Secure Trust Bank PLC

Annual Report & Accounts 2021

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IMAGE REMOVED

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

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Profit before tax

£56.0m

2020: £19.1 million

Loans and advances to customers[1]

£2,531.9m

2020: £2,358.9 million

[1] 2021 includes Assets held for sale of £1 3 million.

Pages 2 to 55 form the Strategic Report. It includes our business model, economic and regulatory environment, strategy, financial review and a business review for each of the lines of business.

Pages 93 to 96 form the Directors' report. Prior year results and key performance indicators have been restated to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided in Note 1 to the Financial Statements on page 115.

Measuring performance Key Performance Indicators

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

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

Certain key performance indicators represent alternative performance measures that are not defined or specified under International Financial Reporting Standards ('IFRS'). Definitions of the financial key performance indicators, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on pages 173 and 174.

Further explanation of the financial key performance indicators are discussed in the narrative of the Financial review on pages 12 to 17, where they are identified by being in bold font.

Further explanation of the non-financial key performance indicators is provided in the Managing our business responsibly and Climate-related financial disclosures sections on pages 38 and 49.

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

Grow

Net interest margin
%

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

Loans and advances to customers[1]
£m

CHART REMOVED

Why we measure this
Shows the growth in the Group's lending balances, which generate income

Annual Growth Rate[2]
%

CHART REMOVED

Why we measure this
Shows the rate of growth in the Group's lending balances

Return on average equity
%

CHART REMOVED

Why we measure this
Measures the Group's ability to generate profit from the equity available to it

[1] 2021 includes Assets held for sale of £1.3 million.
[2] Core lending balances only. See Appendix on page 173 for further details.

Sustain

Cost of risk[3]
%

CHART REMOVED

Why we measure this
Measures how effectively the Group manages the credit risk of its lending portfolios

Common Equity Tier 1 (CET 1) ratio
%

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Why we measure this
The Common Equity Tier 1 ('CET 1') ratio demonstrates the Group's capital strength

Cost to income ratio[4]
%

CHART REMOVED

Why we measure this
Measures how efficiently the Group utilises its cost base to produce income

Care

Customer Feefo ratings
Stars

CHART REMOVED

(mark out of 5 based on star rating from 937 reviews, 2020: 1,466, 2019: 1,754)

Why we measure this
Indicator of customer satisfaction with the Group's products and services

Employee survey trust index score
%

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(based on 2021 all employee survey)

Why we measure this
Indicator of employee engagement and satisfaction

Environmental intensity indicator

CHART REMOVED

(tonnes of carbon dioxide equivalent per £1 million Group income)

Why we measure this
Indicator of the Group's impact on the environment

3 The reduction in the cost of risk in 2021 reflects an improving trend.
4 The increase in the cost to income ratio in 2021 reflects a declining trend.

Chairman's statement

Our focus is on our key specialist markets

Lord Forsyth
Chairman

IMAGE REMOVED

"We have refined the Group's strategy with a new vision to be the most trusted specialist lender in the UK."

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

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

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

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

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

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

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

Lord Forsyth
Chairman
23 March 2022

Chief Executive's statement

Agile and strong market expertise

IMAGE REMOVED

David McCreadie
Chief Executive Officer

"Our diversified portfolio continues to support our growth ambitions."

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

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

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

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

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

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

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

New vision and purpose

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

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

Chief Executive's statement
continued

Core lending balance[1] growth

11.6%

2020: Decrease of 1.8%

Profit before tax

£56.0m

2020: £19.1 million

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

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

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

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

Lending performance

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

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

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

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

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

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

Supporting our customers

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

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

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

Our People

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

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

We continue to take the issue of wellbeing and mental health extremely seriously. We have extended our offer of a 'wellbeing hour', where employees can take time to participate in activities which promote good mental health and positivity, to being a monthly event. This is in addition to other initiatives, including our network of mental health first aiders across the organisation.

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

Outlook

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

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

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

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

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

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

David McCreadie
Chief Executive Officer
23 March 2022

Our business model
How Secure Trust Bank does what it does

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Consumer

Retail Finance

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How we help

Instant credit for the purchase of goods online and in store

What we do

How we connect with customers

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

Vehicle Finance

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How we help

Finance solutions for used vehicles

What we do / How we connect with customers

- Finance is provided 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 the technology platform used allowing an automated end to end customer journey.

Debt Management

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How we help

Support for customers repaying their existing debts

What we do / How we connect with customers

- A debt collection business which primarily invests in purchased debt portfolios from third parties, as well as fellow group undertakings.
- Work with customers to repay their debts over the longer-term, and providing specialist support where required.
- In March 2022, the Group announced its decision to exit the debt purchase market. Further information can be found in the Financial review on page 14.

Business Finance

Real Estate Finance

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Financial support for professional developers and investors

- Real Estate Finance lends 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.
- Lending is sourced and supported both directly and via introducers and brokers.

Commercial Finance

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Working capital solutions for SMEs with the benefit of asset based security

- Lending is predominantly against receivables, typically releasing 90% of qualifying invoices under invoice discounting and factoring services.
- The business has also provided additional lending to existing customers through Government guaranteed schemes.
- Commercial Finance is sourced and supported both directly and via introducers.

Savings

Personal

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Simple, digital savings accounts

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

Strategic priorities

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 continued to work with our channel partners during the year, and as a result achieved a return on average equity of 15.9%, with an 11.6% annual growth in the loan book during 2021, and with growth across most of our core products. • Non-core loan books relating to Consumer Mortgages and Asset Finance were sold during the year. • Vehicle Finance launched two new products, Prime Hire Purchase and Prime PCP, and the Group agreed to acquire (subject to regulatory approval) AppToPay Limited, which will provide the technology for Retail Finance to enter the digital Buy Now Pay Later sector.	• Deliver growth in the balance sheet, targeting in the medium-term 15%+ compound annual growth in the loan book, whilst maintaining return on average equity through scaling our specialist businesses. • Build out on our existing digital capabilities to win share and drive scale, including launching a new digital, interest free Buy Now Pay Later product in 2022 and establishing our new Prime Hire Purchase and Prime PCP products. • Widen our distribution and addressable markets, both through these new products in Consumer Finance, whilst expanding our UK footprint and regional model in Business Finance to underpin growth.
Sustain • Create sustainable value through market expertise and deep customer knowledge • Utilise strong credit discipline, capital allocation and risk management capabilities	• Building on experienced specialist teams, deep expertise and knowledge to deliver sustainable value growth. • Maintained strong capital ratios through strong profit performance. • Gradual return to pre-pandemic credit lending policy by the end of 2021. • Ongoing investment in regulatory compliance and financial crime prevention.	• Drive sustainable scale and growth whilst maintaining credit discipline, risk management and optimising our capital allocation. • Manage the mix and risk profile of the business to ensure the CET 1 ratio is maintained above 12%. • Focus on reducing our cost to income ratio by achieving benefits through strategy, simplification and re-engineering, driving value through areas such as digital and operational efficiency, sourcing and supplier management, technology and property optimisation.
Care • Help customers with simple, clear and compelling products • Deliver consistently excellent customer care and swift outcomes	• Strong customer satisfaction and advocacy across all areas of the Group as evidenced by independent customer review ratings. • Continued investment in digital platforms, allowing brokers and retailers to integrate seamlessly, as well as continued growth of online engagement and self-service. • Commitment to a positive and healthy working environment in both the office and from home. • Improved savings proposition and customer journey with the scaling of ISAs and Access accounts and simpler application processes with easier self-service.	• Enhance gender diversity and progress our Inclusion Agenda whilst continuing to invest in all our people. • Develop new products, including Buy Now Pay Later and Prime PCP, as well as seizing opportunities presented by emerging green markets, such as the Greener Homes Scheme, consumer and retail demand for finance on green energy products and ancillary services and expanding into electric vehicles as used stock increases. • Build out digital and mobile services, including a Savings proposition delivering native mobile apps, biometric authentication, security, open banking access and payment capabilities.

Financial review

IMAGE REMOVED

"Strong results reflecting a return to growth and an improving macroeconomic environment."

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

Selected Key Performance Indicators and performance metrics			
Net interest margin	6.4%	6.3%	0.1pp
Cost of funds	1.3%	1.8%	(0.5)pp
Cost to income ratio	63.2%	55.7%	7.5pp
Cost of risk	0.1%	2.3%	(2.2)pp
Return on average equity	15.9%	5.9%	10.0pp
Common Equity Tier 1 ('CET 1') ratio	14.5%	14.0%	0.5pp
Total capital ratio	16.8%	16.3%	0.5pp

pp represents the percentage point movement

Strategic Report

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under IFRS. Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on page 173. In the narrative of this financial review, key performance indicators are identified by being in bold font. Prior year results and key performance indicators have been restated to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. Further details are provided in Note 1 to the financial statements on page 115.

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

Profit and earnings

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

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

Net interest income

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

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

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

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

Net fee and commission income

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

Impairment charge

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

As in previous years, the majority of our impairment charge arises from the Consumer Finance businesses. The decrease in the impairment charge is predominantly driven by the IFRS 9 requirement to account for forward-looking factors rather than actual defaults experienced in the year. Our IFRS 9 models use the correlation between macroeconomic variables, such as unemployment and house price indices, and historic credit losses to derive estimated future losses given a range of forecast variables. The more positive macroeconomic assumptions as at 31 December 2021 reduced the 2021 impairment charge by £13.2 million.

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

Financial review
continued

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

Disposal of loan books

During the year the Group disposed of the Asset Finance and Consumer Mortgage portfolios. The loss on disposal relates primarily to the sale of the Consumer Mortgage book (loss of £1.3 million), with the beneficial interest being assigned to the purchaser as at 31 December 2020. £1.3 million of interest income is recognised within net interest income, resulting in a overall nil profit impact. The Asset Finance sale resulted in a £0.1 million loss. Both had limited impact on Group's operations as the service delivery of both portfolios were outsourced to third party providers.

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

Operating expenses

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

Taxation

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

The previous rates had assumed the level of Corporation Tax would remain at 19% but legislation has been enacted during the period, so with effect from 1 April 2023 the Corporation Tax rate will increase to 25%. The revised rates continue to assume banking surcharge of 8% on any taxable profits of Secure Trust Bank PLC in excess of £25 million in an accounting period. The Government is legislating to reduce the banking surcharge to 3% on bank tax profits in excess of £100 million with effect from 1 April 2023, however the Finance Bill containing these changes was not substantively enacted until after 31 December 2021. The reduction in the closing deferred tax asset from applying the legislation is expected to be less than £0.9 million. Further information is provided in Note 10.

Distributions to shareholders

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

Balance sheet

Summarised balance sheet	2021 £million	Restated 2020 £million
Assets		
Cash and balances at central banks	**235.7**	181.5
Loans and advances to banks	**50.3**	63.3
Debt securities	**25.0**	–
Loans and advances to customers[1]	**2,530.6**	2,358.9
Derivative financial instruments	**3.8**	4.8
Other assets	**40.5**	52.7
	2,885.9	2,661.2
Liabilities		
Due to banks	**390.8**	276.4
Deposits from customers	**2,103.2**	1,992.5
Tier 2 subordinated liabilities	**50.9**	50.8
Derivative financial instruments	**6.2**	6.1
Other liabilities	**32.4**	67.8
	2,583.5	2,393.6

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

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

Loans and advances to customers

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

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

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

Debt securities and Due to banks

Debt securities consist solely of sterling UK Government Treasury Bills ('T-Bills'). As at 31 December the Group held £25.0 million of T-Bills (2020: £nil) which was temporarily required to be utilised as collateral against Term Funding Scheme with additional incentives for SMEs ('TFSME').

Amounts due to banks consisted primarily of drawings from the Bank of England TFSME facility. During the year Term Funding Scheme ('TFS') funding was replaced with TFSME funding. Overall funding increased by £117.0 million, which supported lending.

Deposits from customers

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

Tier 2 subordinated liabilities

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

Financial review
continued

Capital

Management of capital

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

Key factors influencing the management of capital include:

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

Capital resources

Capital resources increased over 2021 from £325.9 million to £350.6 million. This includes the proposed 2021 dividend of £7.7 million. The increase was wholly due to CET 1 capital and was driven by retained earnings growth, offset by the impact of changes to the IFRS 9 adjustment as set out below.

Capital	2021 £million	Restated 2020 £million
CET 1 capital	**303.6**	280.8
Tier 2 capital	**47.0**	45.1
Total capital	**350.6**	325.9
Total risk exposure	**2,087.4**	1,999.7

Capital ratios	2021 %	Restated 2020 %
CET 1 capital ratio	**14.5**	14.0
Total capital ratio	**16.8**	16.3
Leverage ratio	**10.3**	10.3

The Group has elected to adopt the IFRS 9 transitional rules. For 2021, this allows for 50% (2020: 70%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible capital. The same relief is allowed for increases in provisions between 1 January 2018 to 31 December 2019, except where these provisions relate to defaulted accounts. The same relief is allowed for increases in provisions since 1 January 2020, however as a response to the COVID-19 pandemic, this is applied at 100% (2020: 100%). All transitional relief will taper off by 31 December 2024.

The Group's regulatory capital is divided into:

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

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

Excluding the impact of the IFRS 9 transitional rules, the Group's CET 1 capital ratio and total capital ratio would reduce to 14.0% and 16.2% respectively.

Capital requirements

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

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

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

The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The countercyclical capital buffer was 0% throughout 2021 as part of the PRA's response to COVID-19.

Liquidity

Liquidity resources

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

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

Liquid assets	2021	2020
Aaa – Aa3	**259.0**	180.5
A1 – A3	**38.9**	46.5
Unrated	**5.1**	5.1
	303.0	232.1

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

Customer Deposits	2021 %	2020 %
Fixed term bonds	**46**	54
Notice accounts	**37**	35
ISA	**12**	7
Access accounts	**5**	4
	100	100

Management of liquidity

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

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

The Group met the LCR minimum threshold throughout the year and, as at 31 December 2021, the LCR was 439.1%.

Business review

Consumer Finance

Retail Finance

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

"The outcome was a great success for us and V12 played a significant part in it, keeping our ability to offer finance during those interesting times. Having V12 as one of our partners is both a strength and a pleasure."

Ben Aelberry, Head of Customer and Store Support
Watches of Switzerland

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

What we do

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

2021 performance

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

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

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

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

Vehicle Finance

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

> What a simple application to be accepted, a quick and simple process, not having to answer a million different questions was refreshing!"
>
> **Customer feedback**
> Feefo, Vehicle Finance customer

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

What we do

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

2021 performance

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

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

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

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

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

In 2022, we are looking to increase the lending growth from the new Prime Hire Purchase and PCP products launched in 2021. Furthermore, we will utilise the technology investment and enhanced customer journeys delivered by our Motor Transformation Programme across all our products to improve growth and enhance earnings.

[1] Source. Finance & Leasing Association.

Business review
continued

Consumer Finance continued

Debt Management

Credit management services for the Group and external clients.

Agent was super friendly, helpful and courteous helped sort out my payment issue and informed me of the online service you have she is a credit to your organisation big pat on the back."

Customer feedback
DMS customer

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

What we do

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

2021 progress

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

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

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

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

Business Finance

Real Estate Finance

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

"Secure Trust Bank has been an invaluable partner in the development, providing support and advice throughout. They understand the challenges and complexities of being a small housebuilder and are willing to be flexible in order to meet individual requirements."

Alan Saville
Director, Saville Homes

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

What we do

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

2021 performance

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

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

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

Business review
continued

Business review continued

Commercial Finance

Provision of invoice discounting and factoring to SME businesses.

"From the outset we felt very comfortable with Secure Trust Bank and, looking forwards, this partnership will enable us to grow our portfolio of work and continue to deliver outstanding returns."

Gwilym Jones
Managing Director, Henderson & Jones

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

What we do

- Lending remains predominantly against receivables, typically releasing 90% of qualifying invoices under invoice discounting and factoring services. Other assets can also be funded either long or short-term and for a range of loan-to-value ratios alongside these facilities.
- Commercial Finance has also provided additional unsecured lending to existing customers through the Government guaranteed Coronavirus Business Interruption Loan ('CBIL') Scheme, Coronavirus Large Business Interruption Loan ('CLBIL') Scheme and Recovery Loan Scheme ('RLS').
- Commercial Finance business is sourced and supported both directly and via introducers.
- The Commercial Finance team has a strong reputation across the Asset Based Lending market. Its experienced specialist team works effectively with its partners across private equity and accountancy practices.

2021 performance

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

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

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

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

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

Savings

Savings

The Group attracts funding primarily via retail savings, offering individuals competitive, simple products, applied for and serviced online and backed by the UK Financial Services Compensation Scheme.

"Never banked before with Secure Trust but everything has been easy to put in place. More importantly they do what they promise in their literature. Very impressed so far with their account management."

Customer feedback
Trust Pilot, Savings customer

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

What we do

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

2021 performance

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

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

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

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

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

Economic and regulatory environment

Economic review

Recent developments

In 2021, the UK Gross Domestic Product ('GDP') grew by 7.5% after an annual 9.4% decline in 2020. The lifting of COVID-19 restrictions gradually through the year across the UK nations has been supported by the success of the UK's vaccination programme. Economic activity has responded and by December 2021, supported by Government support programmes, GDP had recovered back above its pre-COVID-19 levels (February 2020).

From a COVID-19 perspective, the adverse impact on the economy has been significant but 2021 has been a year of economic recovery. The greater transmissibility of the newer Omicron variant towards the end of the year, however, reminds us of the ongoing economic and social risks of this pandemic. Whilst future strains may be less deadly, the impact on businesses from employee shortages and self-imposed restrictions on customer behaviour will continue to temper economic growth.

The UK labour market outperformed expectations. The Labour Force Survey unemployment rate fell to 4.1% in the three months to November and vacancies have reached a peak of 1.247 million. The unemployment rate has fallen consistently through the year (December 2020: 5.2%). Over a million jobs were furloughed immediately before the Coronavirus Job Retention Scheme closed at the end of September 2021, but this closure has not led to significant redundancies.

The UK inflation rate, measured by the Consumer Prices Index ('CPI'), accelerated through the year, reaching a peak in December of 5.4% (December 2020: 0.6%). This has been attributed to supply side disruptions and rising energy and food prices. It is expected to continue to rise in 2022 and the Bank of England's Monetary Policy Committee ('MPC') in its February 2022 report forecasted a peak of 7.25% in April 2022, with that further increase accounted for predominantly by the lagged impact of energy bills from increases in wholesale gas prices. CPI levels are not expected to return to the MPC's 2% inflation target until 2024. Average pay growth has matched or exceeded CPI increases in 2021, but further growth in CPI in 2022 is expected to outstrip pay growth.

