances to customers were determined and applied appropriately and the recognised provision was reasonable.

Independent Auditor's report
continued

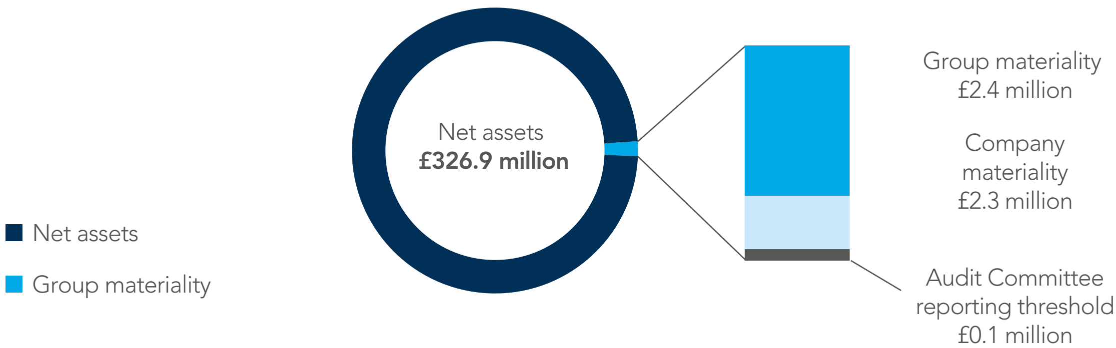
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Company Financial Statements
Materiality	£2.4 million (2021: £2.3 million)	£2.3 million (2021: £2.2 million)
Basis for determining materiality	0.75% of net assets (2021: 0.75% of net assets)	0.75% of net assets (2021: 0.75% of net assets)
Rationale for the benchmark applied	We have chosen net assets as it is considered a key metric for users of the Financial Statements given the capital requirements which arise from being a regulated bank. As most of the Group's operations are carried out by the Company, the same materiality basis was used for both.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

	Group Financial Statements	Company Financial Statements
Performance materiality	70% (2021: 70%) of Group materiality	70% (2021: 70%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors, including: our understanding of the control environment and controls reliance obtained; our understanding of the business; and the number of uncorrected misstatements identified in the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million (2021: £0.1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1.Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group–wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit on the Company and V12 Retail Finance Limited. For the remaining entities, we have performed testing of specific account balances.

Audit testing to respond to the risks of material misstatement was performed directly by the Group audit engagement team and executed at levels of materiality applicable to each individual entity. We have also performed testing over the consolidation process of Group entities.

7.2. Our consideration of the control environment

We identified key IT systems for the Group in respect of the financial reporting system, lending systems for Vehicle Finance, Real Estate Finance, Commercial Finance, Retail Finance and the deposits system. With involvement of our IT specialists, performed testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls in respect of these systems.

We planned to take a controls reliance approach in relation to both the lending and deposits business cycles, except for the Vehicle Finance prime lending book. The Vehicle Finance prime lending book is on a different system to the remainder of the Vehicle Finance book, and due to its relative size, we concluded that the most appropriate audit approach was a non-controls reliance approach. We tested relevant automated and manual controls for these business cycles and were able to adopt a controls reliance approach. We did not plan to obtain controls reliance over impairment of loans and advances to customers.

7.3. Our consideration of climate-related risks

We have obtained an understanding of the process for considering the impact of climate-related risks and controls and assessed whether the risks identified are complete and consistent with our understanding of the entity as part of our own risk assessment procedures. These risks and Task Force on Climate-Related Financial Disclosures ('TCFD') are contained within pages 50 to 59 of the Annual Report.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group and the long-term strategy to respond to climate change risks as they evolve.

Our audit work has involved assessing the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment. The conclusion is that there is no material impact of climate change risk on current year financial reporting. This has been identified through assessing disclosures in the Annual Report, and challenging the consistency between the Financial Statements and the remainder of the Annual Report.

As set out in Note 17, the Directors do not consider that climate change risk is currently a key source of estimation uncertainty nor that it presents a material impact to the judgements made in the financial statements.

We performed our own risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement.

8. Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's report
continued

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditors responsibilities. This description forms part of our Auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of the Directors, Internal Audit, the Directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, real estate valuation, economic, climate risk, share based payments, data analytics, information technology, prudential regulatory and credit risk specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to impairment of loans and advances to customers. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority ('FCA') and by the Prudential Regulation Authority ('PRA') relating to regulatory capital and liquidity requirements, which are fundamental to the Group's ability to continue as a going concern.

11.2. Audit response to risks identified

As a result of performing the above, we identified impairment of loans and advances to customers as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of the Directors, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements.

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in Note 46 to the Financial Statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

Independent Auditor's report
continued

14. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 35 and 36;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 35 and 36;
- the Directors' statement on fair, balanced and understandable set out on page 108;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 25 to 34;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 66; and
- the section describing the work of the Audit Committee set out on pages 70 to 74.

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

> Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 16 May 2018 to audit the Financial Statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2018 to 31 December 2022.

16.2. Consistency of the Audit Report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the FCA Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these Financial Statements form part of the European Single Electronic Format (ESEF) prepared Annual Report and Accounts filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This Auditor's report provides no assurance over whether the Annual Report and Accounts has been prepared using the single electronic format specified in the ESEF RTS.

Matthew Perkins FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom

29 March 2023

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	2022 £million	Restated[1] 2021 £million
Income statement			
Continuing operations			
Interest income and similar income	4.1	203.0	163.9
Interest expense and similar charges	4.1	(50.4)	(27.7)
Net interest income	4.1	**152.6**	**136.2**
Fee and commission income	4.2	17.4	13.3
Fee and commission expense	4.2	(0.4)	(0.6)
Net fee and commission income	4.2	**17.0**	**12.7**
Operating income		**169.6**	**148.9**
Net impairment charge on loans and advances to customers	17	(38.2)	(5.0)
Gains on modification of financial assets	5	1.1	1.5
Fair value losses on financial instruments	6	(0.3)	(0.1)
Operating expenses	7	(93.2)	(89.4)
Profit before income tax from continuing operations		**39.0**	**55.9**
Income tax expense	9	(9.4)	(10.4)
Profit for the year from continuing operations		**29.6**	**45.5**
Discontinued operations			
Profit before income tax from discontinued operations	10	**5.0**	**0.1**
Income tax expense	10	(0.9)	–
Profit for the year from discontinued operations	10	**4.1**	**0.1**
Profit for the year		**33.7**	**45.6**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Revaluation reserve movements		0.1	0.5
Taxation		0.2	(0.1)
		0.3	**0.4**
Items that will be reclassified to the income statement			
Cash flow hedge reserve movements		(0.8)	(0.4)
Reclassification to the income statement		0.1	–
Taxation		0.2	0.1
		(0.5)	**(0.3)**
Other comprehensive income for the year, net of income tax		**(0.2)**	**0.1**
Total comprehensive income for the year		**33.5**	**45.7**
Profit attributable to equity holders of the Company		**33.7**	**45.6**
Total comprehensive income attributable to equity holders of the Company		**33.5**	**45.7**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per ordinary share	11.1	**180.5**	**244.7**
Diluted earnings per ordinary share	11.2	**174.7**	**239.4**
Basic earnings per ordinary share – continuing operations		**158.5**	**244.1**
Diluted earnings per ordinary share – continuing operations		**153.4**	**238.9**

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

The Notes on pages 127 to 180 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

	Note	2022 £million	2021 £million
ASSETS			
Cash and Bank of England reserve account		370.1	235.7
Loans and advances to banks	13	50.5	50.3
Debt securities	14	–	25.0
Loans and advances to customers	15,16	2,919.5	2,530.6
Fair value adjustment for portfolio hedged risk	18	(32.0)	(3.5)
Derivative financial instruments	18	34.9	3.8
Assets held for sale	19	–	1.3
Investment property	20	–	4.7
Property, plant and equipment	21	10.3	9.3
Right-of-use assets	22	1.5	2.2
Intangible assets	23	6.6	6.9
Current tax assets		–	0.8
Deferred tax assets	25	5.5	6.9
Other assets	26	13.4	11.9
Total assets		**3,380.3**	**2,885.9**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	27	400.5	390.8
Deposits from customers	28	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	18	(23.0)	(5.3)
Derivative financial instruments	18	26.7	6.2
Liabilities directly associated with assets held for sale	19	–	2.0
Current tax liabilities		0.8	–
Lease liabilities	29	2.1	3.1
Other liabilities	30	78.1	31.3
Provisions for liabilities and charges	31	2.5	1.3
Subordinated liabilities	32	51.1	50.9
Total liabilities		**3,053.4**	**2,583.5**
Equity attributable to owners of the parent			
Share capital	34	7.5	7.5
Share premium		82.2	82.2
Other reserves	35	(0.3)	1.0
Retained earnings		237.5	211.7
Total equity		**326.9**	**302.4**
Total liabilities and equity		**3,380.3**	**2,885.9**

The financial statements on pages 120 to 180 were approved by the Board of Directors on 29 March 2023 and were signed on its behalf by:

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

The Notes on pages 127 to 180 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 December

	Note	2022 £million	2021 £million
ASSETS			
Cash and Bank of England reserve account		370.1	235.7
Loans and advances to banks	13	48.9	47.4
Debt securities	14	–	25.0
Loans and advances to customers	15,16	2,919.5	2,450.3
Fair value adjustment for portfolio hedged risk	18	(32.0)	(3.5)
Derivative financial instruments	18	34.9	3.8
Investment property	20	1.0	5.7
Property, plant and equipment	21	4.7	3.7
Right-of-use assets	22	1.3	1.5
Intangible assets	23	4.4	5.4
Investments in group undertakings	24	5.7	4.3
Current tax assets		–	1.5
Deferred tax assets	25	5.3	6.8
Other assets	26	15.1	99.8
Total assets		**3,378.9**	**2,887.4**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	27	400.5	390.8
Deposits from customers	28	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	18	(23.0)	(5.3)
Derivative financial instruments	18	26.7	6.2
Current tax liabilities		0.6	–
Lease liabilities	29	1.9	2.3
Other liabilities	30	85.9	43.8
Provisions for liabilities and charges	31	2.0	1.3
Subordinated liabilities	32	51.1	50.9
Total liabilities		**3,060.3**	**2,593.2**
Equity attributable to owners of the parent			
Share capital	34	7.5	7.5
Share premium		82.2	82.2
Other reserves	35	(1.1)	0.4
Retained earnings		230.0	204.1
Total equity		**318.6**	**294.2**
Total liabilities and equity		**3,378.9**	**2,887.4**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement. The profit for the parent company for the year of £33.8 million is presented in the Company statement of changes in equity.

The financial statements on pages 120 to 180 were approved by the Board of Directors on 29 March 2023 and were signed on its behalf by:

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

Registered number: 00541132

The Notes on pages 127 to 180 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	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 2021	**7.5**	**82.2**	**–**	**0.9**	**–**	**177.0**	**267.6**
Total comprehensive income for the year							
Profit for 2021	–	–	–	–	–	45.6	45.6
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.4)	–	–	–	(0.4)
Tax on cash flow hedge reserve movements	–	–	0.1	–	–	–	0.1
Revaluation during the year	–	–	–	0.5	–	–	0.5
Tax on revaluation reserve movements	–	–	–	(0.1)	–	–	(0.1)
Total other comprehensive income	**–**	**–**	**(0.3)**	**0.4**	**–**	**–**	**0.1**
Total comprehensive income for the year	**–**	**–**	**(0.3)**	**0.4**	**–**	**45.6**	**45.7**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends	–	–	–	–	–	(11.9)	(11.9)
Share-based payments	–	–	–	–	–	1.0	1.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**	**(10.9)**	**(10.9)**
Balance at 31 December 2021	**7.5**	**82.2**	**(0.3)**	**1.3**	**–**	**211.7**	**302.4**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.7	33.7
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedge reserve movements	–	–	0.2	–	–	–	0.2
Revaluation during the year	–	–	–	0.1	–	–	0.1
Revaluation transfer	–	–	–	(0.8)	–	0.8	–
Tax on revaluation reserve movements	–	–	–	0.2	–	–	0.2
Total other comprehensive income	**–**	**–**	**(0.5)**	**(0.5)**	**–**	**0.8**	**(0.2)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**(0.5)**	**–**	**34.5**	**33.5**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**0.8**	**(0.3)**	**237.5**	**326.9**

The Notes on pages 127 to 180 are an integral part of these consolidated financial statements.

Company statement of changes in equity

	Share capital £million	Share premium £million	Other reserves			Retained earnings £million	Total £million
			Cash flow hedge reserve £million	Revaluation reserve £million	Own shares £million		
Balance at 1 January 2021	**7.5**	**82.2**	**–**	**0.7**		**169.2**	**259.6**
Total comprehensive income for the year							
Profit for 2021	–	–	–	–	–	45.8	45.8
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.4)	–	–	–	(0.4)
Tax on cash flow hedges reserve movements	–	–	0.1	–	–	–	0.1
Total other comprehensive income	**–**	**–**	**(0.3)**	**–**	**–**	**–**	**(0.3)**
Total comprehensive income for the year	**–**	**–**	**(0.3)**	**–**	**–**	**45.8**	**45.5**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends	–	–	–	–	–	(11.9)	(11.9)
Share-based payments	–	–	–	–	–	1.0	1.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**	**(10.9)**	**(10.9)**
Balance at 31 December 2021	**7.5**	**82.2**	**(0.3)**	**0.7**	**–**	**204.1**	**294.2**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.8	33.8
Other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedge reserve movements	–	–	0.2	–	–	–	0.2
Revaluation transfer	–	–	–	(0.8)	–	0.8	–
Tax on revaluation reserve movements	–	–	–	0.1	–	–	0.1
Total other comprehensive income	**–**	**–**	**(0.5)**	**(0.7)**	**–**	**0.8**	**(0.4)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**(0.7)**	**–**	**34.6**	**33.4**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**230.0**	**318.6**

The Notes on pages 127 to 180 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

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

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

The Notes on pages 127 to 180 are an integral part of these consolidated financial statements.

Company statement of cash flows

For the year ended 31 December

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

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

The Notes on pages 127 to 180 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Accounting policies

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

1.1. Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as 'the Company') and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Shirley, Solihull, West Midlands B90 4LH. The consolidated financial statements of the Company as at and for the year ended 31 December 2022 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in the provision of banking and financial services.

1.2. Basis of presentation

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK adopted International Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards ('IFRSs') as issued by the IASB. They have been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments, investment properties and land and buildings held at fair value. The consolidated financial statements are presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 17.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts, as set out in the Viability and going concern section of the Strategic Report starting on page 35.

The consolidated financial statements were authorised for issue by the Board of Directors on 29 March 2023.

1.3. Cash and cash equivalents prior year adjustment

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

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

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

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

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

Notes to the financial statements
continued

1. Accounting policies continued

1.4. Consolidation

Subsidiaries

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

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

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

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

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

Discontinued operations

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

1.5. Financial assets and financial liabilities accounting policy

Derecognition

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

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, plus or minus the cumulative amortisation using the effective interest rate ('EIR'), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, minus any reduction for impairment.

1. Accounting policies continued

1.5. Financial assets and financial liabilities accounting policy continued

Fair value measurement

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

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

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

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

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

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

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

The Group currently has no financial instruments classified as FVOCI.

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

All other assets are classified as FVTPL.

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

Financial liabilities (with the exception of derivative financial instruments)

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

1.6. Foreign currencies

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

Notes to the financial statements
continued

2. Critical accounting judgements and key sources of estimation uncertainty

2.1. Judgements

A critical judgement for 2022 is disclosed in Note 17.2. No critical judgements were identified in 2021.

2.2. Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty all relate to allowances for impairment of loans and advances and are therefore set out in Note 17.1.

3. Operating segments

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

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

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

Continuing operations

Consumer Finance

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

Business Finance

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

Other

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

Discontinued operations

- Debt Management: a credit management services business which primarily invests in purchased debt portfolios from third parties, as well as fellow group undertakings. The Debt Management loan book was sold during 2022.
- Consumer Mortgages: mortgages for the self-employed, contract workers, those with complex income and those with a recently restored credit history, sold via select mortgage intermediaries, which was sold during 2021.
- Asset Finance: lending to small and medium sized enterprises to acquire commercial assets, which was sold during 2021.
- Other: includes products, which are individually below the quantitative threshold for separate disclosure and fulfil the requirement of IFRS 8.28 by reconciling operating segments to the amounts in the financial statements. Other includes principally OneBill (the Group's consumer bill management service), which was closed during 2021 and RentSmart (the funding and operation of finance leases through a disclosed agency agreement with RentSmart Limited), which was sold during 2022. Assets and liabilities in respect of the RentSmart business were included in Assets and liabilities held for sale as at 31 December 2021 (see Note 19 for further details).