The MPC sets monetary policy to meet a CPI inflation target of 2%. In response, the UK Base Rate was increased to 0.25% in December 2021. On 3 February 2022, the MPC announced a second increase of 0.25% to 0.5% and on 17 March 2022 a further increase of 0.25% to 0.75%. Future increases in the Base Rate are expected by the financial markets during 2022. The increases in the real cost of living will adversely impact on consumers' disposable income and will raise questions about the affordability of household bills and consumers' appetite for discretionary spending.

Outlook

In February 2022, the MPC forecast the UK economy to grow by 3.75% in 2022 with low ongoing unemployment rates. Economic headwinds remain present and the degree of the uncertainty around the economic outlook is unusually high. The increasing geopolitical tensions as a result of Russia's invasion of Ukraine may further lower growth expectations and increase inflationary pressures. COVID-19 will continue to be disruptive but is expected to be less so than in 2021. Rising inflation and the higher costs of living will stretch consumers' incomes during the coming year increasing the risk of customer default.

Government and regulatory

Recent developments

This has been another busy year for Government and regulatory announcements impacting the Group. The key announcements in 2021 are set out below:

In February 2021, Financial Conduct Authority ('FCA') issued guidance, which highlights the actions firms should take to understand the needs of vulnerable customers to make sure that they are treated fairly.

In March 2021, the Government issued a Consultation Paper "Restoring trust in audit and corporate governance". The final proposals will set out the plans to strengthen the UK's framework for major companies and the way they are audited.

The 2021 March Budget included an extension to business support schemes, including Coronavirus Job Retention Scheme which concluded at the end of September 2021. Other measures introduced included a capital allowance super deduction, aimed at stimulating business investment.

As noted in the Economic review, the successful vaccination programme has enabled the Government to limit the level of COVID-19 related restrictions through the year. Despite the advice to work from home where possible in response to the spread of the Omicron variant in November, the Government did not announce any further extensions to the Coronavirus Job Retention Scheme.

An increase to Corporation Tax rates was announced in the Budget. The Corporation Tax rate will increase from 19% to 25% with effect from 1 April 2023. 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.

In April 2021 the PRA published its discussion paper DP1/21 on 'A strong and simple prudential framework for non-systemic banks and building societies'. The paper set out several proposals for ways in which the regulatory regime could be simplified for smaller firms over the coming years. The discussion paper elicited responses from over 40 firms and the PRA issued feedback paper FS1/21. The industry-wide feedback was broadly consistent with our views that a streamlined approach would be preferable to a new regime with excessive conservatism, which could lead to higher capital and liquidity requirements for impacted firms. We welcome the overall aims set out in the paper as the regulatory burden can be a barrier to growth for smaller firms and preventing new entrants, thereby harming competition.

In May 2021, the Debt Respite Scheme (Breathing Space) was introduced in order to give someone in problem debt the right to legal protections from their creditors. The Group amended its systems and processes to support this important protection for our customers.

In October 2021, the PRA published PS22/21 'Implementation of Basel Standards: Final Rules', effective from 1 January 2022. The policy statement broadly aligns with the EU's Capital Requirements Regulation II and impacts the Group's regulatory requirements, including capital, net stable funding and leverage. In addition, the new requirements will enable the Group to reduce the scope of Pillar 3 reporting requirements which is primarily due to its size and simple structure.

In December 2021, the MPC announced a 0.15% increase in the UK Base Rate to 0.25%, a second increase of 0.25% to 0.5% on 3 February and a further increase of 0.25% to 0.75% on 17 March 2022. The MPC's updated central projections in its February 2022 report are conditioned on a market implied path for the UK Base Rate that rises to 1.5% by the middle of 2023.

Also in December 2021, the Financial Policy Committee ('FPC') announced that the UK Countercyclical Capital Buffer rate will be increased to 1% from 13 December 2022, having been reduced to 0% in March 2020 because of the pandemic. The FPC also set the expectation of a further increase to its 'normal' level of 2% from mid-2023, subject to the economy continuing to recover in line with expectations.

Finally in December 2021, the FCA issued a Consultation paper (CP21/13), which included proposals to introduce a new Consumer Duty that would set higher expectations for the standard of care that firms provide to consumers.

The PRA plan to issue a consultation paper on the implementation of Basel 3.1 in the final quarter of 2022. The PRA intends to consult on a proposal that these changes will become effective on 1 January 2025, which is in line with other major jurisdictions.

We expect the high level of Government and regulatory change, which directly impacts the Group, to continue. Our horizon scanning processes should ensure that we are able to assess this change on a timely basis.

Principal risks and uncertainties

Risk management

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

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

Risk appetite

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

Governance

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

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

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

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

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

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

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

- Risk identification: activities are embedded through integration with key business processes to ensure the Group:
  - Considers how existing activities may impact the current and future risk profile
  - Considers the implications of new products
  - Has an awareness of how external influences may affect risk.
- Risk management: focuses on the application of tools, techniques and processes to quantify risks in order to effectively measure risk and its change over time.
- Risk monitoring: Board and senior management are provided with timely identification of the risk position, current emerging risks, material threats and opportunities to enable appropriate management actions.
- Risk reporting: The Board, Committees, and senior management are informed of any changes in the Group's risk profile or position and necessary actions via regular reporting. In addition, ad-hoc reporting to address any specific concerns affecting risk management or strategies must be available.

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

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

Risk overview

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

Principal risk	Change to the risk profile over 2021
Credit risk Credit risk is the risk that a counterparty will be unable to satisfy their debt servicing commitments when due.	Improving
Liquidity and Funding risk The risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost.	Stable
Capital risk Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support the business.	Stable
Market risk The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates.	Stable
Operational risk Operational risk is the risk that the Group may be exposed to direct or indirect loss arising from inadequate or failed internal processes, personnel and succession, technology or infrastructure, or from external factors.	Stable
Conduct risk The risk that the Group's products and services, and the way they are delivered, result in poor outcomes for customers, or harm to the Group.	Stable
Regulatory risk The risk that the Group fails to be compliant with all relevant regulatory requirements.	Stable
Financial Crime risk The risk that the Group fails to prevent the facilitation of financial crime by not having effective systems and controls and does not meet regulatory requirements.	Stable
Climate Change risk The risk of the potential 'physical' effects of climate change and the 'transitional' risks from the UK's adjustment towards a carbon neutral economy on the Group's strategy, performance and operational resilience.	Stable

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

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

Principal risks and uncertainties
continued

Credit risk

Description

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

Mitigation

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

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

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

Forbearance

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

Consumer Finance credit risk

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

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

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

Business Finance credit risk

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

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

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

Concentration risk

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

Model risk and the impact of IFRS 9

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

Change during the year – Improving

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

Liquidity and Funding risk

Description

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

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

Mitigation

Risk tolerance and stress testing

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

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

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

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

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

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

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

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

Contingency funding plans

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

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

Change during the year – Stable

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

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

Principal risks and uncertainties continued

Capital risk

Description

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

Mitigation

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

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

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

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

A complete assessment of the Group's capital requirement is contained in its Pillar 3 disclosures. Pillar 3 disclosures for the Group for the year ended 31 December 2021 are published as a separate document on our website.

Change during the year – Stable

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

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

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

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

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

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

Market risk

Description

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

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

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

Mitigation

Risk tolerance and stress testing

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

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

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

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

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

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

Change during the year – Stable

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

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

Principal risks and uncertainties
continued

Operational risk

Description

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

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

Mitigation

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

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

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

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

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

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

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

Change during the year – Stable

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

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

Conduct risk

Description
We define Conduct Risk as the risk that the Group's products and services, and the way they are delivered, result in poor outcomes for customers, or harm to the Group. This could be as a direct result of poor or inappropriate execution of the Group's business activities or staff behaviour.

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

Change during the year – Stable
The Group has continued to operate within overall risk appetite, remaining focused on delivering good customer outcomes.

As reported in the 2021 Interim Report, pressure has been seen on some conduct risk metrics. For example some contact centre service levels have been outside tolerance for some periods with resources not matching requirements. The number of affordability complaints received has also been flagged for attention in Vehicle Finance - increased volumes have also been noted by other motor finance lenders according to the Finance & Leasing Association.

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

Regulatory risk

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

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

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

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

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

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

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

Principal risks and uncertainties
continued

Financial Crime risk

Description
The risk that the Group fails to prevent the facilitation of financial crime by not having effective systems and controls and does not meet regulatory requirements.

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

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

Climate Change risk

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

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

Strategic and emerging risks

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

Macroeconomic environment and market conditions

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

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

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

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

People

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

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

Inflation

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

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

Viability and going concern

Going concern

In assessing the Group as a going concern, the Directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the Strategic Report. The Group uses various short and medium-term forecasts to monitor future capital and liquidity requirements and these include stress testing assumptions to identify the headroom on regulatory compliance measures. The details of the forecasts and stress tests are explained 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 2026. As the Group's financial planning horizon is five years and overall economic and market uncertainty is lower than last year, the Group will adopt a five year planning horizon for its viability assessment for the first time. In the previous year the planning horizon was three years.

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

- The Group has delivered strong profit growth and capital management in 2021 and the 2022 annual budget process indicates long-term growth potential.
- The Group has navigated successfully through the real-life business and financial stresses resulting from the COVID-19 pandemic. The Group has adopted new working practices and demonstrated its operational resilience throughout the pandemic.
- 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 early warning indicators and regulatory requirements throughout the year and is forecast to continue to do so over the five year period.
- In the area of climate change, the Board recognises the long-term risks and, in October 2021, approved a formal review of the medium to longer-term implications, risks and opportunities that climate change presents to the Group's strategy and plans.

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

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

- The latest annual budget process, which contains information on the expected financial and capital positions and performance of the Group over the 2022 to 2026 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 profitability over the planning horizon.
- The Group's ILAAP process approved by the Board in July 2021 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 and in order to assess the adequacy of capital resources over the 2021 to 2025 period, was approved in November 2021. Within this process, the Group considered the extent of the credit, operational and market risks and how this affects its capital levels. Under the macroeconomic stress, the details of which are set out below, at no point were minimum capital requirements breached and there was only limited use of capital buffers.
- The latest Group Recovery Plan was approved in February 2021 and confirmed that the Group has sufficient recovery options available to recover from the severe scenario modelled over the 2021-2025 period. The primary recovery options are to raise new deposits and reduce its level of new lending.
- Consideration of the other principal risks as set out on pages 26 to 35, to 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 2021 ILAAP included idiosyncratic, market wide and combined stress scenarios.

The idiosyncratic liquidity stress test assumed a sustained outage of the Group's deposit platform and resultant reputational impacts, which restricted cash inflows into the business thus creating a liquidity strain. The market wide stress is based upon the UK economy entering a severe recession with rising unemployment and inflation which results in higher defaults on lending and higher deposit attrition. The combined stress includes elements of the idiosyncratic and market stresses whereby the UK economy enters a severe recession and the Group suffers operational issues in the deposits function 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 partial repayment of TFSME funding.

ICAAP

The Group's ICAAP considered the PRA published macroeconomic stress and severe scenarios to assess the adequacy of capital resources over the 2021 to 2025 period. Under the macroeconomic stress, which included an unemployment peak of 12% in Q4 2021 and a 33% property price decline by mid-2022, with an economic recovery beginning in 2023 and more normal levels of economic activity restored by late 2024. At no point were the Group's capital requirements breached and there was a limited use of capital buffers.

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 15%.

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 2021 to 2025 period. The combined capital stress test included peak unemployment of 15%, a 33% decline in property prices, an increase in Base Rate to 4% and operational losses due to a cyber event. The idiosyncratic liquidity stress test assumed a sustained outage of the Group's deposit platform and resultant reputational impacts, which restricted cash inflows into the business thus creating a liquidity strain.

Managing our business responsibly

Integrity, transparency and value for all stakeholders

Our new vision of becoming the most trusted specialist lender in the UK, combined with a refreshed purpose and strategy, clearly sets out the future ambition of our organisation. It is underpinned by a commitment to act with integrity and transparency delivering value for all stakeholders and in a way that contributes to the sustainable future of the environmental and social systems that we all depend upon. This section incorporates both our approach to Managing Business Responsibly and also our section 172 statement, as required by the Companies Act 2006.

Responsible business and Environmental, Social and Governance ('ESG')

In 2021 we continued to work with Business in the Community ('BiTC'), the Responsible Business Network set up by HRH The Prince of Wales. The stakeholder engagement work completed in 2020 has helped us to define our Responsible Business strategy, in line with our vision, purpose and strategy, which is focused on our key stakeholders. In 2021 we took part in BiTC's Responsible Business Tracker for the first time, which is a comprehensive audit of all of our business activities. The results are due in 2022 and will be used by a new Responsible Business/ESG steering group to drive our strategy forward.

The following table details how we have considered each of our key stakeholders as part of managing our business responsibly and developing strategy.

Customers

Link to strategy

Care

LOGO REMOVED

LOGO REMOVED

LOGO REMOVED

Why we act responsibly for our customers

We are committed to helping more consumers and businesses fulfil their ambitions, by providing straightforward transparent solutions, acting responsibly and treating our customers fairly. The strategy is designed to focus on achieving good customer outcomes, promoting a customer centric culture, and making sure that products and services are sustainable whilst safeguarding and maintaining a profitable business.

There are rigorous policies and procedures in place which define the underwriting approach to make sure that our lending is responsible, fair and appropriate to the customer's circumstances, thereby providing customers with the ability to make informed borrowing decisions.
We approve lending only when we have established and adequately verified the customer's creditworthiness and capability to meet repayments, in line with regulatory obligations.

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.

Throughout the pandemic we have continued to place particular focus on maintaining positive customer experience. For example, we have implemented a customer portal for our customers in the Debt Managers Services business. This allows customers the ability to view details regarding their account such as payments and remaining balance. There have also been improvements to the income and expenditure completion process including the option to populate the assessment through Open Banking.

Within the Vehicle Finance business, we rolled out a digital finance calculator for dealers and their customers. The finance calculator automatically matches customers with a Prime or near-prime product, providing them with financial terms and monthly payments. The software is integrated onto a dealer's website, providing customers with finance and affordability information at the start of their journey.

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 are able to use Trustpilot to share their views about the Group. Feefo scoring and customer service awards are discussed by the Board. We are keen to learn from where we may be going wrong and complaints data is reviewed by the Executive and Board Committees.

Our average Feefo rating for 2021, based on 937 reviews was 4.6 out of 5 (2020: 4.7 from 1,466 reviews). The average Trustpilot rating for 2021, based on 3,754 reviews was 4.6 out of 5 (2020: 4.6 from 2,624 reviews). 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. We take pride that our Feefo scores demonstrate STB's culture of putting the customer at the centre of what we do.

Managing our business responsibly
continued

Customers continued

Outcomes

Customer service awards

For the ninth successive year, the Group has been accredited with the Government backed Customer Service Excellence quality mark. This follows an in-depth external assessment against criteria which research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and employee attitude. The standard puts an emphasis on developing customer insight, understanding the user's experience and robust measurement of service satisfaction and 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, as demonstrated by this short excerpt:

"We are delighted to recognise Secure Trust Bank Group ('STB') for its excellent customer service. From our in-depth assessment, STB clearly lives its values and puts customers at the heart of everything that they do. We are especially pleased to distinguish some key areas with a Compliance Plus rating such as charity and community efforts and putting customers first through extensive colleague training and customer initiatives. The culture that employees at all levels have fostered is very well deserving of the Customer Service Excellence standard."

Feefo Trusted Awards

We also continue to be recognised through the Feefo Trusted Awards. In February 2022 it was announced that the Group had once again gained Trusted Service awards across all its businesses that collect Feefo reviews. The Vehicle Finance and Retail Finance businesses both achieved a Platinum award whilst the Savings business achieved a Trusted Service award.

This independent seal of excellence recognises that our businesses are delivering exceptional experiences, rated by real customers.

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;

- Meeting the needs of our customers (for example, those most vulnerable)
- Adapting to the changing preferences of customers during 2021
- Focusing on key business streams and Lending products
- Adding a Feefo objective to Management's remuneration scorecard, aligning the customer experience with pay.

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

Following feedback from customers and suppliers, it was clear that there was demand for a Buy Now Pay Later offering. The Board considered various options and following due and careful consideration, elected to acquire AppToPay Limited, owner of a digital Buy Now Pay Later technology platform, subject to regulatory approvals. The decision to acquire AppToPay has aligned our customer needs with our growth strategy, which is at the core of our shareholders interests. For more examples of strategic initiatives we have launched during the year in response to customer needs, please see the Business Review on pages 18 to 23.

Shareholders

Link to strategy

Grow **Sustain**

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 has received feedback from our principal shareholders during 2021 via our Chairman and CEO. The committee chairs, as well as the Senior Independent Director, are available to meet with shareholders on request and all seek engagement.

Following feedback received from shareholders during the investor audit conducted in 2020 and 2021, members of the Executive team held a Capital Markets Day in 2021 with investors. Informally, the Board also receives updates from the Company Secretary on correspondence received from shareholders throughout the year.

Outcomes

In response to the scale of the pandemic at the time of publishing the Notice of Meeting for the 2021 AGM, to avoid uncertainty and considering the health and well-being of our shareholders and our Board, physical attendance from shareholders at the 2021 AGM was discouraged. To allow shareholders to voice concerns and raise questions at the AGM, they were provided with the opportunity to submit questions electronically ahead of the meeting with responses published on our corporate website. We look forward to resuming physical AGMs and welcoming our shareholders to attend when safe to do so.

Later in the year in November 2021, we hosted a Capital Markets Day and were pleased to take the opportunity to welcome familiar faces in a COVID-19 safe manner. It provided an opportunity for shareholders to meet new members of the Executive team and enabled us to communicate our updated strategy. For stakeholders who were unable to attend in person, we recorded the session and made a webcast of the presentations available on the website afterwards.

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
- AGM planning and engagement
- The results of the investor audit, including reviewing feedback which identified more could be done to articulate the Board's strategy and culminating in the Capital Markets Day.

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

Due to the uncertainty regarding the impact of the pandemic on the UK economy and to protect the long-term interest of the stakeholders, the Board made the decision in 2020 to suspend dividends. The Board remains certain that by conserving capital at that time, this was the best way to safeguard the long-term success of the company through the pandemic for all stakeholders, inclusive of shareholders. Meetings were held between the Chairman/CEO and principal shareholders who were supportive of this approach in the short term. During 2021, using modelling and reflecting on STB's experience of the pandemic, the Board was pleased to be able to confidently reinstate the dividend and an interim dividend of 20p a share was declared.

Managing our business responsibly
continued

Employees

Link to strategy

Care ***Grow*** ***Sustain***

Why we act responsibly for our employees

We firmly believe that providing our employees with an effective voice contributes to building trust innovation, productivity and organisational improvement. The employee voice is pivotal in creating inclusive and safe working environments.