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

3. Operating segments continued

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

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

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge/(credit) on loans and advances to customers £million	Loans and advances to customers[1] £million
31 December 2021					
Retail Finance	65.0	2.7	67.7	5.0	764.8
Vehicle Finance	38.0	1.3	39.3	0.1	263.3
Debt Management	14.3	0.3	14.6	(0.6)	79.6
Consumer Mortgages	1.3	–	1.3	–	–
Consumer Finance	118.6	4.3	122.9	4.5	1,107.7
Real Estate Finance	54.5	0.3	54.8	0.1	1,109.6
Asset Finance	0.3	–	0.3	0.1	–
Commercial Finance	8.8	8.6	17.4	(0.2)	313.3
Business Finance	63.6	8.9	72.5	–	1,422.9
Other	(2.2)	1.1	(1.1)	–	1.3
	180.0	**14.3**	**194.3**	**4.5**	**2,531.9**
Of which:					
Continuing	**163.9**	**13.3**	**177.2**	**5.0**	**2,451.0**
Discontinued (Note 10)	**16.1**	**1.0**	**17.1**	**(0.5)**	**80.9**

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

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

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

Notes to the financial statements
continued

4. Operating income

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

4.1 Net interest income

	2022 £million	2021 £million
Loans and advances to customers	201.1	182.0
Cash and Bank of England reserve account	4.6	0.2
Debt securities	0.1	–
	205.8	182.2
Income/(expense) on financial instruments hedging assets	2.5	(2.2)
Interest income and similar income	**208.3**	**180.0**
Of which:		
Continuing	**203.0**	**163.9**
Discontinued (Note 10)	**5.3**	**16.1**
Deposits from customers	(38.4)	(27.3)
Due to banks	(5.7)	(0.3)
Subordinated liabilities	(3.4)	(3.4)
Other	(0.1)	–
	(47.6)	(31.0)
(Expense)/income on financial instruments hedging liabilities	(3.6)	1.8
Interest expense and similar charges	**(51.2)**	**(29.2)**
Of which:		
Continuing	**(50.4)**	**(27.7)**
Discontinued (Note 10)	**(0.8)**	**(1.5)**

Interest income and expense accounting policy

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

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

In calculating the EIR for financial instruments, other than assets that were credit-impaired on initial recognition, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges and broker commissions) and anticipated customer behaviour but does not consider future credit losses. For financial assets that were impaired on initial recognition (also referred to as purchased or originated credit-impaired assets – 'POCI'), a credit adjusted EIR is calculated using estimated future cash flows, including expected credit losses.

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

4. Operating income continued

4.1 Net interest income continued

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

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

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

4.2 Net fee and commission income

	2022 £million	2021 £million
Fee and disbursement income	19.8	12.5
Commission income	1.4	1.2
Other income	0.3	0.6
Fee and commission income	**21.5**	**14.3**
Of which:		
Continuing	**17.4**	**13.3**
Discontinued (Note 10)	**4.1**	**1.0**
Other expenses	(0.4)	(0.6)
Fee and commission expense (Continuing)	**(0.4)**	**(0.6)**

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

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

Fee and commission accounting policy

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

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

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

Notes to the financial statements
continued

5. Gains on modification of financial assets

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

A small number of payment holidays were granted during 2021, resulting in no further loan modification losses being recognised.

The movement during the year in the net present value of the loans remaining to be unwound as a result of the modification was as follows:

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

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

Modification of loans accounting policy

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

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

6. Fair value losses on financial instruments

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. For further information on the Group's risk management strategy for market risk see page 30 of the Group's Strategic Report.

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

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

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

6. Fair value losses on financial instruments continued

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

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

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

- differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience; or
- differences in the timing of cash flows for the hedged item and the hedging instrument.

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

Derivative financial instruments accounting policy

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

The Group does not hold contracts containing embedded derivatives.

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

Hedge accounting

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

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

The Group does not have hedges of net investments.

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

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

Notes to the financial statements
continued

6. Fair value losses on financial instruments continued

Fair value hedge accounting

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

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

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

Cash flow hedge accounting

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

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

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

7. Operating expenses

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

As described in Note 3, operating expenses are not aligned to operating segments for day-to-day management of the business, so they cannot be allocated on a reliable basis.

Post-retirement obligations accounting policy

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

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

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

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

8. Average number of employees

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

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

Notes to the financial statements
continued

9. Income tax expense

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

Tax reconciliation		
Profit before tax	44.0	56.0
Tax at 19.00% (2021: 19.00%)	8.4	10.6
Banking surcharge	0.1	1.4
Rate change on deferred tax assets	1.2	(1.5)
Prior year adjustments	–	(0.1)
Deferred tax assets not recognised	0.2	–
Other	0.4	–
Income tax expense for the year	**10.3**	**10.4**

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

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

Income tax accounting policy

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

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

10. Discontinued operations

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

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

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

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

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

Notes to the financial statements
continued

11. Earnings per ordinary share

11.1 Basic

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

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

11.2 Diluted

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

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

12. Dividends

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

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

Dividends accounting policy

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

13. Loans and advances to banks

Moody's long-term ratings are as follows:

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

13. Loans and advances to banks continued

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

14. Debt securities

Group and Company

Debt securities consisted solely of sterling UK Government Treasury Bills ('T-Bills'). The Group holds T-Bills from time to time for liquidity risk management purposes. The Group's intention is to hold the asset to collect its contractual cash flows of principal and interest and, therefore, they are stated in the statement of financial position at amortised cost. The number of T-Bills held fell to £nil over the year, from £25 million.

All of the debt securities had a rating agency designation, based on Moody's long-term ratings of Aa3 at 31 December 2021. None of the debt securities were either past due or impaired.

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

15. Loans and advances to customers

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Gross loans and advances	2,997.5	2,598.1	2,997.5	2,511.2
Less: allowances for impairment of loans and advances (Note 17)	(78.0)	(67.5)	(78.0)	(60.9)
	2,919.5	**2,530.6**	**2,919.5**	**2,450.3**

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

Group and Company

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

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

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

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

* based on gross development value.

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

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

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

Notes to the financial statements
continued

16. Finance lease receivables

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

	Group 2022 £million	Group 2021 £million	Company 2022 £million	Company 2021 £million
Gross investment in finance lease receivables:				
– Not more than one year	157.6	137.1	157.6	135.9
– Later than one year and no later than five years	365.6	253.2	365.6	252.9
	523.2	390.3	523.2	388.8
Unearned future finance income on finance leases	(152.0)	(105.7)	(152.0)	(105.5)
Net investment in finance leases	**371.2**	**284.6**	**371.2**	**283.3**
The net investment in finance leases may be analysed as follows:				
– Not more than one year	93.7	87.5	93.7	86.5
– Later than one year and no later than five years	277.5	197.1	277.5	196.8
	371.2	**284.6**	**371.2**	**283.3**

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

Lessor accounting policy

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

17. Allowances for impairment of loans and advances

Group and Company

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

17. Allowances for impairment of loans and advances continued
Group

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

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

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

Total provisions above include expert credit judgements as follows:

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

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

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

Notes to the financial statements
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17. Allowances for impairment of loans and advances continued

POCI adjustment

During 2022, the Group sold the Debt Management loan book (See Note 10). Prior to this the Group's debt management business purchased credit-impaired loans from the Company and other unrelated third parties. Under IFRS 9, these were classified as Purchased and Originated Credit-Impaired ('POCI') loans. As a practical expedient, income on POCI loans was initially recognised by applying the original credit-adjusted EIR to the expected future cash flows arising from the POCI assets. The Group's accounting policy was to recognise POCI income by applying the original credit-adjusted EIR to the amortised cost of the assets. Expected changes in cash flows since the date of purchase were recognised as an impairment gain or loss in the income statement. At 31 December 2021, reductions in credit quality resulted in a £7.3 million impairment provision.

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

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

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

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

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

17. Allowances for impairment of loans and advances continued

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

Passage of time represents the impact of accounts maturing through their contractual life, the associated reduction in PDs and the unwind of the discount applied in calculating the ECL.