Two way engagement

We continue to 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, Baroness Neville-Rolfe. The aim of the Employee Council is to promote further employee engagement and provide a structured forum for teams to share their views, enabling colleagues to provide insight, feedback and suggestions to make Secure Trust Bank Group a great place to work. Throughout 2021, our Employee Councils were pivotal in helping us shape our future working practices and ensuring that the views of all colleagues were fully considered. Lucy Neville-Rolfe provides an update to the Board following each meeting and ensures that the employee voice is 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. By completing this annually, GPTW® enabled benchmarking of Secure Trust Bank's employee experience against many of the most progressive workplaces in the UK. The results of the annual survey are considered by the Board.

In November 2021 the Group participated in the survey for the fourth time. Despite the challenges presented by the pandemic and our teams adapting to the new ways of working, we were delighted to maintain a high Trust Index rating of 80% which is broadly in line with the previous score of 82% in 2020. This was based on a response rate of 85%, with 81% of respondents stating that 'Secure Trust Bank is a great place to work' compared to 84% previously. The Trust Index is the average of the core survey statements and used as the Group's key performance indicator in respect of 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 acting as a conduit between senior management and the wider colleague community and are instrumental to driving and reporting progress in key areas identified using our survey data.

We were delighted to be recognised at the Best Workplace awards in May 2021, being ranked 23rd in the UK Best Workplaces Large category (2020: 28th) and now also ranked as 13th in the UK Best Workplaces for Women category. 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 2021 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 74% from 60% in the previous year and 41% in 2019. This is the third consecutive year that we have been awarded both a UK Best Workplaces for Women award and an ENEI TIDE Mark, proving that employees feel a strong sense of trust, fairness and wellbeing in their workplace.

During 2021, STB made an offer to all eligible employees to participate in the Save as you Earn Scheme. STB communicated with employees via news articles on the intranet, a webinar and communications in team huddles. Following closure of the application period, STB ran a survey seeking to understand motivations for participation in the scheme and will use the data gathered to formulate communications in the scheme in 2022.

Employees continued

Outcomes

Employee development

Employee development remains a priority and 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 been delivered virtually during 2021 to ensure that the focus on personal development is maintained. We also launched a number of line manager masterclasses to further build confidence in leading teams. We continue to partner with Everywoman to provide extensive online and self-managed learning that is so important for our remote teams.

Our personal growth programme sponsored by our Non-Executive Director, Baroness Lucy Neville-Rolfe, 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.

Following the loss of our esteemed General Counsel, Alan Karter, in 2020 the Chairman launched the Alan Karter scholarship fund to give four individuals the opportunity to attend professional development programmes with Cranfield Business School. The programme provides individuals with the required leadership skills to help them move into more senior roles within the Group. It also provides them with training on how to develop impact and influencing skills for use in their roles.

Employee engagement and recognition

Research has consistently shown a clear link between high performance and team engagement. To ensure that colleagues are recognised for their contribution, our suite of recognition schemes 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 a panel of judges.

These schemes together with our annual incentive programme continue to help embed excellence within the culture. As the majority of employees have been working from home, we adapted our processes to ensure that our teams continued to be recognised for their contributions. We provide colleagues with a wide range of training for personal and professional development. The Bank supports staff in achieving recognised qualifications from the London Institute of Banking and Finance Banking Certifications.

Employee wellbeing

Providing a positive and healthy working environment, where colleagues have the opportunities and support to enhance their own wellbeing is of critical importance to us. Following positive feedback, STB has continued to focus on employee wellbeing during 2021, building on the wellbeing progress made in 2020. In 2021 we launched a wellbeing hour which gives colleagues an hour each month during their working day to dedicate to supporting their wellbeing. We have also maintained the Wellbeing Cafes launched in the pandemic which allow colleagues to connect with others with the support of one of our many Mental Health First aiders.

Managing our business responsibly continued

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

CHART REMOVED

CHART REMOVED

CHART REMOVED

LOGO REMOVED

Employees continued

Gender diversity

In 2021, we published our fourth 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. Following the appointment of Rachel Lawrence to the role of Chief Financial Officer in September 2020 we were delighted to appoint Katie Docherty to the role of Chief Operating Officer in June 2021. Our diversity 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 the HR Director and Sales Director in the Vehicle Finance Division and now our Chief Financial Officer having been appointed as Everywoman Ambassadors.

The launch of our new HR system in April 2021 has provided us with the ability to gather more robust data and this is an area of increased focus for us moving forward. In addition, in October 2021, BITC facilitated a focus group to gather evidence of lived experience of diversity, inclusion and wellbeing at Secure Trust Bank Group. This feedback will further enable us to update and deliver a refreshed Diversity & Inclusion strategy in 2022 that will include us becoming signatories of the Women in Finance Charter.

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 STB 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 STB work on a day-to-day basis.

Key topics discussed by the Board this year have included:

- Changing needs of employees as a result of changes to the working environment
- Diversity
- 'Your Voice' results
- Linking the Great Place to Work scores to management remuneration via a specific objective to assist in driving employee engagement
- Upskilling existing employees to provide a talent pipeline for the Group through initiatives such as the Alan Karter scholarship.

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

We have adopted a hybrid working policy which enables 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 to continue with more opportunities to work remotely.

Environment

Link to strategy

Care Grow

Why we act responsibly towards our environment

We continue to recognise the importance of acting responsibly in relation to the environment and our Responsible Business Strategy, which has been developed following engagement with a wide range of stakeholders, includes environment as a key focus area for 2022 and beyond.

Two way engagement

During 2021 an Environment Action Plan for our Solihull head office has been progressed with the support of 18 Eco Champions (employee volunteers) and similar work has taken place at our other main offices in Cardiff and Rotherham. This programme of work will continue throughout 2022 aided by a newly formed Environment Steering Committee and governance framework. The Committee will use the outputs from Business in the Community's Responsible Business Tracker survey, to guide our environment strategy which will build on our existing Group Environmental Policy and help the Group develop its approach to reducing CO_2 emissions and improving its green credentials.

Outcomes

Our Group Environmental Policy sets out key areas of focus for the business and also commits the Group to following 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 monitor our emissions and recognise STB's impact on the environment. We review the business model to assess the indirect impact of financing of certain industries, such as Vehicle Finance can have on the environment.

The Board

The Board recognises that our impact on the environment is crucial to our legacy. We acknowledge that being accountable for direct and indirect actions of our Group, and making decisions which help to improve our impact on the environment, are essential to understanding our 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:

- Emissions
- Operating model
- Carbon neutrality

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

In developing strategy, environmental impact has been a key feature of Board room discussions. The Board continues to be mindful of of both its direct and indirect impacts on the environment. A strategy to offset its environmental impact is being developed. In doing so, the Board has received specific training on climate change risk and ESG. It has also approved strategic initiatives such as finance for second-hand electric battery vehicles.

Managing our business responsibly
continued

Wider society

Link to strategy

Care Grow

Why we act responsibly towards our society

We remain mindful of our need to act responsibly in society. In part we meet these requirements by complying with the wide range of laws and regulations which are applied to financial services companies in the UK.

Two way engagement

Our established community-focused schemes remain in place and our charity committees continue to empower colleagues from different business areas to drive forward charitable activities.

Although fundraising activity was adversely impacted by the COVID-19 crisis, in 2021 we supported 20 charities and raised over £57,000 for good causes.

The STB Volunteers Scheme, which entitles all colleagues to use one paid day to make a difference in their local area, had also been impacted by the pandemic resulting in a significant reduction in hours used by colleagues.

We are proud of the work done to date in this area and we fully anticipate that our ongoing partnership with Business in the Community and the results from our first Responsible Business Tracker will guide our 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 range of policies which are designed to ensure that we meet these 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
- Human rights and tackling modern slavery

All staff 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. We are mindful of our impact on wider society and supportive of our employees' efforts with local communities and stakeholders.

Regulators

Link to strategy

Sustain

Why we act responsibly with our Regulators

We have a duty to make sure that we 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 give regular consideration to correspondence and publications from the regulatory sphere. Engagement is often conducted through UK Finance, the relevant trade body.

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

Outcomes

We ensure that our people act with integrity and they undertake the necessary training to conduct themselves with due skill, care and diligence. Amongst other things, this approach ensures the suitability of our advice provided for our customers.

Participation in thematic reviews and Consultation Papers allows us to understand where key risks and opportunities may be within the industry and allows 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, such as our digital Buy Now Pay Later product. 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 75.

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, promotes 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:

- Operational and cyber resilience
- Thematic reviews
- Bank of England CQUEST initiatives

How have the Regulators' voices helped the Board make decisions on strategy?

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

Managing our business responsibly continued

Suppliers

Link to strategy

Care **Grow**

Why we act responsibly for our Suppliers

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

Two way engagement

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

Outcomes

The Board and Risk Committee have considered resilience of all of our outsourced IT services and are content with 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
- Commitments to avoid modern slavery by our suppliers

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	26 to 35
Description of principal risks and impact of business activity	Principal risks and uncertainties	26 to 35
Description of the business model	Our business model	8 to 9
Non-financial key performance indicators	Key performance indicators	2 to 3

Climate-related financial disclosures

Climate change

Climate change, and society's response to it, presents financial risks and opportunities to the UK financial services sector. While some of these risks may not crystallise 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 clearly 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 Rule 9.8.6R(8) by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures except for the following matters:

- The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including 2°C or lower scenario.
  - The Group has analysed a number of scenarios associated with climate change (as described within the Strategy section below) to evaluate the resilience of its strategy and considered this proportionate given the relatively low level of risk associated with climate change for the Group. However, in 2022, we plan to expand this analysis and consider our medium and longer-term strategic responses to climate change and to align these scenarios to more formal climate-related forecasts and, therefore, plan to include a disclosure that is consistent with all of the TCFD recommendations in 2022.
- The targets used by the organisation to manage climate-related risks and opportunities and performance against targets.
  - The Group supports the UK Government's commitment to reduce greenhouse gas emissions to net zero by 2050 and plans to set specific targets and associated commitments as part of its medium and longer-term strategic response to climate change. This work will be undertaken in 2022, and will include defining an emissions reduction target for our scope 1 and 2 emissions which will be published in our next Annual Report and Accounts, consistent with the TCFD recommendations. The Group has defined risk appetite metrics to measure and monitor the level of climate change risk across the Group, as outlined within the Metrics and targets section below.

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 has allocated responsibility for identifying and managing the risks from climate change to the Chief Risk Officer ('CRO') (as the relevant Senior Management Function). The CRO chairs the Climate Change Risk Working Group ('CCRWG'), with representatives from across the first line risk owners and the second line 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 CCRWG produces and reviews a detailed progress report and action plan, at each business unit level, covering each section of the associated PRA's regulations. The ERC monitors progress and oversees all aspects of climate change risk, including proposing associated risk appetite statements and metrics for approval at the Board and the Risk Committee of the Board (BRC) respectively.

The Board has delegated responsibility for oversight of climate change risk to the BRC. The BRC has undertaken periodic reviews of the risk assessments in relation to climate change and is kept informed on management's responses to these risks. It reviews and approve all associated risk appetite metrics and thresholds and receive associated reporting against these metrics.

Climate-related financial disclosures continued

Reporting over the course of 2021:

- The CCRWG met on seven occasions to review progress against a defined plan and where necessary initiated new initiatives to meet the PRA regulations and manage the associated risks.
- The ERC was established in June 2021. Since then, matters for escalation have been reported on a monthly basis. Prior to this a summary risk report was issued to the Executive Committee in May 2021.
- The BRC has approved climate change metrics throughout 2021 and has received two detailed reports on our progress and future plans.
- In January 2021 the Board received a climate change awareness and training session, hosted by external experts.
- In October 2021, the Board held a strategic planning review, which included a report on the Group's progress on meeting the requirements of PRA's SS 3/19 and an overview of further action required in 2022. Whilst good progress has been made, and climate change risks and opportunities are factored into the businesses' short-term plans, the Board recognised and approved a formal review of the medium to longer-term implications, risks and opportunities that climate change presents to the Group's strategy and plans. The review is planned for 2022 and will include:
  - defining a Board strategic response to climate change risks and opportunities over the short, medium and long-term.
  - the creation of a robust process to assess, measure and track our current emissions, including those related to supply chain and business lending emissions to enable i) the evaluation of our current emissions output, ii) the identification and prioritisation of new opportunities to reduce our emissions and any impact on business and strategy, and iii) what commitments and associated targets the Board should consider in relation to reducing our emissions over the short, medium and long-term.

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 experts 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, have identified a number of risks and opportunities associated with climate change and these are described below with supporting commentary on the implications for our future strategy. The Group plans to expand on the analysis of the risks and opportunities associated with climate change in 2022, in particular in relation to how this may influence our longer-term strategy.

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 internal operational sites. Similarly, we have consulted with our material suppliers in relation to their contingency plans in the event of the increased risk of flooding and 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. Further work in 2022 in relation to our supply chain will assess whether there are any longer-term implications.

In strategic terms, these risks and their associated Board approved 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.

In 2022, we plan to evaluate the emissions associated with our own operations and supply chain. This will guide our plans on where we can most effectively reduce or eliminate emissions and, therefore, inform any associated commitments we wish to make.

Vehicle Finance – Transitional impacts within the motor industry, as consumers and the industry respond to the move towards non/low-carbon fuelled vehicles.

The Group has undertaken a review, using external expertise, to assess a range of scenarios in relation to the potential implications of an accelerated transition to the use of 'non fossil fuelled vehicles' on the residual values of our security of petrol/diesel fuelled vehicles. The results of the scenario analysis identified the most significant risk to be the increased cost of customers returning their vehicles earlier than planned. Our current planning assumption is based on an orderly transition to non fossil fuelled vehicles. If the risk were to increase, the Group remains resilient to these impacts, and would continue to hold sufficient capital to absorb such a potential impact. Further work in 2022 will assess whether there are any longer-term implications and how the Group will respond to these transitional changes.

As part of our strategic planning process, we have amended our credit policy to allow lending to acquire both electric and hybrid vehicles. Given that we operate in the used car sector, the current level of lending associated with these types of vehicles is relatively small at circa 1% of our total vehicle finance portfolio. However, we are committed to supporting our customers where they wish to transition to electric 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 electric and hybrid vehicles.

To support the strategy outlined above we have set risk appetite metrics that limit and monitor the proportion of older vehicles (with higher emissions) that we are willing to fund and metrics that monitor customer behaviour. For example, customers may voluntarily terminate their contract in order to transition to lower emission vehicles.

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

The Group is reviewing the geographic distribution and the corresponding levels of flood risk to property assets held as security, and, therefore, the potential credit risks associated with the level of security cover. Whilst to date we haven't been able to complete a full review against all our security assets, we are confident that the level of risk is not currently considered to be material, as our existing due diligence processes requires a full valuation from a RICS qualified surveyor and includes an assessment of the flood risk. Based on this information, the Group may choose not to proceed, or will look to mitigate the risk through acceptable insurances. It should also be noted that 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.

This position will continue to be monitored as the Group seeks to enhance its climate change risk data in relation to real estate and assesses the longer-term implications on this part of the Group's business.

The Group has also undertaken a review of the Energy Performance Certificate ('EPC') of assets in the portfolio, to understand any potential impacts from further regulatory tightening in standards across the UK, noting that the legal minimum EPC Grade for any existing tenancies was raised to 'E' as of 1 April 2020. Less than 1% of the residential portfolio is rated below E. The level of risk is not considered to be material since our existing due diligence processes require EPCs to be provided by clients and reviewed prior to any funds being drawn and any ratings below a rating of E that require remediation are monitored by the Group.

In addition, we have initiated a review, using external expertise, to assess the implications of a range of stressed scenarios that, should they occur in the future, may increase the level of risk within this portfolio (this includes the potential for policy changes to minimum EPC requirements). The results of this review will be factored into our strategic plans and appropriate action taken to mitigate any future risks.

In June 2021 the Group 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 offers favourable interest rates and has been popular with our customers since its launch in June 2021 and to date we have committed facilities totalling £136.9 million.

Our Real Estate Finance business will continue to explore opportunities to further develop its range of products and to work with its clients to understand their current and future climate change risks (both regulatory and physical) and assist them as they transition to meet these new requirements.

Climate-related financial disclosures continued

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 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 such that it will not engage with clients whose residual risk rating from this 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 'on demand' revolving credit facilities (typically two months) secured on short-term debtor payables and inventory, and 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 can be taken where required.

Risk management

The management of climate change 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 BRC 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 and registered as a group to enable the Executive and Board to understand and consider the scale and breadth of the climate change risk profile. Whilst the Group's key climate change risks have been identified and referenced above, further work is planned in 2022 to analyse the implications of climate change and build on the granularity of these risk assessments.

CO_2e emissions

CHART REMOVED

Metrics and targets

Risk management

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 BRC, that measure and monitor the level of risk for each key risk identified. We expect these metrics and thresholds to develop over time and encompass more forward-looking, longer-term targets for each of the key areas of risk.

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 or medium 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.

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

This section of the report covers the Group's Scope 1, 2 and 3 GHG emissions, with the exception of emissions relating to our financed and supply chain emissions. The Group is undertaking further work in 2022 to evaluate our financed and supply chain emissions, and once understood, will consider what targets and metrics to introduce.

The following tables set out the Group's energy consumption and CO_2 equivalent (CO_2e) emissions for 2021 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. The information detailed in the tables below was prepared using the reporting period 1 January - 31 December in each reporting year. We have calculated our emissions using the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). GHG emissions are reported as a single total, by converting them to the equivalent amount of CO_2e using emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2021. This is consistent with previous years:

Measure	2021 kWh	2020 kWh	Year on Year Variance %
Building energy – gas consumption	194,723	186,693	4.3
Building energy – electricity consumption	1,475,676	1,402,793	5.2
Total energy consumption	**1,670,399**	**1,589,486**	**5.1**

Measure	2021 CO_2e tonnes	2020 CO_2e tonnes	Year on Year Variance %
Scope 1 – Direct emissions from the combustion of fossil fuel	132.4	118.2	12.0
Scope 2 – Indirect emissions from purchased electricity	313.3	327.1	(4.2)
Scope 3 – Other indirect emissions	45.2	62.6	(27.8)
Total scope 1 to 3 CO_2e emissions	**490.9**	**507.9**	**(3.3)**

Measure	2021	2020	Year on Year Variance (%)
Group income £ million	**164.5**	*166.1*	*(1.0)*
Environmental intensity indicator (Total scope 1 to 3 emissions per £m Group income)	**3.0**	3.1	(3.2)

- 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 vehicle emissions.
- 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, not included in Scope 2 and relate to electricity transmission, distribution and grey fleet. This currently excludes emissions relating to other business travel, suppliers and customers. Work to incorporate these will be addressed in 2022.

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.

CO_2e emissions in 2021 have reduced by 3.3% against emissions in 2020. A reduction in CO_2e emissions has been achieved in the following areas:

- Electricity emissions reduction of 13.8 tonnes CO_2e.
- Employee owned vehicle emissions reduction of 17.0 tonnes CO_2e.

This has been partly offset by an increase in CO_2e emissions in the following areas:

- Gas emissions increase of 1.3 tonnes CO_2e.
- Group owned vehicles increase of 12.9 tonnes CO_2e.

Climate-related financial disclosures
continued

Energy consumption five-year trend

Energy consumption (kWh/miles)

CHART REMOVED

Energy consumption reduced significantly during 2020 as COVID-19 lockdowns and Government restrictions caused some offices to close (building energy -12%) and heavily restricted vehicle travel (vehicle mileage -56%). In 2021 as COVID-19 restrictions have eased, energy consumption for gas, electricity and Group owned vehicles has increased but remains below pre-pandemic levels. However, energy consumption from employee owned vehicles continues to decrease in 2021, as office based employees become increasingly comfortable with replacing face to face meetings with remote meetings using Microsoft Teams.

CO_2e emissions five-year trend

CO_2e emissions (tonnes)

CHART REMOVED

As expected, CO_2e emissions follow a similar trend to energy consumption in most categories.

Environmental Plan and Governance

In 2021 the Group established an Environmental Policy that sets out five key areas of focus for the business:

- Manage buildings efficiently to reduce the consumption of electricity, gas and water and to consider the use of renewable energy.
- Work with employees to encourage the use of hybrid and electric vehicles and to reduce the vehicle mileage of employees travelling to work and employees travelling on business.
- Optimise the recycling of waste and ensure compliance with the Waste Electrical and Electronic Equipment Regulations and the Environmental Protection Act.
- Reduce the use of single use products, re-use items wherever possible and encourage the use of items manufactured from recycled materials or sustainable sources.
- Promote environmental objectives with, and reduce the carbon footprint of, the Group's supplier base.

In addition, the Group has undertaken a 'Responsible Business' survey, which will be used in 2022 to develop our approach to reducing CO_2e emissions and defining associated targets and metrics. This will include defining an appropriate governance and the creation of an environment strategy, including strategic objectives and CO_2e reduction targets.

Work has already commenced in some areas of our business, with the support from employee champions. Some initiatives are already underway, including:

- Switching to renewable energy and improving the energy efficiency of our premises.
- Reducing business mileage and switching to electric Group owned vehicles.
- Recycling equipment and switching to sustainable products.

The Strategic Report was approved by the Board on 23 March 2022 and signed on its behalf by:

David McCreadie

David McCreadie
Chief Executive Officer

Board leadership
Board of Directors

Strong leadership

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

IMAGE REMOVED

Appointed to the Board on 1 March 2014 as an Independent Non-Executive Director and as Chairman of the Company on 19 October 2016. He is also 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 the Senior Independent Director of J&J Denholm Limited and a director of Denholm Logistics Group Limited. He served a full term of 4 years as Chairman of the House of Lords Economic Affairs Committee and stepped down in January 2022. He was elected as Chairman of the Association of Conservative Peers in September 2021.

David McCreadie FCBI
Chief Executive Officer ('CEO')

IMAGE REMOVED

Appointed to the Board on 17 December 2019 and 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 22 years at The Royal Bank of Scotland ('RBS') holding roles in Branch Banking, Consumer Finance and several Group central functions. From 2004 to 2008 David was appointed as the Chief Executive Officer 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 a 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, as well as previous CEO experience, provide David with the skills needed to manage the day to day business of Secure Trust Bank PLC ('STB'). His strong leadership and strategic expertise enable him to lead the Group in a sustainable way that creates long-term shareholder value.

Rachel Lawrence ACMA
Chief Financial Officer ('CFO')

IMAGE REMOVED

Appointed to the Board and as CFO 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 Bank where she was part of the successful Initial Public Offering. Prior to joining STB Rachel was Chief Financial Officer at AIB Group (UK) plc. She brings a wealth of banking experience focused on high growth start up organisations 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 which 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.

Ann Berresford ACA

Senior Independent Director

IMAGE REMOVED

Appointed to the Board on 22 November 2016 as an Independent Non-Executive Director, as Chairman of the Audit Committee on 23 September 2017 and as Senior Independent Director on 24 June 2020. Member of the Risk and Nomination Committees.

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 Remuneration Committee of Albion Venture Capital Trust PLC.

Paul Myers ACIB

Independent
Non-Executive Director

IMAGE REMOVED

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.

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 is an Associate of the Chartered Institute of Bankers. Paul was, until February 2019, the Chief Executive Officer and an Executive Director of GKBK Limited, a new banking venture.

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 Committees he serves well. His broad experience positions him well as Chairman of the Risk Committee.

Victoria Stewart

Independent
Non-Executive Director

IMAGE REMOVED

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

Her background has given Victoria 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 positions her well as Chairman of the Remuneration Committee and as a member of the Nomination Committee.

Other appointments include:

Member of the ICAEW Corporate Governance Committee and Investment Committee. Victoria is a Non-Executive Director of Aberforth Smaller Companies Trust plc, Artemis Alpha Trust plc and JP Morgan Claverhouse investment Trust plc.

Board leadership Board of Directors continued

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

IMAGE REMOVED

Appointed to the Board on 28 November 2018 as an Independent Non-Executive Director and appointed as the Non-Executive Director designated for workforce engagement and Chairman of the Employee Council on 24 June 2020. Member of the Audit, Nomination and Remuneration Committees

Skills and experience
Baroness (Lucy) Neville Rolfe DBE CMG has had a distinguished career in business and in public service. She became a member of the House of Lords in 2013 and was a Minister in the Business and Culture Departments and in HM Treasury from 2014-2017. In the period 2010-14 she was a Non-Executive Director of ITV plc, of Metro AG, of 2 Sisters Food Group, of PwC's Advisory Board and Chairman of EuroCommerce in Brussels. Earlier in her career she was a civil servant in No 10 Downing St and the director of the Deregulation Unit in the Cabinet Office. Lucy was an executive at Tesco plc for 15 years including serving for over six years on the main board.

Long term contributions:
Her experience in customer facing businesses and financial services, communications, corporate strategy and M&A as well as, economic issues, regulations and governance enable her to provide valuable input and challenge at Board and committee meetings. Her work in communications works particularly well in her role with the wider workforce.

Other appointments include:
Lucy is currently a director and Trustee of Thomson Reuters Founders Share Company Limited and the Chairman of the UK-ASEAN Business Council and Chairman of Crown Agents. She is Chairman of the House of Lords Built Environment Committee. Lucy is also carrying out an independent report commissioned by the UK Government to contribute to the evidence-base that will inform the state pension age review.

Finlay Williamson
Independent Non-Executive Director

IMAGE REMOVED

Appointed to the board on 30 June 2021 and member of the Risk and Nomination Committees.

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 Chief Financial Officer prior to the IPO. Finlay was previously a Non-Executive Director at Paragon Banking Group PLC, chairing 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 is appointed as Senior Independent Director of Hampden & Co PLC.

Mark Stevens FCG
Company Secretary

IMAGE REMOVED

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 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.

Corporate Governance report

Board leadership and Company culture

The corporate purpose, values and strategy of Secure Trust Bank have been developed and adopted by the Board. To embed these into the Group's culture, all employees are set measurable objectives which are aligned to these aims. Every year an all-employee staff 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 positive. Further information can be found on pages 42 to 44.

The Board acknowledges the importance of our employees and the wider workforce being able to raise concerns in confidence and, if they wish, anonymously. Further detail on the Group's Whistleblowing arrangements and how the Group Employee Council operates can be found on pages 71 and 69 respectively. 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 is a standing item on the Board agenda. Further information on this can be found on pages 42 to 44 and elsewhere in this report.

The Chairman of the Board and CEO meet with analysts and institutional investors to understand their views and report back to the Board. In 2021 STB held a Capital Markets Day during November which facilitated this. The committee chairmen are available to engage with shareholders on significant matters relating to their areas of responsibility, should they need to. For example, the Chairman of the Remuneration Committee writes to STB's top twenty shareholders for input into the Directors' Remuneration Policy. Further detail can be found in each of the committee reports in this section and the Managing Business Responsibly section starting *on page 38.*

The Board has delegated 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. As reported in the 2020 Annual Report and Accounts, Paul Lynam resigned from the Board as CEO with effect from 5 January 2021 and was succeeded by David McCreadie. Since David's appointment as CEO he has assumed the role of Chairman of the Executive Committee.

The setting of a risk appetite and the oversight of risk management practices is an important role for Board members. Regular confirmation is sought that the necessary resources are in place for STB to meet its objectives and measure performance against them.

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.

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 of its stakeholders and is mindful of this in Board discussions. Please see the Managing Business Responsibly section on pages 38 to 48 for more detail.

The Board has appointed Ann Beresford as the Senior Independent Director ('SID'). Ann 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. Ann was appointed as the Senior Independent Director in June 2020 and fulfilled this role throughout 2021.

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

Throughout the period under review, the Board confirms that the Group has complied with the principles of the Code. The following sections of this report describe the Group's governance arrangements and how the Board has applied the principles of the Code.

Corporate Governance report
continued

Board membership and meetings

Composition as at 31 December 2021

CHART REMOVED

Board attendance

	Board	Eligible to attend
Number of scheduled meetings during 2021	**16**	
Lord Forsyth	16	16
Finlay Williamson	11	11
Ann Berresford	16	16
Victoria Stewart	16	16
Baroness Neville-Rolfe	15	16
Paul Myers	16	16
David McCreadie	16	16
Rachel Lawrence	16	16

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 Board has delegated specific authorities to its committees, via respective terms of reference. Copies 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 at subsequent Board meetings. 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.

Composition, succession and evaluation

Information on Board and Committee succession planning can be found within the reports of the Nomination Committee.

The length of service for each Non- Executive Director as at 31 December 2021 is outlined on this page. David McCreadie was appointed CEO on 5 January 2021 and is no longer a Non-Executive Director although remains a member of the Board as an Executive Director. The Nomination Committee considered the membership and tenure of the Board as a whole and considered proposals for refreshing membership when evaluating the Board composition. Finlay Williamson was appointed to the Board as a Non-Executive Director during the year. Further information about the role of the Nomination Committee and the appointment of Finlay Williamson is available on page 64.

CHART REMOVED

Audit, Risk and Internal Control

Information on our Audit, Risk and Internal Control practices and STB's compliance with the Code can be found in the reports of the Audit Committee and Risk Committee on pages 65 to 75.

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. 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 97. The approach taken by the Board to ensure that the Annual Report and Accounts are fair, balanced and understandable is set out on page 67 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 105. The basis on which the Board reached its decision to adopt the going concern basis of accounting is described on pages 36 and 37.

Internal control

The Board has overall responsibility for the Group's system of internal control, including financial, operational and compliance controls, and for reviewing its effectiveness. This system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute 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 26 to 35.

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

The effectiveness of the internal control system is reviewed regularly, and at least annually, by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Internal Audit function. The Audit Committee receives reports from the external auditors, Deloitte LLP, which include details of internal control matters they have identified as part of their external audit. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board and its Committees.

Key elements of the Group's system of internal control include regular meetings of the executive and business unit risk committees, together with annual budgeting, monthly financial and operational reporting for all businesses within the Group. Conduct and compliance are monitored by management, the Risk team, Internal Audit and Compliance and, to the extent necessary to support its audit report, the external auditor. Oversight is also exercised by the Board and the Audit and Risk Committees.

The Board regularly reviews actual and forecast performance compared with annual plans as well as other key performance indicators as described on pages 2 and 3.

The Group's policies and procedures are reviewed and updated at least annually along with a training programme for their rollout.

Statement by the Chairman of the Nomination Committee

IMAGE REMOVED

Lord Forsyth
Chairman of the Nomination Committee

The Board is performing well and its membership continues to be effective."

2021 has continued to be a period of change for the Company. As disclosed in the 2020 Annual Report, the approved succession plan was implemented, and David McCreadie succeeded Paul Lynam as the CEO in January 2021. David has settled well into the role following his transition from Non-Executive Director to CEO, demonstrating excellent leadership in his first year as an executive.

The transition of David McCreadie from non-executive director to CEO resulted in a vacancy for a new non-executive with risk and banking experience. Following a rigorous search and appointment process, Finlay Williamson was identified as having the requisite skillset and experience to serve on our Board. He was subsequently appointed to the Board as a Non-Executive Director in June 2021 and as a member of both the Risk and Nomination committees shortly thereafter. Following a successful induction, he has integrated well with the Board and bolstered the committees he serves, providing useful insights and challenge.

Board members have been recruited based on merit and skillset. This has been achieved whilst maintaining an equal gender balance on the Board throughout 2021. Succession planning for the Executive Committee reflects STB's ambition to increase diversity throughout the organisation without the need for specific targets. The Committee is cognisant of other forms of diversity when recruiting candidates but will continue first to seek the best candidates for the business.

An assessment of the effectiveness and composition of the Board and its committees was undertaken during the year. The results confirmed the Board is operating effectively whilst also identifying areas for improvement. I conducted individual evaluations with each of the Non-Executive Directors; and Ann Berresford, as SID, undertook an evaluation of me as Chairman, seeking feedback from both the Executive and Non-Executive Directors. Further information on the evaluations can be found on page 64, together with information on the activities of the Committee throughout 2021.

Lord Forsyth
Chairman of the Nomination Committee

Nomination Committee report

Membership and meetings

As at 31 December 2021 the Nomination Committee comprised six members, as set out in the attendance table on this page, and was compliant with the Code provision regarding its composition throughout 2021. David McCreadie ceased to be a member of the Committee in January 2021 and Finlay Williamson was appointed as an additional member of the Committee from June 2021.

The Committee meets at least twice a year or as frequently as its Chairman may require. The Committee held five meetings during 2021 and was supported by sub-committee meetings during the process for each of the Director appointments.

The Company Secretary, or their alternate, acts as Secretary to the Committee. Others attend at the request of the Committee Chairman. During the year the Chief Executive Officer attended meetings 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; 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**

Succession planning

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. More information on developing a diverse talent pipeline can be found on page 43.

Director recruitment

CEO Recruitment

As reported last year, the Committee, having conducted a detailed review of the succession plan during the year, decided that David McCreadie was a suitable successor for the CEO role without the need to conduct any further external recruitment process. The Committee identified that David possessed the key skills needed from a new CEO in line with the evolving Board dynamic, the mix of Board skills and experience, the existing strategy and the external environment. The sub-committee created to oversee the process, (consisting the Chairman, SID and Chairman of the Remuneration Committee), recommended that David McCreadie be appointed as CEO. The Committee and Board subsequently approved this and he was appointed CEO from 5 January 2021.

Nomination Committee membership and meetings

Composition

CHART REMOVED

Meeting attendance

The number of planned meetings held during 2021 and the attending members are shown in the table below:

	Nomination Committee	Eligible to attend
Number of meetings during 2021	**5**	
Lord Forsyth	5	5
Ann Berresford	5	5
Paul Myers	5	5
Baroness Neville-Rolfe	5	5
Victoria Stewart	5	5
Finlay Williamson	2	2

Nomination Committee report
continued

Non-Executive Director

The Committee, having reviewed the succession plan and the mix of the Board's skills and experience, decided that a further Non-Executive Director was required following the transfer of David McCreadie from Non-Executive to CEO. Following a rigorous appointment process, a list of desirable skills for the new Non-Executive Director was identified and was used as a basis for the search conducted by Ridgeway Partners. Finlay Williamson was determined to be the successful candidate and appointed to the Board and as a member of the Risk and Nomination Committees on 30 June 2021. Ridgeway Partners does not have any other significant connection with the Group or its Directors other than the provision of Board recruitment services.

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 each of the protected characteristics. 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 currently has a gender equal Board, which is in excess of the 33% target set by the Hampton-Alexander review. During 2021 the composition of the Board exceeded the FTSE Women Leaders Review Report recommendation of a minimum of 40% women's representation by the end of 2025, 4 years ahead of target. At present, the Board has not reached the target set by the Parker review to have one director from an ethnic minority background appointed to the Board. Diversity, including ethnic diversity, will continue to be a factor taken into consideration during future appointments and as part of Board refreshment.

Board effectiveness and Non-Executive Director evaluation

During 2021 the Board conducted an internally facilitated review of the effectiveness of the Board, its Committees and Directors using a combination of questionnaires and virtual face-to-face meetings. The Committee reviewed the results and a report by the Chairman on the individual Directors' performance evaluations as well as a report from the Senior Independent Director on the Chairman's effectiveness. The Committee 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 2021 Board effectiveness review noted the evolving Board dynamic following the recent new Executive Director appointments as well as the potential to improve the quality, timeliness and detail of information provided to the Board and its Committees. A wholesale review of Board papers was undertaken during the year which resulted in a new structure for reports. It is expected that once the new reporting style is embedded, it will address the comments raised on information received.

Composition and independence

The Committee confirmed to the Board that it is satisfied that all Non-Executive Directors are independent and Lord Forsyth, on his appointment as Chairman, met the independence criteria set out in the Code.

The Committee reviewed the Board's composition during 2021 and concluded 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 to have at least half of the Board members as independent non-executive directors.

Board training and development

The Board receives detailed reports from 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 2021 and received training on strategic, regulatory, ESG and Financial Crime matters. Due to restrictions from COVID-19, there was limited scope for in-person training and most training was delivered online. 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 2022 is being considered.

David McCreadie received a comprehensive induction programme when he joined the Board as a Non-Executive Director in 2019 and this was supplemented with a streamlined induction programme when he transitioned to the role of CEO. On appointment, Finlay Williamson received a comprehensive induction programme.

Statement by the Chairman of the Audit Committee

IMAGE REMOVED

Ann Berresford
Chairman of the Audit Committee

> "The Committee has continued to closely monitor the consequences of the COVID-19 pandemic."

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2021 and this report sets out some of the key matters covered over that period.

Once again, one of the most significant priorities has been to support the Board in monitoring, on a continuing basis over the year, the accounting and financial reporting consequences of COVID-19 as the Group transitions to a post-pandemic environment. Last year, I reported that the Committee's focus had been on understanding the impact of the pandemic on customers and, as a consequence, on modelled credit losses and accounting judgements, provisions and disclosures. Over the course of this year, the Committee has continued to closely monitor the impact on provisions of an unstable and uncertain macroeconomic environment.