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

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

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

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

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

	2022				2021			
	Stage 1 £million	Stage 2 £million	Stage 3 £million	Total £million	Stage 1 £million	Stage 2 £million	Stage 3 £million	Total £million
Business Finance:								
Strong	127.5	–	–	127.5	107.6	–	–	107.6
Good	962.4	28.5	–	990.9	915.8	26.6	–	942.4
Satisfactory	195.7	125.7	1.8	323.2	179.7	138.2	5.2	323.1
Weak	–	40.2	15.5	55.7	–	14.1	40.0	54.1
	1,285.6	**194.4**	**17.3**	**1,497.3**	**1,203.1**	**178.9**	**45.2**	**1,427.2**
Consumer Finance:								
Good	601.5	77.6	6.0	685.1	360.3	95.7	5.3	461.3
Satisfactory	495.3	60.5	9.3	565.1	338.5	63.3	7.1	408.9
Weak	197.4	38.2	14.4	250.0	167.6	34.8	11.4	213.8
Debt Management	–	–	–	–	–	–	86.9	86.9
	1,294.2	**176.3**	**29.7**	**1,500.2**	**866.4**	**193.8**	**110.7**	**1,170.9**

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

Company

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

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision coverage %
31 December 2021						
Consumer Finance:						
Retail Finance	10.1	7.7	4.1	21.9	786.5	2.8%
Vehicle Finance:						
Voluntary termination provision	4.2	–	–	4.2		
Other impairment	3.7	12.1	14.7	30.5		
	7.9	12.1	14.7	34.7	297.5	11.7%
Business Finance:						
Real Estate Finance	0.1	0.4	2.7	3.2	1,112.8	0.3%
Commercial Finance	0.5	0.1	0.5	1.1	314.4	0.3%
	18.6	**20.3**	**22.0**	**60.9**	**2,511.2**	**2.4%**

Notes to the financial statements
continued

17. Allowances for impairment of loans and advances continued

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

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total £million**
At 1 January 2022	18.6	20.3	22.0	60.9
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(8.8)	46.3	–	37.5
– Transfer to stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to stage 1	2.3	(4.6)	–	(2.3)
Passage of time	(6.4)	(1.0)	(1.8)	(9.2)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.0	(9.1)
Other adjustments	2.4	–	(0.2)	2.2
Charge to income statement	6.5	8.3	23.3	38.1
Allowance utilised in respect of write-offs	(0.8)	–	(20.2)	(21.0)
31 December 2022	**24.3**	**28.6**	**25.1**	**78.0**

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2021	28.2	29.0	22.7	79.9
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.6)	28.6	(0.2)	22.8
– Transfer to stage 3	(0.1)	(16.5)	21.5	4.9
– Transfer to stage 1	3.1	(5.6)	–	(2.5)
Passage of time	(12.5)	(8.2)	(4.7)	(25.4)
New loans originated	19.1	–	–	19.1
Matured and derecognised loans	(4.3)	(4.4)	–	(8.7)
Changes to model methodology	(0.1)	(0.2)	0.9	0.6
Changes to credit risk parameters	(8.0)	(2.3)	0.4	(9.9)
Other adjustments	0.5	–	(0.1)	0.4
Charge to income statement	(7.9)	(8.6)	17.8	1.3
Allowance utilised in respect of write-offs	(1.7)	(0.1)	(18.5)	(20.3)
31 December 2021	**18.6**	**20.3**	**22.0**	**60.9**

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

Passage of time represent the impact of accounts maturing through their contractual life, the associated reduction in PDs and the unwind of the discount applied in calculating the ECL.

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

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

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

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

17. Allowances for impairment of loans and advances continued

Impairment of financial assets and loan commitments accounting policy

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

Stage 1 assets

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

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

A low credit risk asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of 'investment grade' assets. This is not applicable to loans and advances to customers, but the Group has assessed all its debt securities, which represents UK Treasury bills, to be low credit risk.

Stage 2 assets

Loans and advances to customers which have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Group's cure policy are classified as stage 2 assets and are reclassified from stage 1 to stage 2, for which ECL is measured as lifetime ECL.

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

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

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

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

Stage 3 assets

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

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

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

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

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

Notes to the financial statements
continued

17. Allowances for impairment of loans and advances continued

Cure policy

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

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

Calculation of expected credit loss ('ECL')

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

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

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

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

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

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

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

Exposure at default ('EAD')

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

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

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

17. Allowances for impairment of loans and advances continued

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

Loss given default ('LGD')

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

Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECL. This is achieved by developing a number of potential economic scenarios and modelling ECLs for each scenario. To ensure material non-linear relationships between economic factors and credit losses are reflected in the calculation of ECL, a severe stress scenario is used as one of these scenarios. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. The four scenarios adopted and probability weighting applied are set out below.

The Group considers that the key drivers of credit risk and credit losses included in the macroeconomic scenarios are annual unemployment rate growth and annual house price index growth. Base case assumptions applied for each of these variables have been sourced from external consensus or Bank of England forecasts. Further details of the assumptions applied to other scenarios are presented below.

Expert credit judgements

The impairment charge comprises of modelled ECLs and expert credit judgements. Where the ECL modelled output does not reflect the level of credit risk, judgement is used to calculate expert credit judgements, which are overlaid onto the output from the models.

Presentation of loss allowance

Loss allowances for ECLs and expert credit judgements are presented in the statement of financial position as follows with the loss recognised in the income statement:

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

For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision.

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

Vehicle Finance voluntary termination provision

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

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

Write off

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

Intercompany receivables

The parent company's expected credit loss on amounts due from related companies, calculated by applying probability of default and loss given default to the amount outstanding at the year-end, was not material at 31 December 2022 or 31 December 2021.

Notes to the financial statements continued

17. Allowances for impairment of loans and advances continued

17.1. Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty all relate to the impairment charge on loans and advances to customers and are therefore set out below. The potential impact of the current macroeconomic environment has been considered in determining reasonably possible changes in key sources of estimation uncertainty which may occur in the next 12 months. The determination of both the PD and LGD require estimation which is discussed further below.

17.1.1. Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. Further detail on this process is provided above. The macroeconomic scenarios used were provided by external economic advisors, having previously being internally developed with regard to externally published scenarios. The scenarios and weightings applied are summarised below:

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

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

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

	Increase in downside case weighting by 10% and reduction in upside case		Increase in severe stress case weighting by 5% and reduction in base case	
	2022 £million	2021 £million	2022 £million	2021 £million
Vehicle Finance	0.6	0.2	0.4	0.2
Retail Finance	0.7	0.3	0.5	0.2

The sensitivity is immaterial for other lending products.

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

	2022				2021			
Scenario	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(1.9)	(0.3)	(0.7)	(2.9)	(1.2)	(2.0)	(2.5)	(5.7)
Base	(1.5)	0.4	(0.4)	(1.5)	(0.4)	(0.4)	(1.9)	(2.7)
Downside	0.9	3.0	0.9	4.8	1.0	1.5	0.5	3.0
Severe	1.6	3.8	1.7	7.1	3.3	4.6	8.4	16.3

17. Allowances for impairment of loans and advances continued

17.1.2. ECL modelled output: Estimation of PDs

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

A 15% change in the PD for Vehicle Finance would immediately impact the ECL allowance by £3.1 million (2021: a 15% change impacted the ECL allowance by £2.3 million).

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

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

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

17.1.3. ECL modelled output: Vehicle Finance recovery rates

With the exception of the Vehicle Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. The Vehicle Finance portfolio is particularly sensitive to changes in LGD due to the range of outcomes which could crystallise depending on whether the Group is able to recover the vehicle as security. For the Vehicle Finance portfolio, a 20% (2021: 20%) change in the LGD is considered reasonably possible due to delays in the vehicle collection process. A 20% (2021: 20%) reduction in the vehicle recovery rate assumption element of the LGD for Vehicle Finance would increase the ECL by £1.9 million (2021: £2.0 million). There has been no change in the vehicle recovery rate assumption in the ECL model in either the current or prior year.

17.1.5. ECJ: Vehicle Finance used car values

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

17.1.6. Sensitivities no longer presented

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

17.1.7. Climate-risk impact

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

17.2. Critical judgments

17.2.1. ECJ: Consumer Finance customer affordability

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

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

Notes to the financial statements
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18. Derivative financial instruments

Group and Company

Interest rate derivatives are held for risk mitigation purposes. The table below provides an analysis of the notional amount and fair value of derivatives by hedge accounting relationship. The amount of ineffectiveness recognised for each hedge type is shown in Note 6. Notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

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

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

18. Derivative financial instruments continued

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

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

The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is £0.2 million (2021: £nil).