The Committee has also continued to closely monitor the internal control environment in light of new working practices. Reports received over the year indicate that the Group's internal control environment has been resilient. Where weaknesses have been identified remedial action has been planned, executed, and delivered to address these needs. Reassuringly, and despite significant change to working practices, employees have ensured that the business areas reviewed have continued to demonstrate alignment to the Group's values.

The Group continues to develop its regulatory reporting capabilities and this has been another area of focus for the Committee over the last year. Another key consideration, following clarification from the International Financial Reporting Standards ('IFRSs') Interpretations Committee, has been the accounting treatment of software-as-a-service arrangements. The impact on the Group's accounts is addressed on pages 115 and 116.

The assurance process behind TCFD disclosures were reviewed by the Committee, along with the increase to the viability statement period from three to five years. Where the Group has sold various parts of the business during the year, the accounting treatment associated with it has also come under scrutiny by Committee members.

The Committee has continued to receive valued support from a number of internal and external stakeholders including the Chief Internal Auditor, Chief Risk Officer, Chief Financial Officer and the external auditors. The Committee receives an update at every meeting on internal audit activity and I met with the Chief Internal Auditor each month to discuss the control environment and to receive an update on progress against the internal audit plan. In line with auditing standards, the Committee commissioned an external quality assessment of the internal audit function during the year and the Committee discussed the outcome of the assessment, which concluded that the function is effective, with the independent assessor in September.

I have also continued to meet with the external audit partner on a regular basis and to discuss STB's approach to a range of topics including those arising from the pandemic. The Committee has assessed the quality and effectiveness of the external audit process and remain satisfied, as Deloitte approaches the conclusion of their fourth year of appointment, that the external audit process is effective. On this basis the Committee recommended to the Board their reappointment as auditor at the 2021 AGM.

Ann Berresford
Chairman of the Audit Committee

Audit Committee report

Audit Committee membership and meetings

Composition

CHART REMOVED

Meeting attendance

The number of planned meetings held during 2021 and the attending members are shown in the table below:

	Audit Committee	Eligible to attend
Number of meetings during 2021	**4**	
Ann Berresford	4	4
Baroness Neville-Rolfe	4	4
Victoria Stewart	4	4

Committee governance

The Audit Committee met four times during the year, down from six in 2020, leveraging the experience gained regarding COVID-19 to date. Details of members and their attendance is summarised in the table on this page.

Meetings of the Committee were attended throughout the year by the Chief Executive Officer, Chief Internal Auditor, the Chief Financial Officer and the Head of Financial Reporting, as well as the external audit partner and other members of the Board at the invitation of the Committee Chairman. The Committee maintains a close and open dialogue with the external auditor and Chief Internal Auditor, routinely holding a private in-camera session with them both following each Committee meeting and as and when required between meetings.

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

The Code provides that for smaller companies, such as the Company, the Board should establish an Audit Committee of at least two independent Non-Executive Directors. The Chairman of the Company may not be a member of the Committee. The Company considers that it has complied with this provision throughout 2021. Ann Berresford is considered by the Board to have recent and relevant financial experience and the Committee, as a whole, has competence relevant to the sector in which the Group operates.

Role of the Audit Committee

The Committee assists the Board in discharging its responsibilities for regulatory reporting, financial reporting, including monitoring and reviewing the integrity of the Group and 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 Group and 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 front of the Annual Report accurately reflects the financial statements in the back. 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.

The Committee's terms of reference is reviewed annually and published on the Group's website.

Matters discussed at Audit Committee meetings during 2021

Meetings of the Committee are scheduled to coincide with key dates in the Group's financial reporting cycle. The Committee maintains a schedule of standing agenda items to facilitate the even distribution of items for consideration. In addition to standing reports (e.g. internal audit, finance and corporate governance items) the Committee dealt with other matters as they arose. These included the ongoing impact of COVID-19 and the unwinding of Government support, the Task Force on Climate-Related Disclosures ('TCFD') requirements, and the impact of the clarification by the International Financial Reporting Standards Interpretations Committee of the accounting treatment of software-as-a-service arrangements. The Audit Committee also reviewed the Internal Audit Charter and the engagement contract with the external auditors.

Financial and regulatory reporting

The Audit Committee has reviewed the following matters in connection with the 2021 annual and interim financial statements and considers that the Group and 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 2021, the interim financial statements for the six months ended 30 June 2021, and the press releases and investor presentations that accompanies those statements. The Committee considered changes to accounting standards that had an impact on the 2021 Annual Report and Accounts and also reviewed the new disclosures related to climate (see pages 49 to 55). Building on the experience gained during 2020 of the impact of the COVID-19 pandemic on Secure Trust Bank, the Committee continued to pay attention to management's accounting judgements supporting the quantum and rationale for impairment provisions and also considered the impact on these and the business as STB transitions to a post-pandemic environment. Recognising the increase to inflation, the Committee approved the introduction of the customer affordability provision for 2021. See note 17 for more information. In March 2020, the Board resolved to suspend dividends whilst the impact of COVID-19 was determined as part of plans to seek to limit the operational and economic impact of the virus. In July 2021, following continued growth and a prudent approach to responding to the pandemic, the Audit Committee considered whether the Company had sufficient distributable reserves to pay a dividend and confirmed to the Board that the Board could pay an interim dividend on that basis. During the year, the IFRS Interpretations Committee published an agenda decision clarifying how arrangements in respect of software-as-a-service cloud technology arragements should be accounted for. The Committee considered this agenda decision, and determined that the Group should change its accounting policy in respect of these arrangements. This resulted in a prior year adjustment reducing opening retained earnings at 1 Janaury 2020 by £2.1 million, reducing profit after tax for the year ended 31 December 2020 by £0.8 million, and as a result reducing retained earnings at 1 January 2021 by £2.9 million. Further detail on this can be found in Note 1.3 on pages 115 and 116. External factors have continued to evolve over the course of the pandemic and the Committee has considered updates and overlays to judgements and assumptions to take account of developments and demonstrated impacts to factors such as the house price index and unemployment. 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 Group and 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 combined risks related to the ongoing COVID-19 pandemic, and the Committee's conclusions are taken into account in the Board's viability statement on pages 36 and 37.
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 2021 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.

Audit Committee report
continued

External audit

Deloitte LLP, as external auditor, and Matthew Perkins, as the external audit partner, have continued in their positions since their appointment in May 2018. It is contemplated that 2022 will be the final year that Matthew Perkins acts as the Company's external audit partner under the FRC Ethical Standards and is expected to rotate off following the completion of the 2022 audit in early 2023. The Committee will provide an update on this matter in 2022. 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.

The Audit Committee reviews written reports prepared by the external auditors setting out their audit approach and conclusions on matters of judgement impacting the financial statements, any internal control findings identified during the external audit and their independence, including the approval of additional services and related fees. The external auditors also highlighted upcoming areas of interest to the Committee to assist with its horizon scanning. The principal matters that the Committee discussed with Deloitte are set out in their report starting on page 98.

During 2021 the Committee assessed the effectiveness of the external audit process for 2020, considering 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. The assessment also considered the views of the finance team. The Committee concluded that the external audit process was satisfactory and that the auditors are performing well. A further review regarding the 2021 external audit process is ongoing and initial feedback has not highlighted any reason for the Audit Committee not to recommend their reappointment.

The Audit Committee agreed an increased fee with the external auditors in 2021. Prior to approval, the step increase in the external audit fee had been robustly challenged by management and the Committee, with confirmation provided by the external auditors that such significant increases would not be a regular feature in future years. After significant discussion, the Committee was satisfied that the level of audit fees payable in respect of the audit services provided, being £689,000 (2020: £483,000) was acceptable and that an effective audit could be conducted for such a fee. The existing authority for the Audit Committee to determine the current remuneration of the external auditors is derived from shareholder approval granted at the AGM held in May 2021 and a similar resolution is proposed at the AGM to be held in May 2022.

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.

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 provision of any non-audit services, save those below the threshold delegated to the CFO, provided by the external auditors requires prior approval from the Audit Committee.

The total of audit and non-audit fees paid to Deloitte during the period is set out in Note 8 on page 126. The non-audit services fee of £110,000 (2020: £58,000) was in respect of, but not limited to, the review of the Interim Reports and other ad hoc advice for services such as assurance in relation to our participation in the TFSME scheme. 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.

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 each month.

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 internal audit plan for 2022 and has overseen internal audit activity throughout the year, including adjustments to the plan to respond to external and internal events and priorities. In approving the plan the Committee was satisfied that the team has the appropriate resources to deliver their plans.

The Committee received and considered all reports issued by Internal Audit. Key themes addressed in 2021 included:

- Health and Safety measures taken in response to the pandemic;
- The effectiveness of financial crime risk management frameworks;
- Data management strategy and data governance;
- Operational Resilience;
- Assurance in relation to the ongoing Motor Transformation Programme.

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 staff behaviours in the context of the Group's framework of values and culture.

Internal Audit Quality and Independence

During the year the Committee commissioned an external quality assessment of the Internal Audit function which was undertaken by an independent firm, Board Alchemy. Noting high-quality reports, strong relationships and the value of the assurance provided, they concluded that the internal audit function is independent and effective and makes a positive impact, with robust work underpinned by effective planning. A small number of areas for further development of the function will be addressed in the normal course of business.

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 61.

During 2021 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 is responsible for oversight of the effectiveness of whistleblowing arrangements and the Chairman of the Audit Committee is the Whistleblowers' Champion. The Committee receives a report in every meeting on any new cases raised since the previous meeting and has ensured that the effectiveness of whistleblowing arrangements was reviewed by the Chief Compliance Officer during the year. There were two new cases during the year. Cases are assessed and, where required, subject to investigation in accordance with the Group's Whistleblowing Policy.

Audit Committee effectiveness

During the year the Committee considered and evaluated its own effectiveness. It did this by means of an in-depth questionnaire which members of the Committee and regular Committee attendees completed and which was then discussed within the Committee. The overall result of the assessment was that the Committee, under the leadership of the Audit Committee Chairman, was performing effectively, that it was effective in supporting the Board and that liaison with other Committees, in particular the Risk Committee, was good.

Looking ahead

The Committee's priorities for 2022 will include a continuing focus on regulatory reporting and financial reporting as the external environment resets to a new post-pandemic normal, along with the finance team's progress in enhancing regulatory reporting, the impact of the Motor Transformation Programme and responding to developments resulting from the UK Government's consultation and proposals for the future of the UK external audit market.

Statement by the Chairman of the Risk Committee

IMAGE REMOVED

> Risk management is core to our business model."

I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2021. This report reflects a period of continued focus on the impacts of the COVID-19 pandemic, both short term and longer term and as the Group emerges into the start of a post pandemic world. This has involved reviewing credit models, including forensically reviewing operational and credit risk to assess whether risk appetite continues to support the Group's medium-term strategy, given the changing risk environment both at a macro and an operational level.

The year was another busy one for the Committee, albeit the number of Risk Committee meetings held reduced from nine in 2020 to six in 2021. This reflected a growing maturity in the way the Group approached and evolved its monitoring of COVID-19, facilitating a more business as usual approach as the impact of the pandemic became clearer and better understood. The Committee has continued to monitor the full range of risks facing the Group, including the specific impacts of COVID-19 on STB's credit performance, operational resilience and business continuity plans. The Group has continued with a largely remote working model, acknowledging the heightened risk challenges this poses to its operating model, especially its IT infrastructure and our ability to continue delivering great service to customers. The Committee has received reports from Management on the various steps taken to mitigate risk and maintain a robust working model, including building on lessons learned internally, across the market and in the wider financial services industry.

The Committee continues to review 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, scrutinise publicised external incidents to make certain that STB is protected against similar threats and to confirm that potential weaknesses are identified and addressed.

Throughout 2021, the Committee continued to focus on financial crime, which remains a key issue for UK regulators. The Committee has continued to receive regular reports on the Group's Financial Crime Transformation Programme ('FCTP'), which continues into 2022. The objectives of the programme are to enhance the Group's financial crime risk management framework and capabilities.

Climate change has been another key area of focus for the Committee. In early 2021, the Board received specific training on the risks arising from climate change and the Committee has received updates from Management on the steps being taken by the Group to establish its climate impact and mitigate climate risk so that meaningful commitments can be given for future action. During the year, the Committee approved a range of metrics and thresholds to support the Group's monitoring of its climate risk exposure.

The Committee also reviewed the assumptions in and updates to the Group's Recovery Plan, ICAAP and ILAAP documents, with particular emphasis on updates to reflect COVID-19 experience and confirming that scenarios used for all calculations aligned both for modelled 'events' and expected outcomes.

The Risk and Compliance teams continue to provide the Committee with effective oversight of the risk landscape within the Group despite the backdrop of ever-changing regulation. Regulatory updates through regular reporting were also considered, these included the outputs of the Compliance Monitoring Programme and emerging regulatory requirements.

A new management governance structure was established during 2021. An Executive Risk Committee (ERC) was established, reporting to the Group Executive Committee The Chief Risk Officer briefs the Risk Committee on matters discussed at the ERC. Additionally, the Group's Assets & Liabilities Committee (ALCO) has been repositioned so that it also reports into the Group Executive Committee. The CFO provides updates to the Risk Committee on any key matters discussed at the ALCO. These changes have added further robustness and maturity to the Group's underlying governance reporting framework.

As we look ahead to 2022 and beyond, there are economic headwinds for the UK arising from rising energy prices and general inflation, with these issues likely to be exacerbated by the current situation in Ukraine. The assessment of customer affordability is the cornerstone of our lending decisions and the Group will be monitoring closely how the economic environment affects this key metric. Our credit appetites, policies and criteria are always kept under close review and will be adjusted if necessary to reflect changing circumstances and to ensure we continue to provide appropriate support to our customers.

Finally, I would like to thank Kevin Hayes, the Group's previous Chief Risk Officer, for his valued contributions to STB over many years and I wish him well in his retirement. Chris Harper, the Group's current Chief Risk Officer, joined in April 2021. Chris is an experienced banking risk professional and has already made a significant impact since joining. The Committee also welcomed Finlay Williamson in September. His significant experience in banking, risk and his previous executive career has further enhanced the collective skill, and experience of the Committee.

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 26 to 35.

Paul Myers
Chairman of the Risk Committee

Risk Committee membership and meetings

Composition

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Meeting attendance

The number of planned meetings held during 2021 and the attending members are shown in the table below:

	Risk Committee	Eligible to attend
Number of meetings during 2021	**6**	
Paul Myers	6	6
Ann Berresford	6	6
Finlay Williamson	3	3

Risk Committee report
continued

Composition

At the start of 2021 and following the appointment of David McCreadie as CEO, the Risk Committee was comprised of two members and was chaired by Paul Myers. Finlay Williamson joined the Committee in September 2021, following his appointment to the Board as a Non-Executive Director. The chart and table on the prior page demonstrate the current composition and membership of the Risk Committee.

The Group has had separate Audit and Risk Committees for a decade and both Committees continued to oversee the development and evolution of the risk management and internal control frameworks in 2021, 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 2021.

The Risk Committee meets formally at least four times a year and otherwise as required. The Committee had six planned meetings held (attendance of the Directors is shown on the previous page).

The Company Secretary or their alternate acts as Secretary to the Risk Committee. Other individuals attend at the request of the Risk Committee Chairman. During the year the CEO, Chief Risk Officer, Chief Financial Officer, 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; considers the Group's risk appetite in relation to the current and future strategy of the Group; oversees the Group's Recovery Plan, ICAAP and ILAAP 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 Chief Risk Officer), the Assets and Liabilities Committee (via the Chief Financial Officer) and the Executive Committee, as well as other reports via the Chief Internal Auditor, the CEO, other members of management, internal and external auditors and consultants.

Other matters within the remit of the Committee are the risk profile of the Group, risk appetite frameworks and limits, the risk management operating model, risk architecture, the technology infrastructure supporting the risk management framework, operational risk, conduct risk, credit risk, financial risk and regulatory and compliance matters. The Committee continued to assess emerging trends impacting the Group's inherent risks with particular focus on the many impacts of COVID-19 and assessing how this is likely to affect credit and operational matters in 2022 and beyond. Climate change is a key focus for the Group and the Committee is focused on the direct and indirect impacts to its risk profile. The Committee has reviewed the Group's approach to new green initiatives, including the financing of pre-owned electric battery vehicles and the performance of new products such as the Real Estate Finance's Greener Homes Scheme as set out on page 51.

Matters discussed at Risk Committee meetings since 1 January 2021

The Risk Committee has a schedule of meetings with standing agenda items so that all relevant matters are dealt with over the course of the year. The standing agenda is regularly reviewed by Committee members and is updated to include any new or emerging issues pertinent to STB in a rapidly evolving landscape.

Items on the 2021 standing agenda included operational resilience, financial crime, the regular review of its stress testing and assumptions supporting the ICAAP, ILAAP and Recovery Plan. In addition to standing agenda items, the Committee also deals with other matters that arise during the year. In 2021 this included emerging risks such as the continued impact of COVID-19 on the Group's operations and climate change risk.

STB's operational resilience has continued to be a key area of focus and the Group's ability to implement and update its business continuity plans at pace and adapt its operating model where necessary has been a recurring discussion point. Regular reviews are undertaken to ensure lessons are learnt from any operational issues encountered and operating model changes are applied as appropriate. Discussions at the Committee have also focused on the changing macro risk environment, the impact on the Group's key risks and appetites, and the ongoing development of the Group's Management Information and early warning indicators.

During the year the Risk Committee reviewed its terms of reference and a range of key documents, policies and plans. In addition to the Recovery Plan, ICAAP and ILAAP, this included the Compliance Monitoring Plan for 2021 and 2022, the Business Continuity Plan and the Operational Risk Management Policy. The Committee also reviewed and approved a range of changes to credit policies and mandates across the various STB lines of business. The establishment of the Executive Risk Committee will enable some of the more detailed changes to credit and other policies to be dealt with at a management level.

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 risks	Strategic risks (those arising from the internal environment and the external environment that could have an effect on management's ability to deliver on the Group strategic plan) were discussed and challenged both on an annual basis as well as in each meeting, where relevant to items raised on the agenda.
COVID-19	Reviewed and approved the assumptions and methodology adopted in specific stress-testing. This enabled the Board, on the recommendation of the Risk Committee, to assess and conclude on the going concern and viability statements in light of the pandemic. This allowed for a thorough analysis of capital adequacy to take place for various scenarios. The Committee received regular reports on operational resilience and considered the risks arising from the pandemic alongside the Group's key risk profile and other areas such as credit risk and collections, where Government and FCA guidance was followed in relation to, for example, resuming vehicle recovery activity. The Committee also maintained oversight on any temporary changes that were necessary in the Group's risk and control frameworks to enable effective ongoing service to be provided to customers throughout the period. The impact of lockdown measures on culture, staff absence and morale were also considered.
Credit risk	Credit risk performance for all businesses was kept under regular scrutiny and 'deep dive' reviews were undertaken on status and plans for individual large exposures or portfolios that warranted specific focus. The Committee approved changes to some Group-wide mandates and policies including single counterparty limits and credit risk policies set for individual business areas. The approaches to provisioning were considered in light of the changing economic background of 2020/2021. Previous policy and credit appetite measures taken in 2020 to de-risk the portfolio were assessed during the year to ensure effective oversight of any 'normalisation' measures as management gained more confidence in the impacts and future direction of the pandemic on the Group's businesses. This included monitoring the performance of pandemic measures such as payment holidays for retail borrowers and the take up of Government-supported lending schemes by some SME borrowers.

Risk Committee report
continued

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 ('KRIs') reporting and business unit management risk and control self-assessment. It receives complaints data and has reviewed the Group Governance Manual. It has also developed the Group's strategic approach to manage the entity, business and financial risks arising from climate change by agreeing appropriate climate-related risk metrics and considering new initiatives from a risk perspective prior to approval by the Board.

The Committee had oversight of the rollout of the business continuity plan and the operaitonal resilience plan during 2021 and further evolution of it following a lessons learned exercise, which included modelling for flooding and other natural events. The Committee also received reports explaining the measures taken to provide safe office working environments for staff as well as any resulting operational impacts. This enabled the Committee to monitor the Group's changing operating model and the changing key risk profile.

The Committee approved the annual Operational Risk and Control Self-Assessments and received reports on the maturation of the Operational Risk Management System reporting.

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 spent significant time monitoring and supporting progress on enhancing financial crime controls and reporting, which management is delivering via the FCTP.

The Committee reviewed ongoing progress on development of the Operational Resilience Plan and frameworks against agreed tolerances, using information sourced from various initiatives. Tolerances have been drafted with reference to the PRA's strategic goals for 2021/22, these include:

- Ensuring robust prudential standards and supervision
- Adaptability to market changes and horizon scanning
- Maintaining financial resilience
- Providing operational resilience
- Continuing plans to enable recovery and resolution
- Facilitating effective competition
- Noting any indirect consequences, and management of these, of the UK's exit from the European Union
- Operating effectively and efficiently

Group activities were assessed by Management with reference to each of the above goals and relevant PRA priorities and PRA activities. The positions were then mapped on an impact vs likelihood chart and provide an overall rating. This mapping exercise has enabled tolerances to be set using the underlying risk appetite. The Committee challenges Management on the ratings supplied in reporting to make certain that the tolerances applied remain appropriate.

Capital and liquidity risk

The Committee has primary responsibility for reviewing and making a recommendation to the Board on the Group's ICAAP and ILAAP and the Resolution and Recovery Plans. The Committee reviewed key assumptions, including stress testing scenarios and outputs, prior to reviewing and recommending for Board approval of the 2021 ICAAP and ILAAP and the 2020 Recovery Plan. The Committee also reviewed and approved the Group's Pillar 3 disclosures.

Regulatory and conduct risk

The Committee received regular reports on the key risk indicators for regulatory, reputational and conduct risk. Any exceptions were discussed and challenged with management. The Committee reviewed the annual regulatory risk assessment and approved the Compliance Monitoring Plan for 2021 and 2022, as well as the Annual Report from the Money Laundering Reporting Officer ('MLRO').

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.

Regulatory, compliance and conduct risk monitoring

The Committee oversees the management of regulatory risk for the Group. The Chief Compliance Officer presents an Annual Compliance Report to the Committee and responds to any challenge from the Committee on the effectiveness of the Compliance function.

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 Compliance Monitoring Programme. The Committee reviews the Regulatory Risk Assessment on an annual basis and approves the annual Compliance Monitoring Programme.

In addition, the Committee receives a detailed review of financial crime focused on anti-money laundering in the MLRO's Annual Report, which is then presented to the Board.

The Committee also received regular reports on progress with the FCTP which is developing a range of enhancements to the Group's capabilities in the financial crime prevention arena.

Conduct risk and culture remain a key focus within the Group and are managed through the Customer Focus Committee which reports to the Board via the Executive Committee. The Committee considered emerging risks associated with a larger proportion of the workforce continuing remote working in these areas.

Strategic and operational risk

The Committee oversees the management of strategic and operational risk across the Group. The Group Head of Operational Risk presents annually an Operational Risk Management Policy to the Committee and responds to any challenge from the Committee on the effectiveness of risk management and risk governance throughout the Group.

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 conducts an annual review of the Group Risk Appetite Statement and the supporting metrics and recommends the Group Risk Appetite Statement to the Board for approval.

In assessing strategic risk, the Committee has regard to the identified strategic risks set out on on page 35, which the Committee reviews annually.

When reviewing the strategic and operational risks the Committee also gives consideration to emerging risks, including the likelihood and impact upon the Group. Where appropriate, these emerging risks are identified through our Operational Risk Management Framework and our Risk and Controls Self Assessment and reported to the Committee. More information on this process can be found on page 32 and in the Internal Control section on page 61.

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.

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. With the establishment of the Executive Risk Committee, these items will be reviewed at a granular detail by this management committee first and reported up to the Risk Committee on an exception to appetite basis. These assessments are underpinned by the associated credit risk policies which, together with the Responsible Lending Policy, set out the credit risk framework which is reviewed by the Committee at least annually.

Risk committee effectiveness

During the year the Committee considered and evaluated its own performance. It did this by means of a questionnaire which members of the Committee completed. The Chairman of the Committee then collated the responses and produced a report to the Committee. The result of the evaluation was that the Committee considered that it was performing effectively.

A full copy of the terms of reference for the Risk Committee can be obtained by request to the Company Secretary or via the Group's website at: **www.securetrustbank.com**

Statement by the Chairman of the Remuneration Committee

IMAGE REMOVED

Victoria Stewart
Chairman of the
Remuneration Committee

> "The Committee has enhanced existing reward structures to align with the promotion of leadership and to create a talent pipeline."

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial period which ended on 31 December 2021. The report is split into two sections:

- The Annual Statement summarising the work of the Committee in the year and showing the wider context of remuneration at Secure Trust Bank; and
- The Annual Report on Remuneration, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Committee intends to implement our Directors' Remuneration Policy ('Policy') in 2022.

I would like to thank our shareholders for their support of our Directors' Remuneration Policy, which was approved at our 2020 AGM by over 98.7% of our shareholders voting. A full version of the Directors' Remuneration Policy can be found within our 2019 Annual Report which is available at **www.securetrustbank.com/investors.**

The Directors' Remuneration Report for 2021 will be subject to the normal annual advisory shareholder vote at the Annual General Meeting on 12 May 2022.

2021 – a year of change

2021 has seen significant change for the Group. The Committee has enhanced existing reward structures to further align them throughout the organisation, promote leadership and to create a talent pipeline. As mentioned earlier in the Governance section, David McCreadie was appointed as the new CEO from 5 January 2021. When setting remuneration for the new CEO, consideration was given to the views of shareholders and industry benchmarks. David's base salary is lower than the previous incumbent by £250,000 and his pension contributions are c.5% of salary (which is aligned to the rest of the workforce). The Chief Financial Officer ('CFO'), Non- Executive Directors and Chairman received increases to base salaries aligned to the rest of the workforce and are disclosed in the Directors' Remuneration Report. Details of David's remuneration arrangements are summarised in the table following this Annual Statement and details of the remuneration arrangements for the former CEO, Paul Lynam, are disclosed as required throughout the Directors' Remuneration Report.

To enhance alignment of senior management variable pay structures with the Executive Directors, the Committee approved the use of annual bonus scorecards, which include shared Group objectives which are cascaded from Executive Director bonus criteria, as well as more localised objectives. We also reviewed our mechanisms for longer term incentives and, where appropriate, we introduced restricted stock awards for certain roles including those in control functions. As a business, we did not furlough any staff during the switch to homeworking over the last two years, and no other assistance under Government support programmes (such as business rates relief or deferment of tax payments) was sought. The Committee therefore approved management's recommendation to increase employee salaries for 2022 by an average of 2.98%[1], with the majority increase targeted towards lower paid staff, noting their importance to the continued operation of the Group. Also, over 650 colleagues received an annual bonus for 2021 including a minimum threshold for the lowest paid. An explanation of the correlation between Executive Director pay and workforce pay was provided to the Employee Works Council with an overview of how the two fit together.

In July 2021, the Committee undertook its annual review of wider workforce pay and benefits, including analysis by gender, and progress made by the Group on closing the Gender Pay Gap. Since January 2022 the Committee has received updates on Group initiatives surrounding diversity and inclusion and has embedded these into reward structures.

I was delighted to welcome Baroness Neville-Rolfe to the Committee in March. Her extensive skillset and particularly her experience in communications mean that she is an excellent addition to the Committee. Lucy serves as our Non-Executive Director with responsibility for workforce engagement and helps to bring the voice of employees to Committee discussions. I would like to thank all the Committee members for their contributions this year.

Executive Remuneration in 2021- pay and performance

2021 was a year in which the Group performed strongly and also set itself on a new path as set out at the Capital Markets Day.

As a Committee, the following aspects of Group performance in the year were noted:

- Statutory profit before tax was £56.0 million (2020: £19.1 million). We have also reviewed the pre-provision release profit amount and are content that the performance objective is still met in full.
- Return on Average Equity in 2021 of 15.9% showed material year-on-year growth from 2020 (5.9%) and was ahead of pre pandemic performance in 2019 (12.0%).
- Capital strength continued to grow with STB's 2021 CET1 ratio 14.5% (2020 14.0%).
- High levels of employee trust (as measured under the employee survey trust index score) were maintained at 80%, even during a challenging year (2020: 82%).
- Continued high customer service Feefo rating of 4.6 out of 5 stars (2020: 4.7)
- There was also strong progress on developing our strategy including:

1. taking steps to focus the business on attractive and specialist markets and the divestment of non-core businesses;
2. significant strengthening of our senior leadership team and talent pipeline planning;
3. maintaining a diverse portfolio in consumer and business finance with several new client wins; and
4. maintaining rigorous credit discipline, prudence and risk management.

[1] 2.98% excludes Debt Managers (Services) Limited ('DMS'). Including DMS the average employee increase is 3.38%. Please see note 46 to the accounts for more information.

Statement by the Chairman of the Remuneration Committee
continued

Against this background Executive Directors scorecard outcomes were 74.6% (out of a possible 100% of base salary) for the CEO and CFO. Having carefully reviewed the financial performance for 2021 both pre and post provision releases and the significant progress on strategic initiatives over the year, the Committee considered it appropriate for 2021's annual bonus scorecard outcomes to be allowed to apply without further moderation.

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

For completeness, although neither our CEO nor CFO participated in 2019 LTIP awards which vested by reference to three-year performance measured to the end of the 2021 financial year, these awards vested at 40.63% of the maximum level. Please see page 86 for more detail.

Use of discretion during 2021

During the year the Committee did not exercise discretion in assessing performance for any incentive plans.

Implementing the Policy for 2022

A summary of the approach to the implementation of the Remuneration Policy from 1 January 2022 is as follows:

- Any change to base salary levels in 2022 for the CEO and CFO will be in line with employee level increases only and as set out on page 90.
- The CEO and CFO will continue to receive a pension allowance of c.5% of salary and no changes will be made to benefits provisions.
- Annual bonus maximum will again be 100% of base salary for the CEO and CFO, with the metrics balanced between financial metrics (including risk) at 65% weighting and strategic initiatives at 35% weighting. LTIP awards will be made in line with the Policy.

Concluding thoughts

As Secure Trust Bank continues to execute its strategy, the Committee is satisfied that the Policy remains 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

Executive Directors: Summary of Recruitment and Termination Arrangements

Executive Director	Recruitment and Termination Arrangement
David McCreadie Appointed CEO 5 January 2021	• Base salary – £650,000 per annum • Pension contribution – 5% base salary • Annual bonus – 100% base salary maximum bonus for 2021 • LTIP – to participate in 2021 LTIP; annual award 100% base salary • Buy-outs on appointment – none
Rachel Lawrence Appointed CFO 7 September 2020	• Base salary – £408,000 per annum • Pension contribution – 5% base salary • Annual bonus –100% base salary maximum bonus for 2021; no annual bonus entitlement for FY2020 • LTIP – to participate in 2021 LTIP; annual award 100% base salary. Received a pro-rata LTIP award for 2020 (25% base salary) • Buy-outs on appointment – none
Paul Lynam Resigned as CEO 5 January 2021	• To receive only contractual base salary, benefits (including payment in lieu of accrued holidays) and pension contributions until 31 March 2021 when employment within the Group ceased. • No annual bonus entitlement for FY2020 and no participation in annual bonus for 2021. • All unvested share awards lapsed on resignation. Mr Lynam retains the right to exercise his vested but unexercised 2017 LTIP awards (3,950 shares) which vested in April 2020 and are subject to a two year holding period until 25 April 2022.

As at 31 December 2021, the Remuneration Committee comprised four members and was compliant with the Code provision regarding the composition of the Remuneration Committee throughout 2021. The Code contemplates that, in relation to the Company, the Board should establish a Remuneration Committee of at least two independent Non-Executive Directors. 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 four scheduled and two ad hoc meetings during the course of 2021.

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.

During the year the Committee reviewed and approved its terms of reference.

A full copy of the terms of reference of the Remuneration Committee can be obtained by request to the Company Secretary or 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 individual remuneration and benefits package of the Executive Directors and the senior management below Board level. The Committee reviews workforce remuneration, related policies and how executive and wider workforce pay are aligned and has regard to the culture of the Group.

Remuneration Committee membership and meetings

Composition

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Meeting attendance

The number of planned meetings held during 2021 and the attending members are shown in the table below:

	Remuneration Committee	Eligible to attend
Number of scheduled meetings during 2021	**6**	
Victoria Stewart	6	6
Lord Forsyth	6	6
Paul Myers	6	6
Baroness Neville-Rolfe[1]	5	5

[1] Lucy joined the Committee on 24 March 2021.

Directors' Remuneration Report
continued

Key matters considered by the Committee from 1 January 2021 to 31 December 2021

Item	Comment
Executive Directors' variable pay	In March 2021, the Committee reviewed the proposed Group bonus provision to be paid in April 2021 in respect of performance for the 2020 financial year. The Committee, having regard to the guidelines issued by institutional investors regarding reward, the continuing pandemic, guidance from the Group's regulators, as well as the review of the Going Concern and Viability statements conducted by the Audit and Risk Committees, 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. Due to changes in Executive Leadership in 2020 and early 2021, neither Executive Director received an annual bonus in respect of 2020 for payment in April 2021. The Committee considered the impact of the Capital Rights Directive V ('CRD V') on the ratio of 2:1 variable and non-variable remuneration alongside the existing Policy, the LTIP and annual bonus structures contained therein. A resolution, for technical compliance with CRD V, was presented and approved by shareholders at the 2021 AGM. The Committee reviewed the performance metrics for the 2018 LTIP grant, which matured in April 2021 with a 15% 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 2021 LTIP grant which were identical to those used for the delayed 2020 award and which the Committee determined remained likely to reflect the market conditions of 2021 and for a significant proportion of the performance period. The Committee considered that the performance metrics were appropriate, given the market conditions at the time of grant, as well as continuing to be stretching and safeguard shareholders' best interests in light of the impact of COVID-19, please see page 87 for more detail. Malus and clawback provisions were reviewed and clauses were updated for inclusion in all LTIP and Deferred Bonus Plan ('DBP') standard documentation.
Chairman and Executive Director 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. The Committee reviewed the terms of the service agreements for the incoming CEO. The Committee also determined the terms of the termination arrangements for the outgoing CEO. Benchmarking was conducted as part of the exercise. Information made available pursuant to section 430(2B) Company's Act 2006 in relation to Paul Lynam is available on the Company website. The CEO pay ratio against the wider workforce was also considered during the year. The ratio for 2021 includes the lower CEO salary and bonus payments for David McCreadie. The ratio for 2020 did not include bonus payments as Paul Lynam was not eligible to receive a payment. When compared to the 2019 ratio, the ratio has narrowed and also reflects an overall increase to the STB Group's minimum employee's salary. The Chairman of the Group Employee Council explained the operation of the fixed and variable remuneration of each of the Directors to the Group Employee Council following the announcements of the annual results in 2021.

Item	Comment
Wider workforce remuneration	The Committee reviewed the dashboard information, process and guidelines for annual remuneration for the entire employee workforce including the compliance and risk functions. The Committee identified and approved individual remuneration for Material Risk Takers ('MRTs') and assessed and approved employee participants, including the quantum of their awards, for the LTIP and DBP grants. A new methodology for assessing MRT bonus performance was approved by the Committee and has been applied to the 2021 performance period. The Committee also reviewed and approved increases to entry level salaries for the wider workforce. 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. 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 to be, has continued to improve with each year. 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 also discussed alternative share-based models widely used within the market. Consideration of the appropriateness of adopting one of these models continued to be a focus for the Committee in 2021 culminating in the use of "restricted stock" in selected cases below Board level, in particular for those in control function roles.
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. The Committee received advice from the Company Secretary, HR Director and FIT Remuneration Consultants when compiling the DRR and the additional disclosures in the notes.
All-Employee Sharesave plan and dilution	The Committee reviewed and approved the 2021 Sharesave invite to all employees who had passed their probation period as at 20 August 2021.
Governance matters	The Committee reviewed its terms of reference and approved these for recommendation to the Board. The Committee received and reviewed the outcomes of the annual internal audit of the implementation of the remuneration policy. The Committee considered and evaluated its performance by way of a questionnaire of the Committee members and executive attendees. The result of the evaluation was that the Committee considered it was performing effectively with actions having been adopted in areas it feels it could further improve. The Committee agreed a standing agenda and calendar of meetings for 2022. Five meetings are scheduled to be held in 2022 to address routine matters. A review of the effectiveness of FIT Remuneration Consultants LLP ('FIT') as remuneration advisers took place in February 2022. It was concluded that they remained appropriate advisers for STB.

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.

Directors' Remuneration Report
continued

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 £94,645 (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 2021.

Directors' Remuneration Policy

The Directors' Remuneration Policy for Executive and Non-Executive Directors for the period 2020 to 2023 was approved by shareholders at the 2020 Annual General Meeting can be found within the Annual Report and Accounts for 2019 which is available 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
- 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. That 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 Directors' Remuneration Policy approved by shareholders at the 2020 Annual General Meeting and Principles P, Q and R of the Code. Within the Directors' Remuneration Policy, the Committee takes account of compliance with remuneration provisions 32–41 of the Code.