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

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

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million
31 December 2022				
Derivative financial assets				
Interest rate derivatives	34.9	(26.5)	(7.7)	0.7
	34.9	**(26.5)**	**(7.7)**	**0.7**
Derivative financial liabilities				
Interest rate derivatives	(26.5)	26.5	–	–
Foreign exchange derivatives	(0.2)	–	–	(0.2)
	(26.7)	**26.5**	**–**	**(0.2)**

Notes to the financial statements
continued

18. Derivative financial instruments continued

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

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

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

19. Assets and liabilities held for sale

As at 31 December 2021, assets of £1.3 million relating to a loan book and a liability of £2.0 million relating to collateral held, both in STB Leasing Limited, were in the process of being sold to its partner, RentSmart Limited. Under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, these were required to be reclassified as 'Held for sale' on the face of the statement of financial position as they were expected to be sold within 12 months of the balance sheet date. The assets and liabilities were sold for their carrying amount on 31 January 2022. There was no provision held against the RentSmart loans, as the credit risk associated with those loans was retained by RentSmart Limited.

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

20. Investment property

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

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

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

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

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

The Company's investment property is stated at fair value as at 31 December 2022. The Directors have assessed the value of the investment property at the year-end through comparison to current rental yields on similar properties in the same area. This has resulted in no change in values since 31 December 2021. Movements in the fair value of investment property are recognised as operating expenses in the income statement.

20. Investment property continued

Investment property accounting policy

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

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

21. Property, plant and equipment

Group

	Freehold land and buildings £million	Leasehold property £million	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2021	6.6	0.1	9.1	15.8
Additions	–	–	0.2	0.2
Revaluation	0.3	–	–	0.3
At 31 December 2021	**6.9**	**0.1**	**9.3**	**16.3**
Additions	–	–	1.0	1.0
Disposals	–	(0.1)	(3.4)	(3.5)
Transfer from investment properties	1.4	–	–	1.4
At 31 December 2022	**8.3**	**–**	**6.9**	**15.2**
Accumulated depreciation				
At 1 January 2021	–	–	(5.9)	(5.9)
Depreciation charge	(0.2)	–	(1.1)	(1.3)
Revaluation	0.2	–	–	0.2
At 31 December 2021	**–**	**–**	**(7.0)**	**(7.0)**
Depreciation charge	(0.1)	–	(1.1)	(1.2)
Disposals	–	–	3.2	3.2
Revaluation	0.1	–	–	0.1
At 31 December 2022	**–**	**–**	**(4.9)**	**(4.9)**
Net book amount				
At 31 December 2021	**6.9**	**0.1**	**2.3**	**9.3**
At 31 December 2022	**8.3**	**–**	**2.0**	**10.3**

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

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

Notes to the financial statements
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21. Property, plant and equipment continued
Company

	Freehold property £million	Computer and other equipment £million	Total £million
Cost or valuation			
At 1 January 2021 and 1 January 2022	2.1	6.4	8.5
Additions	–	0.3	0.3
Disposals	–	(0.5)	(0.5)
Transfer from investment properties	1.4	–	1.4
At 31 December 2022	**3.5**	**6.2**	**9.7**
Accumulated depreciation			
At 1 January 2021	–	(4.0)	(4.0)
Depreciation charge	–	(0.8)	(0.8)
At 31 December 2021	**–**	**(4.8)**	**(4.8)**
Depreciation charge	–	(0.7)	(0.7)
Disposals	–	0.5	0.5
At 31 December 2022	**–**	**(5.0)**	**(5.0)**
Net book amount			
At 31 December 2021	**2.1**	**1.6**	**3.7**
At 31 December 2022	**3.5**	**1.2**	**4.7**

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

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

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.5 million (2021: £1.5 million) for the Group and £0.8 million (2021: £0.8 million) for the Company.

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

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

21. Property, plant and equipment continued

Property, plant and equipment accounting policy

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

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

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

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

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

22. Right-of-use assets

	Group			Company		
	Leasehold property £million	Leased motor vehicles £million	Total £million	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost						
At 1 January 2021	4.4	0.4	4.8	3.1	0.2	3.3
Disposals	–	(0.1)	(0.1)	–	–	–
At 31 December 2021	**4.4**	**0.3**	**4.7**	**3.1**	**0.2**	**3.3**
Additions	–	0.5	0.5	–	0.2	0.2
Disposals	(1.3)	(0.2)	(1.5)	–	(0.2)	(0.2)
At 31 December 2022	**3.1**	**0.6**	**3.7**	**3.1**	**0.2**	**3.3**
Accumulated depreciation						
At 1 January 2021	(1.6)	(0.3)	(1.9)	(1.1)	(0.2)	(1.3)
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.5)	–	(0.5)
Disposals	–	0.1	0.1	–	–	–
At 31 December 2021	**(2.2)**	**(0.3)**	**(2.5)**	**(1.6)**	**(0.2)**	**(1.8)**
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.4)	–	(0.4)
Disposals	0.8	0.2	1.0	–	0.2	0.2
At 31 December 2022	**(2.0)**	**(0.2)**	**(2.2)**	**(2.0)**	**–**	**(2.0)**
Net book amount						
At 31 December 2021	**2.2**	**–**	**2.2**	**1.5**	**–**	**1.5**
At 31 December 2022	**1.1**	**0.4**	**1.5**	**1.1**	**0.2**	**1.3**

Notes to the financial statements
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22. Right-of-use assets continued

Lessee accounting policy

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

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

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

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

23. Intangible assets

Group

	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2021	1.0	16.6	2.2	19.8
Additions	–	1.1	–	1.1
Transfers to cloud software development prepayments	–	(0.4)	–	(0.4)
At 31 December 2021	**1.0**	**17.3**	**2.2**	**20.5**
Additions	–	1.7	–	1.7
Disposals	–	(1.8)	–	(1.8)
At 31 December 2022	**1.0**	**17.2**	**2.2**	**20.4**
Accumulated amortisation				
At 1 January 2021	–	(10.3)	(1.8)	(12.1)
Amortisation charge	–	(1.3)	(0.2)	(1.5)
At 31 December 2021	**–**	**(11.6)**	**(2.0)**	**(13.6)**
Amortisation charge	–	(1.2)	(0.2)	(1.4)
Disposals	–	1.2	–	1.2
At 31 December 2022	**–**	**(11.6)**	**(2.2)**	**(13.8)**
Net book amount				
At 31 December 2021	**1.0**	**5.7**	**0.2**	**6.9**
At 31 December 2022	**1.0**	**5.6**	**–**	**6.6**

23. Intangible assets continued

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

	2022 £million	2021 £million
Music business	0.3	0.3
V12	0.7	0.7
Total	**1.0**	**1.0**

The recoverable amount of these cash generating units are determined on a value in use calculation which uses cash flow projections based on financial forecasts covering a three-year period, and a discount rate of 8% (2021: 8%). Cash flow projections during the forecast period are based on the expected rate of new business. A zero growth based scenario is also considered. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

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

	Years
Distribution channel	10

Company

	Goodwill £million	Computer software £million	Total £million
Cost or valuation			
At 1 January 2021	0.3	12.0	12.3
Additions	–	0.8	0.8
Transfer to cloud software development prepayments	–	(0.4)	(0.4)
At 31 December 2021	**0.3**	**12.4**	**12.7**
Additions	–	0.1	0.1
At 31 December 2022	**0.3**	**12.5**	**12.8**
Accumulated amortisation			
At 1 January 2021	–	(6.1)	(6.1)
Amortisation charge	–	(1.2)	(1.2)
At 31 December 2021	**–**	**(7.3)**	**(7.3)**
Amortisation charge	–	(1.1)	(1.1)
At 31 December 2022	**–**	**(8.4)**	**(8.4)**
Net book amount			
At 31 December 2021	**0.3**	**5.1**	**5.4**
At 31 December 2022	**0.3**	**4.1**	**4.4**

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

Notes to the financial statements
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23. Intangible assets continued

Intangible assets accounting policy

(a) Goodwill

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

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

(b) Computer software

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

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

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

(c) Other intangibles

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

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

24. Investments in group undertakings

Company

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

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

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

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

24. Investments in group undertakings continued

Details are as follows:

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

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

AppToPay Ltd, Debt Managers (Services) Limited, Secure Homes Services Limited, STB Leasing Limited, V12 Finance Group Limited and V12 Personal Finance Limited are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of s479A, and the Company has given guarantees accordingly under s479C in respect of the following financial periods:

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

25. Deferred taxation

	Group 2022 £million	Group 2021 £million	**Company 2022 £million**	Company 2021 £million
Deferred tax assets:				
Other short-term timing differences	5.5	6.9	5.3	6.8
At 31 December	**5.5**	**6.9**	**5.3**	**6.8**
Deferred tax assets:				
At 1 January	6.9	6.6	6.8	7.1
Income statement	(1.8)	0.3	(1.8)	(0.4)
Other comprehensive income	0.4	–	0.3	0.1
At 31 December	**5.5**	**6.9**	**5.3**	**6.8**

Deferred tax accounting policy

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

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

Notes to the financial statements
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26. Other assets

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

Cloud software development costs, principally relating to the Group's Motor Transformation Programme, do not meet the intangible asset recognition criteria and are therefore classified as a prepayment, which is expensed to the income statement over the useful economic life of the software. As a consequence of the sale of the DMS loan book, £81.9 million of the amounts due from related companies was repaid during the year.