Single figure table (audited information)

The following table sets out total remuneration earned for each Director in respect of the year ended 31 December 2021 and the prior year.

	Salary and fees		Benefits		Annual bonus		Pension		Shares[1]		Total remuneration		Total fixed remuneration		Total variable remuneration	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Executive Directors																
David McCreadie[2]	650	79	1	1	485	–[3]	32	–	2	–	1,170	80	683	80	487	–
R Lawrence[4]	406[5]	128	22	7	304	–[3]	20	7	–	3	752	145	448	142	304	3
Non-Executive Directors																
M Forsyth	217	211	3	1	–	–	–	–	–	–	220	212	220	212	–	–
A Berresford[6]	116	104	1	1	–	–	–	–	–	–	117	105	117	105	–	–
P Myers	92	89	–	–	–	–	–	–	–	–	92	89	92	89	–	–
L Neville-Rolfe	80	77	–	–	–	–	–	–	–	–	80	77	80	77	–	–
V Stewart	96	94	1	1	–	–	–	–	–	–	97	95	97	95	–	–
F Williamson[7]	38	–	1	–	–	–	–	–	–	–	39	–	39	–	–	–
Former Director																
P Lynam[8]	12	975	1	32	–	–[3]	1	35	–	3	14	1,045	14	1,042	–	3
Total	**1,707**	1,757	**30**	43	**789**	–	**53**	42	**2**	6	**2,581**	1,848	**1,790**	1,842	**791**	6

[1] This includes the value of the Sharesave option granted to the Executive Directors on 21 September 2020 (calculated using the number of shares in the option (3,388 shares) multiplied by the difference between the option price (532.1p) and the market value of shares on 21 September 2020 (632p)) or on 20 September 2021 (calculated using the number of shares in the option (1,683 shares) multiplied by the difference between the option price (1,069.4p) and the market value of shares on 21 September 2020 (1,192.50p)).

[2] David McCreadie was appointed as CEO on 5 January 2021 and was appointed as a Non-Executive Director throughout 2020.

[3] Neither David McCreadie nor Rachel Lawrence received an annual bonus for 2020. Paul Lynam did not receive a bonus in respect of the 2020 financial year. In respect of the 2021 financial year, David McCreadie received an annual bonus of £484,900 of which £242,450 has been deferred into share awards and Rachel Lawrence received an annual bonus of £304,368 of which £152,184 has been deferred into share awards.

[4] Rachel Lawrence was appointed as an employee on 7 September 2020 and became CFO on 23 September 2020.

[5] Rachel Lawrence received a 2% increase on her 2020 base salary with effect from 1 April 2021. The amount paid included in the table reflects the time pro-rating within 2021.

[6] Ann Berresford was appointed as Senior Independent Director on 24 June 2020 and her fee in 2021 reflects a full year of holding that position.

[7] Finlay Williamson was appointed to the Board on 30 June 2021.

[8] Paul Lynam stepped down from the Board on 5 January 2021, his salary, benefits and pensions have been pro rated for time served. Please see page 89, for more information on payments for loss of office.

The figures in the table 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 which are not subject to performance conditions. These are principally the value of Sharesave Scheme options granted during the year. Sharesave Scheme options are valued based on the difference between the market value of the shares at grant and the exercise price. A grant of Sharesave options was made to the CEO on 20 September 2021.

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 2020 are as follows:

	2021 base salary £'000	2020 base salary £'000
David McCreadie	650	n/a
P Lynam	900	975
R Lawrence	408	400

Paul Lynam's salary in 2020 reduced to £900,000 (£1,200,000) from 1 April 2020, and so the figure above for 2020 is a blend of those two rates in the year. Rachel Lawrence's 2020 salary is the annual rate of salary as paid from appointment to the board as CFO on 23 September 2020 (annual rate of salary, £400,000).

Bonus arrangements

For the financial year ended 31 December 2021, 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 ('Financial') metrics and 35% of the bonus was subject to a mixture of strategic, customer, operational and staff engagement performance ('Non-financial') metrics. On target performance for each objective, both financial and non-financial, is paid out at 50% of bonus opportunity.

Financial and risk performance metrics

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

					Executive Directors	
Objective	Threshold (0% payable)	On-target (50% payable)	Stretch (100% payable)	Achieved	Weight	Bonus payable
Grow						
Group statutory profit before tax	£20.57m	£24.20m	£27.83m	£56.00m	20%	20.0%
Return on average equity	6.03%	6.70%	7.37%	15.9%	10%	10.0%
Sustain						
Adjusted cost income ratio[1]	67.50%	64.30%	61.10%	63.66%	5%	3.0%
Costs	£105m	£102m	£98m	£104.05m	10%	1.6%
Cost of risk	1.55%	1.40%	1.27%	0.19%	10%	10.0%
Common Equity Tier 1 ratio	12.97%	13.65%	14.33%	14.50%	10%	10.0%
Total					**65%**	**54.6%**

For definitions of the objectives listed above please refer to the KPIs on pages 2 and 3.

[1] The adjusted cost income ratio excludes income of £1.3 million recognised on the mortgage portfolio, which was sold during the year.

Non-financial objectives

	Objective	Targets (summary)	Achievement	Weight	Bonus payable
CEO	Undertake a review of Executive management structure including reward structures.	• Manage an effective CEO transition. • Review the Executive Committee structure. • Propose a more structured approach to senior employee reward schemes.	• CEO transition was effective with relationships built with existing management. • Refreshed Executive Committee structure to drive future performance. • Oversaw review of senior employee remuneration to bring greater structure and linkage between objectives and reward outcomes (both annual bonus and LTIP allocations).	15%	10%
	Review Operating Effectiveness of the Group.	• Review the Group operating model, organisation design and governance arrangements and propose changes to simplify the running and effectiveness of the Group.	• Initiated Group-wide cost control project. • Oversaw Group restructure to focus on core business lines to promote growth in shareholder value.	10%	5%
	Develop a plan for developing Stakeholder engagement.	• Maintain effective and constructive relationships with the Group's regulators. • Develop a plan for the rearticulation of the Group's strategy and for ongoing communication to shareholders, non-holders and brokers. • Develop a plan for colleague engagement and communication.	• Enhanced relations with the PRA. • Strategy refresh as shared with investors at the Group's Capital Markets Day in November 2021. • Increase in new shareholders joining register. • Strong colleague engagement scores maintained.	10%	5%
CFO	Undertake a review of the Finance Function to improve efficiency and output. Review reporting to the Board and Executive Committee. Progress on the Group's restructure.	• Review the Finance function structure and implement changes to enhance ownership, accountability and efficiency. • Develop and propose changes to governance reporting. • Progress processes for the disposal/sale/run-off of non-core elements of the Bank, in line with the Board's approved strategy.	• Improved operational efficiency and alignment with divisional operations. • Improved efficiency in internal budgeting processes. • Sale of non-core divisions concluded in July 2021. Support provided for acquisition of AppToPay.	10%	7.5%
	Regulatory Reporting.	• Develop a robust plan to manage the Group's regulatory reporting.	• Enhanced regulatory reporting.	10%	5%
Shared objective with CEO	Review Operating Effectiveness of the Group.	• Review the Group operating model, organisation design and governance arrangements and propose changes to simplify the running and effectiveness of the Group.	• Worked with the CEO on the Group restructure process.	10%	5%
Shared objective with CEO	Develop a plan for developing Stakeholder engagement.	• Maintain effective and constructive relationships with the Group's regulators. • Develop a plan for the rearticulation of the Group's strategy and for ongoing communication to shareholders, non-holders and brokers.	• Enhanced relations with the PRA. • Strategy refresh as shared with investors at the Group's Capital Markets Day in November 2021. • Increase in new shareholders joining register.	5%	2.5%

Directors' Remuneration Report
continued

2019 LTIP awards maturing by reference to 2021 performance

LTIP awards were granted on 25 April 2019 which were capable of vesting by reference to performance conditions measured to 31 December 2021. These performance conditions can be summarised as follows:

Measurement basis and % weighting	Relative TSR vs peer group (40 %)	Absolute EPS growth (40%)	Risk Management (20%)
Target range	Median to upper quartile Peer group is: Arbuthnot Banking Group, Close Brothers Group, OSB Group, Metro Bank, Paragon Banking Group, PCF Group plc, Provident Financial and S&U.	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 • management of regulatory capital limits

The outcomes for total shareholder return ('TSR') was 13.83% of that part vesting, and for Risk management the determined outcome was 10.00%. For EPS the vesting was 16.80%. Thus resulting in 40.63% vesting of the 2019 LTIP award.

As noted above, no current Executive Director participates in this award.

Awards exercised during the financial year (audited information)

Neither Executive Director exercised an award during 2021.

Awards granted during the financial year (audited information)

2017 Long Term Incentive Plan ('LTIP')

Nominal-cost share options were granted to Executive Directors on 26 April 2021 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
David McCreadie	26 April 2021	100% of salary	55,319	650	1 January 2021 to 31 December 2023
Rachel Lawrence	26 April 2021	100% of salary	34,723	400	1 January 2021 to 31 December 2023

[1] Based on a share price of £11.75 being the average mid-market price determined between 21 and 23 April 2021.

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. IT) (25%)	Absolute TSR (25%)	Risk Management (25%)
Target range	Median to upper quartile Peer group is: Arbuthnot Banking Group, Close Brothers Group, OSB Group, Metro Bank, Paragon Banking Group, PCF Group plc, Provident Financial and S&U.	Median to upper quartile Measured against constituents of FTSE SmallCap (Ex. IT)	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 • management of regulatory capital limits
Underpin	Vesting for TSR elements also subject to an underpin as follows: (a) the Board's assessment of the Group's general financial performance and shareholder experience over the performance period; (b) the Board's assessment of the Group's risk management performance over the performance period; and (c) the Board's assessment of progress against strategy, 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 max. attainment.

For all TSR elements, TSR will be measured using a market normal three-month average TSR to at the beginning and end of the performance period (which is the three financial year period from 1 January 2021).

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

Directors' Remuneration Report
continued

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 all awards under the LTIP 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 2021 are as set out below. Any change to a Director's shareholding is set out in the notes below the table.

Directors' shareholding and share interests

Director	Type	Total as at 1 January 2021	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 2021	Owned outright	Vested but unexercised	Unvested, not subject to performance conditions	Unvested, subject to performance conditions
D McCreadie[1]	Shares	5,000	–	–	–	–	5,000	5,000[2]	–	–	–
	2017 LTIP[3]	–	–	55,319	–	–	55,319	–	–	–	55,319
	2017 SAYE[4]	–	–	1,683	–	–	1,683	–	–	1,683	–
R Lawrence[1]	Shares	–	–	–	–	–	–	–[2]	–	–	–
	2017 LTIP[3]	10,204	–	34,723	–	–	44,927	–	–	–	44,927
	2017 SAYE	3,388	–			–	3,388	–	–	3,388	–
M Forsyth	Shares	5,300	1,200[5]	–	–	–	6,500	6,500	–	–	–
A Berresford	Shares	–	–	–	–	–	–	–	–	–	–
P Myers	Shares	5,500	–	–	–	–	5,500	5,500	–	–	–
L Neville-Rolfe	Shares	1,271	–	–	–	–	1,271	1,271	–	–	–
V Stewart	Shares	–	–	–	–	–	–	–	–	–	–
F Williamson	Shares	–	–	–	–	–	–	–	–	–	–
Former Directors											
P Lynam[1]	Shares	70,382	–	–	–	–	70,382	70,382	–	–	–
	2017 LTIP[6]	155,111	–	–	–	(155,111)	–	–	–	–	–
	2017 DBP[6]	43,830	–	–	–	(43,830)	–	–	–	–	–
	2017 SAYE[6]	3,388	–	–	–	(3,388)	–	–	–	–	–
	Phantom share options[7]	187,500	–	–	–	(187,500)	–	–	–	–	–
		490,874	**1,200**	**91,725**	**–**	**(389,829)**	**193,970**	**88.653**	**–**	**5,071**	**100,246**

[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] Being recently appointed, neither David McCreadie nor Rachel Lawrence have achieved the required 100% of base salary shareholding requirement Shares held by David McCreadie (5,000 shares) are worth £66,500 when using the 2021 year end share price of 1330p (10.2% of base salary) Rachel Lawrence holds no shares.

[3] Awards were granted under LTIP rules on 26 April 2021 as set out on page 87.

[4] David McCreadie participated in the 2021 SAYE scheme to the maximum monthly saving amount

[5] Lord Forsyth purchased 1,200 shares on 11 August 2021.

[6] Paul Lynam's award lapsed upon his resignation on 5 January 2021 or his cessation of employment on 31 March 2021.

[7] Each Phantom Share Option was granted on 23 March 2015 and was subject to the satisfaction of a performance condition. That performance condition had been met by the end of the performance period; the option price was below the market price, however, and a £nil value has been attributed to the awards.

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

On 5 January 2021 Paul Lynam (former CEO) resigned from the Board and remained as an employee until 31 March 2021, during which period he received base salary of £225,000, pension contributions of £8,750 and benefits totalling £5,000 for the period worked in accordance with his service agreement.

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 total shareholder return ('TSR') performance for the Company's shares in comparison to the FTSE SmallCap Index (excluding Investment Trusts) for the 10 year period from 1 January 2012 to 31 December 2021. For the purposes 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 2021, 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 capitalisation of the Company.

CHART REMOVED

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 nine financial years.

	Total remuneration £'000	Bonus as a % of maximum opportunity[1]	LTIP as a % of maximum opportunity[2]
2021[3]	1,170	74.6	N/A
2020	1,045	nil[4]	nil[4]
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 and 2021.

3 2021 reflects David McCreadie as CEO.

4 Paul Lynam received no annual bonus for 2020 and all of his unvested share awards lapsed when he resigned as CEO on 5 January 2021.

Directors' Remuneration Report
continued

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 the 2020 and 2021 financial years as well as between the 2019 and 2020 financial years.

	2021 Salary or base fee	2021 Benefits	2021 Bonus	2020 Salary or base fee	2020 Benefits	2020 Bonus
Employees[1]	2.9%[2]	0%	6.9%	2.9%	1.7%	6.8%
Executive Directors:[6]						
D McCreadie[3]	N/A	N/A	N/A	2.9%	0.0%	N/A
R Lawrence[4]	2.0%	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors:[5,6]						
M Forsyth	3.0%	0.0%	N/A	2.9%	0%	N/A
A Berresford	3.0%	0.0%	N/A	2.9%	0%	N/A
P Myers	3.0%	0.0%	N/A	2.9%	N/A	N/A
L Neville-Rolfe	3.0%	0.0%	N/A	2.9%	N/A	N/A
V Stewart	3.0%	0.0%	N/A	2.9%	0%	N/A
F Williamson	N/A	N/A	N/A	N/A	N/A	N/A
Former Director						
Paul Lynam	N/A	N/A	N/A	-18.8%[7]	10.3%	-100.0[8]

1 The strict legal requirement is to only provide details of employees of Secure Trust Bank PLC, so we have decided voluntarily to disclose in respect of all Group employees.

2 The calculation is prepared on an FTE basis.

3 David McCreadie's was appointed as CEO with effect from 5 January 2021 therefore no increase salary, benefits or bonus has been captured for 2021. In 2020 David McCreadie was a Non-Executive Director.

4 Rachel Lawrence received an increase to salary in line with employees for 2021, adjusted to reflect her joining STB part way through the year.

5 Each of the Non-Executive Directors received a 3% increase to their base fee with effect from 1 January 2021 which was based on the average employee salary increase for 2020.

6 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.

7 Paul Lynam's Base Salary was reduced from £1.2 million to £900,000 with effect from 1 April 2020

8 Paul Lynam received no annual bonus for 2020 following his resignation as CEO on 5 January 2021.

2021 CEO pay ratio

Our finalised CEO pay ratio for 2021 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
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 2021:

	Chief Executive	25th Percentile	Median	75th Percentile
Salary	£650,000	£20,500	£28,505	£51,000
Total pay and benefits	£1,170,000	£21,585	£30,022	£55,434

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 2021, 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 on a full-year equivalent basis using 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 2021 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Group's UK employees taken as a whole.

Spend on pay

The following table sets out the change from the financial year ended 31 December 2020 in dividends and the overall expenditure on pay (as a whole across the organisation) as set out in Note 9.

	2021 £million	2020 £million	Change %
Dividends, excluding special dividends, and share buybacks	11.4	8.2	39.0
Dividends, including special dividends, and share buybacks	11.4	8.2	39.0
Overall expenditure on pay[1]	55.2	51.8	6.6

1 The increase in overall expenditure on pay is driven by improved employee salaries and by the recruitment of senior management within the Group during the course of 2021. Additionally, where the CFO joined STB in September 2020, the expenditure related to her pay was pro-rated for that year. 2021 reflects payment of her full salary. Further information can be found in Note 8.

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

1 Entered into new letters of appointment prior to the Company's transition from AIM to the Main Market.

2 Each of the Non-Executive Directors' letter of appointment was amended in 2022 by a side letter confirming their respective Committee membership and their total fee. No other changes were made to their existing letter of appointment.

3 All Non-Executive Directors are subject to annual re-election.

4 Those Non-Executive Directors who are members of the Remuneration Committee are set out on page 79.

Implementation of Directors' Remuneration Policy for the financial year ending 31 December 2022

Details on how Secure Trust Bank PLC intends to implement the Directors' Remuneration Policy for the financial year ending 31 December 2022 are set out below.

Salary

As at the date of this report David McCreadie receives an annual base salary of £650,000. Rachel Lawrence receives an annual base salary of £408,000.

The annual salary review date is 1 April 2022, and if any increases are made to the above base salary levels these will be only 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.

Directors' Remuneration Report
continued

Implementation of Directors' Remuneration Policy for the financial year ending 31st December 2022 continued

Fees

The following table sets out the Non-Executive Director fee structure effective from 1 January 2022.

Role	*2022 fee* £'000
Chairman[1]	223
Non-Executive Director (basic fee)[2]	73
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

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 staff 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. For 2022 the increase was 2.9%. Other than the increase to the base fee and the Chairman's fee, there were no other increases to Directors' fees

Annual bonus

The proposed maximum annual bonus opportunity for the year ending 31 December 2022 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, operational, stakeholder and diveristy and inclusion metrics. The financial metrics will include Profit Before Tax (25%), Return On Average Equity (10%), Costs (10%), Net Interest Margin (5%), Risk (5%) and Capital Ratios (10%). The non-financial metrics will include strategic programmes (20%), stakeholder management (10%) and diversity and inclusion (5%).