27. Due to banks

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

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

28. Deposits from customers
Group and Company

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

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

29. Lease liabilities

	Group 2022 £million	Group 2021 £million	Company 2022 £million	Company 2021 £million
At 1 January	3.1	3.9	2.3	2.9
New leases	0.5	–	0.2	–
Lease termination	(0.6)	–	–	–
Payments	(1.0)	(0.9)	(0.7)	(0.7)
Interest expense	0.1	0.1	0.1	0.1
At 31 December	**2.1**	**3.1**	**1.9**	**2.3**
Lease liabilities – Gross				
– No later than one year	0.7	0.9	0.7	0.7
– Later than one year and no later than five years	1.5	2.3	1.3	1.7
– More than five years	–	0.1	–	–
	2.2	3.3	2.0	2.4
Less: Future finance expense	(0.1)	(0.2)	(0.1)	(0.1)
Lease liabilities – Net	**2.1**	**3.1**	**1.9**	**2.3**
Lease liabilities – Gross				
– No later than one year	0.7	0.8	0.7	0.7
– Later than one year and no later than five years	1.4	2.2	1.2	1.6
– More than five years	–	0.1	–	–
	2.1	**3.1**	**1.9**	**2.3**

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

30. Other liabilities

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

Notes to the financial statements
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31. Provisions for liabilities and charges

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

ECL allowance on loan commitments

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

Other

Other includes:

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

The Directors expect all provisions to be fully utilised within the next 1 to 2 years.

Provisions for liabilities and charges accounting policy

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

32. Subordinated liabilities

Group and Company

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

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

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

32. Subordinated liabilities continued

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

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

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

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

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

33. Contingent liabilities and commitments

33.1 Contingent liabilities

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

33.2 Capital commitments

At 31 December 2022, the Group and Company had capital commitments of £1.5 million (2021: £nil).

33.3 Credit commitments

Group and Company

Commitments to extend credit to customers were as follows:

	2022 £million	2021 £million
Consumer Finance		
Retail Finance	97.2	83.6
Vehicle Finance	1.2	0.5
Business Finance		
Real Estate Finance	53.1	68.9
Commercial Finance	146.5	120.9
	298.0	**273.9**

Notes to the financial statements
continued

34. Share capital

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

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

Equity instruments accounting policy

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

35. Other reserves

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

35.1 Own Shares

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

Own shares accounting policy

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

36. Share-based payments

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

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

36. Share-based payments continued

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

	Outstanding at 1 January 2022 Number	Granted during the year Number	Forfeited lapsed and cancelled during the year Number	Exercised during the year Number	Outstanding at 31 December 2022 Number	Vested and exercisable at 31 December 2022 Number	Vesting dates	Weighted average exercise price of options outstanding at 31 December 2022 £	Weighted average exercise price of options outstanding at 31 December 2021 £
Equity settled									
2017 long term incentive plan	401,800	230,789	6,242	(27,479)	**611,353**	11,103	2023-2025	**0.40**	0.40
2017 Sharesave plan	542,446	111,833	(100,873)	(7,927)	**545,479**	11,492	2023-2025	**6.24**	6.17
2017 deferred bonus plan	19,686	38,344	–	(8,223)	**49,807**	–	2023-2025	**0.40**	0.40
	963,932	**380,966**	**(94,630)**	**(43,629)**	**1,206,639**	**22,595**		**3.04**	**3.65**
Weighted average exercise price	**3.65**	**2.66**	**8.57**	**1.34**	**3.04**				
Cash settled									
'Phantom' share option scheme	94,167	–	(16,000)	–	**78,167**	78,167	2019	**25.00**	25.00

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

36.1. Long term incentive plan ('LTIP')

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

36.1.1 LTIP Restricted share award

54,427 (2021: 56,023) options were awarded during the year which were not subject to any performance conditions. The awards will vest three years from the date of grant. The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used for the grant date valuation were as follows:

	Awarded during 2022	Awarded during 2021
Share price at grant date	12.40	11.73
Exercise price	£0.40	£0.40
Expected dividend yield	4.39%	5.49%
Expected stock price volatility	47.27%	46.27%
Risk free interest rate	1.47%	0.00%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£10.49**	**£9.94**

36.1.2 LTIP

176,362 (2021: 187,527) options were awarded during the year which are subject to four performance conditions, which are based on:

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

Notes to the financial statements
continued

36. Share-based payments continued

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

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

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

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

	Awarded during 2022	Awarded during 2021
Share price at grant date	£12.40	£11.73
Exercise price	£0.40	£0.40
Expected dividend yield	4.39%	5.49%
Expected stock price volatility	46.87%	45.56%
Risk free interest rate	1.50%	0.11%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£7.43**	**£6.99**

36.2. Sharesave plan

The Sharesave plan was established on 3 May 2017.

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

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

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

36. Share-based payments continued

36.3. Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

In 2022 and 2021, awards were granted to certain Senior Managers of the Group. The awards vest in three equal tranches after one, two and three years following deferral. Accordingly, the following awards remain outstanding under the plan, entitling the members of the scheme to purchase shares in the Company:

	Awards granted Vesting after one year Number	Awards granted Vesting after two years Number	Awards granted Vesting after three years Number	Awards granted Total
At 1 January 2021	11,679	18,068	21,572	51,319
Granted	4,057	4,340	4,626	13,023
Exercised	(826)	–	–	(826)
Cancelled	(9,183)	(15,572)	(19,075)	(43,830)
At 31 December 2021	**5,727**	**6,836**	**7,123**	**19,686**
Granted	12,779	12,779	12,786	38,344
Exercised	(5,727)	(2,496)	–	(8,223)
At 31 December 2022	**12,779**	**17,119**	**19,909**	**49,807**
Vested and exercisable	–	–	–	–

38,344 awards were made under this plan in April 2022, (1,702 in April 2021 and 11,321 in September 2021). The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used were as follows:

	Granted in 2022 Awards vesting after one year	Granted in 2022 Awards vesting after two years	Granted in 2022 Awards vesting after three years
Share price at grant date	£12.40	£12.40	£12.40
Exercise price	£0.40	£0.40	£0.40
Expected dividend yield	4.39%	4.39%	4.39%
Expected stock price volatility	32.04%	42.03%	47.27%
Risk free interest rate	1.39%	1.46%	1.47%
Average expected life (years)	1.00	2.00	3.00
Original grant date valuation	**£11.47**	**£10.97**	**£10.49**

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

Notes to the financial statements
continued

36. Share-based payments continued

36.4 Cash settled share-based payments

On 16 March 2015, a four-year 'phantom' share option scheme was established in order to provide effective long-term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by the Company, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an ordinary share in the Company over an initial value set at £25 per ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the share option scheme were sold in November 2014. The options vested during 2019 and are exercisable for a period of 10 years after grant date.

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

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

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

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

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

Share-based compensation accounting policy

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

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

37. Cash flow statement

37.1. Cash and cash equivalents

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

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

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

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

37.2. Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £0.1 million (2021: £0.1 million) of lease liabilities interest expense, as shown in Note 29, and £0.2 million (2021: £0.1 million) amortisation of issue costs on subordinated liabilities, as shown in Note 32.

Cash and cash equivalents accounting policy

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

38. Financial risk management strategy

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

A more detailed description of the risk governance structure is contained in the Principal risks and uncertainties section beginning on page 25.

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

Notes to the financial statements
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39. Credit risk

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

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

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

See page 27 for further details on the mitigation and change during the year of credit risk.

Group and Company

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

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

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

39. Credit risk continued

Group

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

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

Company

	Stage 1 £million	Stage 2 <= 30 days past due £million	Stage 2 > 30 days past due £million	Stage 2 Total £million	Stage 3 Excl. purchased credit-impaired £million	Stage 3 Purchased credit-impaired £million	Stage 3 Total £million	Total gross loans and advances to customers £million
31 December 2021								
Consumer Finance								
Retail Finance	659.4	120.1	2.6	122.7	4.4	–	4.4	786.5
Vehicle Finance	207.0	68.9	2.2	71.1	19.4	–	19.4	297.5
Business Finance								
Real Estate Finance	911.4	161.4	–	161.4	40.0	–	40.0	1,112.8
Commercial Finance	291.7	17.5	–	17.5	5.2	–	5.2	314.4
Total drawn exposure	**2,069.5**	**367.9**	**4.8**	**372.7**	**69.0**	**–**	**69.0**	**2,511.2**
Off balance sheet								
Loan commitments	271.0	2.9	–	2.9	–	–	–	273.9
Total gross exposure	**2,340.5**	**370.8**	**4.8**	**375.6**	**69.0**	**–**	**69.0**	**2,785.1**
Less:								
Impairment allowance	(18.6)	(16.7)	(3.6)	(20.3)	(22.0)	–	(22.0)	(60.9)
Provision for loan commitments	(0.9)	–	–	–	–	–	–	(0.9)
Total net exposure	**2,321.0**	**354.1**	**1.2**	**355.3**	**47.0**	**–**	**47.0**	**2,723.3**

Notes to the financial statements
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39. Credit risk continued

39.1. Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations, the Directors consider the lending operations of the Group as a whole to be well diversified. Details of the Group's loans and advances to customers and loan commitments by product is provided in Notes 3 and 33 respectively.

Geographical concentration

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

Group and Company

	£million 2022	£million 2021
Central England	101.9	90.1
Greater London	689.7	619.7
Northern England	68.7	66.2
South East England (excl. Greater London)	189.5	258.7
South West England	20.4	30.7
Scotland, Wales and Northern Ireland	48.7	47.4
Gross loans and receivables	1,118.9	1,112.8
Allowance for impairment	(3.4)	(3.2)
Total	**1,115.5**	**1,109.6**

39.2. Forbearance

Consumer Finance

Throughout the year Group did not routinely reschedule contractual arrangements where customers default on their repayments. In cases where it offered the customer the option to reduce or defer payments for a short period, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment purposes. Arrears tracking would continue on the account with any impairment charge being based on the original contractual due dates for all products.

All forbearance arrangements are formally discussed and agreed with the customer. By offering customers in financial difficulty the option of forbearance the Group potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period. All forbearance arrangements are reviewed and monitored regularly to assess the ongoing potential risk, suitability and sustainability to the Group. As at the year end, the Consumer Finance business approximately had the following cases (by volume) in forbearance:

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

In respect of Vehicle Finance, where forbearance measures are not possible or are considered not to be in the customer's best interests, or where such measures have been tried and the customer has not adhered to the forbearance terms that have been agreed, the Group will consider realising its security and taking possession of the vehicle in order to sell it and clear the outstanding debt. Where the sale of the vehicle does not cover all of the remaining loan, normal credit collection procedures may be carried out in order to recover the outstanding debt, or the debt may be sold to a third party debt recovery agent or in certain circumstances the debt may be written off.

Real Estate Finance

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

40. Market risk

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

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

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

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

Interest rate risk

Group and Company

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

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

	2022 £million	2021 £million
Market value sensitivity		
+200bp parallel shift in yield curve	1.8	2.7
-200bp parallel shift in yield curve	(1.9)	(2.7)
Earnings at risk sensitivity		
+100bp parallel shift in yield curve	1.2	1.4
-100bp parallel shift in yield curve	(1.2)	(0.4)

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

41. Liquidity and funding risk

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

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

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

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

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2022						
Due to banks	400.5	438.7	10.6	10.2	417.9	–
Deposits from customers	2,514.6	2,565.0	956.7	1,030.0	577.2	1.1
Subordinated liabilities	51.1	53.4	0.8	52.6	–	–
Lease liabilities	2.1	2.2	0.2	0.5	1.5	–
Other financial liabilities	68.1	68.1	68.1	–	–	–
	3,036.4	**3,127.4**	**1,036.4**	**1,093.3**	**996.6**	**1.1**
Derivative financial liabilities	26.7	27.5	4.4	12.2	10.9	–
	3,063.1	**3,154.9**	**1,040.8**	**1,105.5**	**1,007.5**	**1.1**

Notes to the financial statements
continued

41. Liquidity and funding risk continued

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2021						
Due to banks	390.8	394.1	0.1	1.0	393.0	–
Deposits from customers	2,103.2	2,131.9	752.6	807.4	566.1	5.8
Subordinated liabilities	50.9	56.8	0.8	2.5	53.5	–
Liabilities associated with assets held for sale	2.0	2.0	2.0	–	–	–
Lease liabilities	3.1	3.3	0.9	2.3	0.1	–
Other financial liabilities	18.3	18.3	18.3	–	–	–
	2,568.3	**2,606.4**	**774.7**	**813.2**	**1,012.7**	**5.8**
Derivative financial liabilities	6.2	5.5	0.1	1.5	3.9	–
	2,574.5	**2,611.9**	**774.8**	**814.7**	**1,016.6**	**5.8**

Company

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

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2022						
Lease liabilities	1.9	2.0	0.2	0.5	1.3	–
Other financial liabilities	77.4	77.4	77.4	–	–	–
Non-derivative financial liabilities	**3,045.5**	**3,136.5**	**1,045.7**	**1,093.3**	**996.4**	**1.1**
Total	**3,072.2**	**3,164.0**	**1,050.1**	**1,105.5**	**1,007.3**	**1.1**

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

42. Capital risk

Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support the business. The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP'). The Group has Tier 1 and Tier 2 capital resources, noting the regulatory adjustments required in the table below.

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

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

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

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

	2022 £million (unaudited)	2021 £million (unaudited)
CET 1		
Share capital	7.5	7.5
Share premium	82.2	82.2
Retained earnings	237.5	211.7
Revaluation reserve	0.8	1.3
Own shares	(0.3)	–
IFRS 9 transition adjustments	11.7	13.9
Goodwill	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(5.6)	(4.3)
CET1 capital before foreseeable dividend	**332.8**	**311.3**
Foreseeable dividend	(5.4)	(7.7)
CET1 and Tier 1 capital	**327.4**	**303.6**
Tier 2		
Subordinated liabilities	49.9	50.9
Less ineligible portion	–	(3.9)
Total Tier 2 capital	**49.9**	**47.0**
Own funds	**377.3**	**350.6**
Reconciliation to total equity:		
IFRS 9 transition adjustments	(11.7)	(13.9)
Eligible subordinated liabilities	(49.9)	(47.0)
Cash flow hedge reserve	(0.8)	(0.3)
Goodwill and other intangible assets net of attributable deferred tax	6.6	5.3
Foreseeable dividend	5.4	7.7
Total equity	**326.9**	**302.4**

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

Notes to the financial statements
continued

43. Classification of financial assets and liabilities
Group

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

All financial assets and liabilities at 31 December 2022 and 31 December 2021 were carried at amortised cost, except for derivative financial instruments which are at fair value through profit and loss. Therefore, for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

Company

	Total carrying amount £million 2022	Fair value £million 2022	Fair value hierarchy level 2022	Total carrying amount £million 2021	Fair value £million 2021	Fair value hierarchy level 2021
At 31 December 2022						
Cash and Bank of England reserve account	370.1	370.1	Level 1	234.0	234.0	Level 1
Loans and advances to banks	48.9	48.9	Level 2	49.1	49.1	Level 2
Debt securities	–	–		25.0	25.0	Level 1
Loans and advances to customers	2,919.5	2,895.6	Level 3	2,450.3	2,487.1	Level 3
Derivative financial instruments	34.9	34.9	Level 2	3.8	3.8	Level 2
Other financial assets	4.6	4.6	Level 3	89.6	89.6	Level 3
	3,378.0	**3,354.1**		**2,851.8**	**2,888.6**	
Due to banks	400.5	400.5	Level 2	390.8	390.8	Level 2
Deposits from customers	2,514.6	2,494.0	Level 3	2,103.2	2,106.9	Level 3
Derivative financial instruments	26.7	26.7	Level 2	6.2	6.2	Level 2
Liabilities associated with assets held for sale	–	–		2.0	2.0	Level 3
Lease liabilities	1.9	1.9	Level 3	2.3	2.3	Level 3
Other financial liabilities	77.4	77.4	Level 3	32.8	32.8	Level 3
Subordinated liabilities	51.1	43.5	Level 2	50.9	50.7	Level 2
	3,072.2	**3,044.0**		**2,588.2**	**2,591.7**	

43. Classification of financial assets and liabilities continued

All financial assets and liabilities at 31 December 2022 and 31 December 2021 were carried at amortised cost except for derivative financial instruments which are valued at fair value through profit and loss. Therefore, for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Fair value classification

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

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

Loans and advances to customers and Deposits from customers

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

Debt securities

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

Derivative financial instruments

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

Subordinated liabilities

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

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

44. Related party transactions

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

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

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

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

Notes to the financial statements
continued

44. Related party transactions continued

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

	Company 2022 £million	Company 2021 £million
Amounts receivable from subsidiary undertakings	3.1	89.3
Amounts due to subsidiary undertakings	(12.4)	(17.9)
	(9.3)	**71.4**

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

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Directors' Remuneration Report beginning on page 80.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' Remuneration Report beginning on page 80. Details of the Directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' Report.

45. Immediate parent company and ultimate controlling party

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

46. Country-by-Country reporting

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

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

47. Non-adjusting post balance sheet events

47.1 Subordinated liabilities

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

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

47.2 Loans and advances to customers

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

Five-year summary (unaudited)

	2022 £million	Restated 2021 £million	Restated 2020 £million	Total 2019 £million	Total 2018 £million
Profit for the year					
Continuing operations					
Interest and similar income	203.0	163.9	173.1	191.4	169.2
Interest expense and similar charges	(50.4)	(27.7)	(39.4)	(46.0)	(35.5)
Net interest income	**152.6**	**136.2**	**133.7**	**145.4**	**133.7**
Net fee and commission income	17.0	12.7	10.8	20.1	17.9
Operating income	**169.6**	**148.9**	**144.5**	**165.5**	**151.6**
Net impairment charge on loans and advances to customers	(38.2)	(5.0)	(41.4)	(32.6)	(32.4)
Gains/(losses) on modification of financial assets	1.1	1.5	(3.1)	–	–
Fair value losses on financial instruments	(0.3)	(0.1)	–	–	–
Operating expenses	(93.2)	(89.4)	(81.8)	(96.8)	(84.5)
Profit before income tax	**39.0**	**55.9**	**18.2**	**36.1**	**34.7**
Discontinued operations					
Profit before income tax	5.0	0.1	0.9	–	–
Total profit before income tax	**44.0**	**56.0**	**19.1**	**36.1**	**34.7**

	Continuing 2022 £million	Continuing 2021 £million	Continuing 2020 £million	2019 £million	2018 £million
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)					
Basic earnings per ordinary share	158.5	244.1	82.7	168.3	153.2

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

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

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures

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

(i) Continuing loans and advances to customers

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

	2022 £million	2021 £million	2020 £million
Loans and advances to customers	**2,919.5**	2,530.6	2,358.9
Assets held for sale – loan portfolios	–	1.3	–
Total loans and advances to customers	**2,919.5**	2,531.9	2,358.9
Less discontinued loans and advances to customers:			
Asset Finance (sold during 2021)	–	–	(10.4)
DMS (sold during 2022)	–	(79.6)	(81.8)
Consumer Mortgages (sold during 2021)	–	–	(77.7)
Other	–	(1.3)	(4.1)
Total discontinued operations loans and advances to customers	–	(80.9)	(174.0)
Continuing loans and advances to customers	**2,919.5**	**2,451.0**	**2,184.9**

(ii) Net interest margin ratio

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial year as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over 13 months:

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

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

Key performance indicators and other alternative performance measures continued

(iii) Loans and advances to customers annual growth rate

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

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

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

(iv) Total return on average equity

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

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

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

(v) Cost to income ratio

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

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

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

(vi) Cost of risk

Cost of risk is calculated as the total of the net impairment charge on loans and advances to customers and gains and losses on modification of financial assets for the financial year as a percentage of the average loan book

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

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

Appendix to the Annual Report (unaudited)
continued

(vii) Cost of funds

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

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

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

(viii) Funding ratio and loan to deposit ratio

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

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

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

(ix) Profit before tax pre impairments

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

	2022 £million	2021 £million
Profit before income tax	39.0	55.9
Excluding:		
Net impairment charge on loans and advances to customers	38.2	5.0
Gains on modification of financial assets	(1.1)	(1.5)
Profit before tax pre impairments	**76.1**	**59.4**

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

Glossary

Term	Explanation
ALCO	The Assets and Liabilities Committee. The remit of the Committee can be found on the Group's website: **www.securetrustbank.com/our-corporate-information/risk-management**.
Compound Annual Growth Rate ('CAGR')	CAGR is the annual growth rate calculated as the annualised compound growth in continuing loans and advances to customers since 31 December 2020.
CET 1 capital	Common Equity Tier 1 capital comprises share capital, share premium, retained earnings, revaluation reserve and regulatory adjustments.
CET 1 capital ratio	The Common Equity Tier 1 capital ratio is the ratio of the bank's CET 1 capital to its Total Risk Exposure. This signifies a bank's financial strength. The CET 1 capital ratio is monitored by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent.
Capital requirement regulation and CRD V	The revised Capital Requirements Directive and Regulation, commonly referred to as CRD V and CRR 2, refine and continue to implement Basel III by the UK, making important amendments in a number of areas including large exposures, leverage ratio, liquidity, market risk, counterparty credit risk, as well as reporting and disclosure requirements.
Feefo	Feefo collects independent reviews from the customers of businesses across many sectors, including financial services.
Financial Conduct Authority	The Financial Conduct Authority is the conduct regulator for financial services firms and financial markets in the UK. Its aims are to protect consumers, enhance market integrity and promote competition.
High Quality Liquid Assets	High Quality Liquid Assets are assets with a high potential to be converted easily and quickly into cash. This comprises of cash, the Bank of England reserve account and Treasury Bills.
ICAAP	Internal Capital Adequacy Assessment Process. A firm must carry out an ICAAP in accordance with the PRA's rules. These include requirements on the firm to undertake a regular assessment of the amounts, types and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed.
ILAAP	The Internal Liquidity Adequacy Assessment Process allows firms to assess the level of liquidity and funding that adequately supports all relevant current and future liquidity risks in their business. In undertaking this process, a firm should be able to ensure that it has appropriate processes in place to ensure compliance with the CRD. This requires firms to develop and use appropriate risk and liquidity management techniques.
LCR	The Liquidity Coverage Ratio regime requires management of net 30-day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more prudent internal limit than that set by the regulator.
OLAR	The Overall Liquidity Adequacy Rule is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP.
Pillar 1, Pillar 2 and Pillar 3	Basel III uses a 'three pillars' concept – (1) Pillar 1 – minimum capital requirements (addressing risk) using a standardised approach for credit, market and operational risk, (2) Pillar 2 – supervisory review process and (3) Pillar 3 – market discipline and enhanced disclosures.
PRA	The Prudential Regulation Authority is a part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm. The PRA's objectives are set out in the Financial Services and Markets Act 2000, but the main objective is to promote the safety and soundness of the firms it regulates.
SME	Small to medium-sized enterprises.

Glossary
continued

Term	Explanation
Term Funding Scheme with additional incentives for SMEs ('TFSME')	The TFSME was launched in March 2020 as part of measures to respond to the economic shock from COVID-19. The scheme is designed to incentivise eligible participants to provide credit to businesses and households to bridge through the current period of economic disruption, with additional incentives to provide credit to SMEs. Both schemes allowed access to four year funding at rates very close to Bank of England Base Rate, allowing eligible participants to borrow central bank reserves in exchange for eligible collateral.
Tier 2 capital	Tier 2 capital is the secondary component of bank capital, in addition to Tier 1 capital, and is composed of subordinated liabilities, net of issue costs.
Total Capital Requirement	Guidance given to a firm about the amount and quality of capital resources that the PRA considers that firm should hold at all times under the overall financial adequacy rule as it applies on a solo level or a consolidated level.
Total Risk Exposure	Total Risk Exposure is the total of the Group's risk-weighted assets.

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