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 2022 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 Deferred Bonus Plan. 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. The present intention is that 2022 LTIP awards will be subject to the same mix of metrics as applied for the LTIP awards made in October 2020 and April 2021, and as further described on page 87 with 75% of awards subject to TSR metrics, and 25% will be subject to risk management objectives. However, the Committee is continuing to review the mix of metrics and accordingly if any revisions to the metrics for the 2022 LTIP awards are applied, this will be disclosed in the announcement made to the Market when the awards are granted.

Statement of voting at AGM

The Remuneration Policy was approved by shareholders at the AGM in 2020. The most recent Directors' Remuneration Report was approved at the AGM in 2021; 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 (2021 AGM)	13,385,453	99.98	2,887	0.02	503,922

Approval

This Report was approved by the Board on 23 March 2022 and signed on its behalf by:

Victoria Stewart

Victoria Stewart
Chairman of the Remuneration Committee

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 2021.

Relevant information required to be included in the Directors' report includes disclosures required by the UKLA's Disclosure Guidance and Transparency Rules and Listing Rules (LR 9.8.4) can be found in this report as well as the following sections:

Item	Page/Note reference	Further detail
Strategic Report	Pages 2 to 55	Includes particulars of important events affecting the Company to have occurred since the end of the financial year.
Business review and information about future developments	Pages 5 to 23	Describes the principal activity as a bank (including deposit taking and secured and unsecured lending).
Key performance indicators	Page 2 to 3	
Principal risks	Page 26 to 35	
Corporate Governance Report	Page 56 to 97	Contains information about the Group's corporate governance arrangements.
Statement of compliance with UK Corporate Governance Code in respect of the year	Page 59	
Results	Page 12 to 17	The Group made a profit before tax for the period of £56.0 million (2020: £19.1 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 55 comprise the management report.
Share capital	Note 34, Page 155	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 155	In accordance with LR 9.8.4R
Share plans	Note 35, Page 155	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	Page 79 to 92	In accordance with LR 9.8.4R
Directors in office during the year	Page 56 to 58	During the year there has been a change to the Executive Directors. David McCreadie succeeded Paul Lynam as Chief Executive Officer with effect from 5 January 2021 (please see page 89 for information on directors' loss of office payments). Finlay Williamson joined the Board as a Non-Executive Director on 30 June 2021. All Directors will be retiring and standing for either election or re-election at the Annual General Meeting to be held on 12 May 2022.
Directors' interests in share capital	Page 79 to 92	Including connected persons.
Related party transactions	Note 43, Page 169	
COVID-19 impact	Throughout	The Group moved from mitigating the impact of Covid-19 in 2020 to managing the impact during 2021 and details on how Covid-19 continues to be managed as part of 'business as usual' can be found throughout the Annual Report.
Viability and going concern	Page 36	
Future developments	Page 7	
Financial risk management objectives and policies	Page 26	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/investors/corporate-information/risk-management
Climate-related financial disclosures	Page 49	Required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 and LR 9.8.6R.
Engagement with stakeholders	Page 38 to 48	Relevant information related to s.172 of the Companies Act 2006 and Companies (Miscellaneous Reporting) Regulations 2018.
TCFD Disclosures	Page 49 to 55	Explains how we have complied and details any non-compliance under Taskforce on Climate-Related Financial Disclosures ('TCFD').

Directors' report
continued

Dividends

The Directors recommended the payment of a final dividend of 41.1 pence per share which represents total dividends for the year of 61.1 pence per share (2020: 44.0 pence per share). The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 19 May 2022 to shareholders, with an associated record date of 22 April 2022.

Dividend Policy

The Directors have 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 2021 the Company had 18,647,805 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

An additional 14,143 ordinary shares of 40 pence each were issued during 2021 (2020:156,162). Since 1 January 2022 and until the date of the report, a further 1,745 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 2022 Annual General Meeting. Details of the resolutions for such authority are included in the Notice of the 2022 Annual General Meeting and in the related explanatory notes.

The Notice of the 2022 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 2021 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 2021 Annual General Meeting on 12 May 2021. That authority expires on 12 August 2022 or, if earlier, the conclusion of the 2022 Annual General Meeting.

At the 2022 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 2021 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 2022 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 Guidance and Transparency Rules DTR5, the Company as at 18 March 2022 (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	**3,169,109**	**16.99**
Fidelity International	**1,855,934**	**9.95**
Wellington Management Company	**1,812,604**	**9.72**
Invesco	**1,580,488**	**8.48**
Mr Steven A Cohen	**1,510,412**	**8.10**
Unicorn Asset Mgt	**1,394,815**	**7.48**
Premier Miton Investors	**963,307**	**5.17**
Ennismore Fund Management Limited	**629,070**	**3.37**

Powers of Directors

The Directors' powers are conferred on them by UK legislation and by the Company's 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 Companies Act 2006 and the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

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 2022 Annual General Meeting.

Directors' indemnities

The Company's Articles of Association provide that, subject to 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 2021.

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.

Directors' report
continued

Group policies seek to create a safe 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. The Board approves policies related to health and safety.

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 38.

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 (2020: £nil).

Post balance sheet events

Please see Note 46 for more information.

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 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 Financial Reporting Council'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. 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.

Modern Slavery

The Board approves the Group's Modern Slavery Statement annually.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders.

Auditor

Deloitte LLP was reappointed as auditor at the Annual General Meeting held in 2021. As detailed on page 70 in the Audit Committee report, the Board is recommending the reappointment of Deloitte LLP as auditor at the 2022 Annual General Meeting.

Annual General Meeting

The 2022 Annual General Meeting will be held at 3 pm on 12 May 2022 at Citypoint, 1 Ropemaker Street, London EC2Y 9SS. For more information please see the Chairman's letter and Notice of Meeting for further information.

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 UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 23 March 2022 and is signed on its behalf by:

By order of the Board

David McCreadie

Chairman	**Chief Executive Officer**
Lord Forsyth	David McCreadie
23 March 2022	23 March 2022

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 at 31 December 2021 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 46.

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 parent 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 8 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 matters that we identified in the current year were: • Impairment of receivables; and • Valuation of purchased debt. Within this report, key audit matters are identified as follows: ! Newly identified ↑ Increased level of risk ↔ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the Group financial statements and Company financial statements was £2.3 million (2020: £1.9 million) and £2.2 million (2020: £1.4 million) respectively. This was determined using 0.75% of net assets.
Scoping	We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity. Audit testing to respond to the risks of material misstatement was performed directly by the Group audit engagement team.
Significant changes in our approach	We have previously identified a key audit matter in relation to effective interest rate income recognition; which focussed on the appropriateness of the expected life assumptions of both the Vehicle and Retail Finance portfolios. We have determined that the derivation of the expected life assumptions is no longer a key audit matter due to the continued stability of the behavioural lives.

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 Management's going concern assessment, to understand the key judgements made by Management;
- Obtained an understanding of relevant controls around Management's going concern assessment including Board approval;
- With the involvement of prudential regulation specialists, we read the most recent ICAAP and ILAAP, assessed Management's capital and liquidity projections, assessed the results of Management's 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 management's income statement, balance sheet and capital and liquidity forecasts and challenged 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 prepared by management; 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 receivables ⟷

Key audit matter description	The Group held allowances for impairment of loans and advances to customers of £67.5 million (2020: £82.7million) against loans and advances to customers of £2,598.1million (2020: £2,441.6million). For financial assets measured at amortised cost, IFRS 9 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 a number of 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 Management's experience. • The uncertain economic environment continues to increase the complexity in estimating ECLs, particularly with regards to determining appropriate forward-looking macroeconomic scenarios; the key economic variables of which were unemployment and the House Price Index ('HPI') and the requirement for post model expert credit judgements. The ECL provision requires Management 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 ECL provision. We identified three specific areas in relation to the ECL that require significant Management judgement or relate to assumptions to which the overall ECL provision is particularly sensitive: • The determination of post model expert credit judgements ('ECJs') applied to the Consumer portfolio; • The appropriateness of macroeconomic scenarios applied to the Consumer and Real Estate Finance ('REF') portfolios; and • The determination of Loss Given Default ('LGD') on the Vehicle Finance portfolio, in particular the cure rate and vehicle recovery rates used. In the prior year, our key audit matter in respect of impairment of receivables included the probability of default ('PD') related to borrowers who had taken advantage of payment holidays. As the payment holiday scheme has now ended, this is no longer a feature in our loan impairment provisions key audit matter. In the current year, Management has introduced a post model expert credit judgement in relation to consumer finance customer affordability as set out on page 138 which we have included within our key audit matter. Impairment of receivables including Management's associated accounting policies is included in Note 17 of the financial statements. The corresponding area in the Audit Committee report is on page 67.

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 Management assumptions and judgements used in the calculation of ECL. To challenge the consumer portfolio ECJs we: • Assessed the rationale for the ECJs applied by Management; • With the involvement of credit risk specialists, we assessed the methodology applied and accuracy of Management's ECJ calculations including the completeness and accuracy of data used to calculate ECJs; and • Challenged the completeness of ECJs through consideration of any observations identified by our credit risk specialists review of the ECL model in the current and previous years and consideration of the wider economic environment. For the macroeconomic scenarios we: • Assessed the appropriateness of Management's scenarios and probability weightings, with the involvement of economic specialists, we challenged the Group's economic outlook by reference to other available economic outlook data; • Compared the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders. The key economic variables were unemployment and HPI; and • With the involvement of credit risk and modelling specialists, assessed and challenged the changes made to the model methodology and code in the macroeconomics model which applies the scenarios to the relevant ECL components having performed a full review of the computer code of the macroeconomic model in previous audits. For the Vehicle Finance LGD we: • Assessed both the historical and forecast data used to support the cure rate and vehicle recovery rate. We gave specific consideration to the impact of COVID-19 on the ability of customers to cure and the Group to collect vehicles during and after the periods of lockdown and the subsequent impact on the modelled rate. As part of our wider assessment of impairment of receivables we: • Assessed the quantitative and qualitative thresholds 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 to assess whether loans were assigned to the correct stage; • For the REF portfolio, with the involvement of credit risk specialists, we performed a full review of the computer code in the LGD model; • For the Consumer portfolios, with the involvement of credit risk specialists, we identified and challenged all changes made to computer code in the LGD models, having performed a full review of the computer code in previous audits; • For the REF portfolio we involved internal real estate valuation specialists to assess the collateral valuations utilised by Management within the calculation of the LGD; • As a stand back test to consider potential contradictory evidence, assessed changes in the overall coverage ratios and completeness of key judgements adopted by Management through comparison to industry peers; and • Reconciled the allowances for impairment models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation were complete and accurate.
Key observations	Based on the evidence obtained, we found that the assumptions underpinning the allowances for impairment models were determined and applied appropriately and the recognised provision was reasonable.

Independent Auditor's report
continued

5.2. Valuation of purchased debt ⟷

Key audit matter description	The Group held a gross value of purchased debt valued at £76.1 million (2020: £77.1 million) at the year-end. Under IFRS 9, these loans are classified as Purchased and Originated Credit Impaired ('POCI') loans. This means that a credit adjusted Effective Interest Rate ('EIR') is determined using estimated future cash flows, including expected credit losses. The carrying value of the portfolios is highly sensitive to changes in forecast collections, demonstrated by the £6.7m impairment charge recognised in 2020. Whilst some of the uncertainty relating to the impact of COVID-19 has abated, there continues to be economic uncertainty which presents a heightened risk that the cash collection curves are not appropriate in the context of customer's ability to pay. To support the year end valuation, Management performs a reforecasting exercise. This involves updating forecast cash collection curves and considers a number of factors including recent cash collections levels, expected future performance as well as the economic environment. Given the degree of judgement and estimation involved in determining the expected future collections, we also identified that there is a potential for fraud through possible manipulation of this balance. POCI receivables are included in Note 17 of the financial statements, including Management's associated accounting policies. The corresponding area in the Audit Committee report is on page 67.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the valuation of purchased debt, including those which relate to the reforecasting exercise undertaken on the debt portfolios. We assessed the forecast cash flows, having specific regard to the reforecast which was undertaken by Management to support the year end valuation. This included assessing post year end cash collection performance against the revised forecast. We also considered Management's historical forecasting accuracy, as well as the methodology applied in order to determine the revised valuation. We assessed whether the models used to calculate the value of the debt portfolios are operating in line with our understanding and tested the completeness and accuracy of key inputs, specifically the cash collection data. We also tested a sample of credit adjusted EIRs to assess whether these have been calculated correctly. Finally, as part of our stand back assessment, we compared the year end valuation to the consideration expected to be received in relation to the agreed sale of the Debt Managers (Services) Limited debt portfolio, which was announced on 11 March 2022 as described in Note 46.
Key observations	*Based on the evidence obtained, we found the valuation of the purchased debt portfolios to be appropriate.*

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	£2.3 million (2020: £1.9 million)	£2.2 million (2020: £1.4 million)
Basis for determining materiality	0.75% of net assets (2020: 0.75% of net assets capped at our 2019 materiality level)	0.75% of net assets (2020: 0.75% of net assets capped at our 2019 materiality level)
Rationale for the benchmark applied	We have chosen net assets as it is a stable benchmark and considered a key metric for users of the financial statements given the capital requirements which arise from being a regulated Bank. As the majority of the Group's operations are carried out by the Company, the same materiality basis was used for both. Materiality in 2020 was capped at 2019 levels in light of COVID-19. We have removed this cap for 2021 given the reduced impact of COVID-19 for 2021.	

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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% (2020: 70%) of Group materiality	70% (2020: 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 (2020: £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.

Independent Auditor's report
continued

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, our Group audit scope focused on all entities within the Group and covered all of the material balances in the Statement of comprehensive income and Statement of financial position of the Group.

We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.5 million to £2.2 million (2020: £0.2 million to £1.4 million). At the Company level 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. We involved IT specialists to perform testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We planned to take a controls reliance approach in relation to both the lending and deposits business cycles with the exception of the debt management lending cycle which is consistent with the approach undertaken in 2020. We tested relevant automated and manual controls for these business cycles and were able to adopt a controls reliance approach, as planned. We did not plan or obtain controls reliance over impairment of receivables.

7.3. *Our consideration of climate-related risks*

We have obtained an understanding of Management's process for considering the impact of climate-related risks and controls and assessed whether the risks identified by Management are complete and consistent with our understanding of the entity as part of our own risk assessment procedures. These risks are contained within pages 49 to 55 of the Annual Report. Further in conjunction with our climate risk specialists we have evaluated the appropriateness of Management's disclosures in relation to climate change in Note 17.

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.

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/auditorsresponsibilities. 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 Management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - o 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, valuations, 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 the following areas: impairment of receivables and the valuation of purchased debt. 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 and by the Prudential Regulation Authority 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 receivables and the valuation of purchased debt as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Independent Auditor's report
continued

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 Management, 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, Financial Conduct Authority and Prudential Regulation Authority; 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 45 to the financial statements for the financial year ended 31 December 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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 36 and 37;
- 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 36 and 37;
- the Directors' statement on fair, balanced and understandable set out on page 67;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 26 to 35;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 61; and
- the section describing the work of the Audit Committee set out on pages 65 to 69.

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 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 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 four years, covering the years ending 31 December 2018 to 31 December 2021.

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 Financial Conduct Authority ('FCA') Disclosure Guidance and Transparency Rule ('DTR') 4.1.14R, these financial statements form part of the European Single Electronic Format ('ESEF') prepared Annual Financial Report 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 financial report 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

23 March 2022

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	2021 £million	Restated 2020 £million
Income statement			
Interest income and similar income	4.1	180.0	192.5
Interest expense and similar charges	4.1	(29.2)	(41.6)
Net interest income	4.1	**150.8**	**150.9**
Fee and commission income	4.2	14.3	16.0
Fee and commission expense	4.2	(0.6)	(0.8)
Net fee and commission income	4.2	**13.7**	**15.2**
Operating income		**164.5**	**166.1**
Net impairment charge on loans and advances to customers	17	(4.5)	(51.3)
Gains/(losses) on modification of financial assets	5	1.5	(3.1)
Loss on disposal of loan books	6	(1.4)	–
Losses from derivatives and hedge accounting	7	(0.1)	–
Operating expenses	8	(104.0)	(92.6)
Profit before income tax		**56.0**	**19.1**
Income tax expense	10	(10.4)	(3.7)
Profit for the year		**45.6**	**15.4**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Revaluation reserve		0.5	(0.4)
Taxation		(0.1)	0.2
		0.4	**(0.2)**
Items that will be reclassified to the income statement			
Cash flow hedge reserve		(0.4)	–
Taxation		0.1	–
		(0.3)	**–**
Other comprehensive income for the year, net of income tax		**0.1**	**(0.2)**
Total comprehensive income for the year		**45.7**	**15.2**
Profit attributable to:			
Equity holders of the Company		**45.6**	**15.4**
Total comprehensive income attributable to:			
Equity holders of the Company		**45.7**	**15.2**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per ordinary share	11.1	**244.7**	**82.7**
Diluted earnings per ordinary share	11.2	**239.4**	**81.0**

All comprehensive income relates to continuing operations.

The primary statements have been restated to reflect the IFRS Interpretations Committee's clarification on the accounting treatment of Software-as-a-Service arrangement. See Note 1.3 for further details.

The Notes on pages 115 to 171 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

	Note	2021 £million	Restated 2020 £million	Restated 2019 £million
ASSETS				
Cash and balances at central banks		235.7	181.5	105.8
Loans and advances to banks	13	50.3	63.3	48.4
Debt securities	14	25.0	–	25.0
Loans and advances to customers	15	2,530.6	2,358.9	2,450.1
Fair value adjustment for portfolio hedged risk	18	(3.5)	5.7	(0.9)
Derivative financial instruments	18	3.8	4.8	0.9
Assets held for sale	19	1.3	–	–
Investment property	20	4.7	4.3	4.8
Property, plant and equipment	21	9.3	9.9	11.3
Right-of-use assets	22	2.2	2.9	3.6
Intangible assets	23	6.9	7.7	9.0
Current tax assets		0.8	–	–
Deferred tax assets	25	6.9	6.6	8.0
Other assets	26	11.9	15.6	14.7
Total assets		**2,885.9**	**2,661.2**	**2,680.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	27	390.8	276.4	308.5
Deposits from customers	28	2,103.2	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	18	(5.3)	4.7	(0.7)
Derivative financial instruments	18	6.2	6.1	0.6
Liabilities directly associated with assets held for sale	19	2.0	–	–
Current tax liabilities		–	1.0	3.3
Lease liabilities	29	3.1	3.9	4.5
Other liabilities	30	31.3	56.3	40.9
Provisions for liabilities and charges	31	1.3	1.9	0.7
Subordinated liabilities	32	50.9	50.8	50.6
Total liabilities		**2,583.5**	**2,393.6**	**2,428.7**
Equity attributable to owners of the parent				
Share capital	34	7.5	7.5	7.4
Share premium		82.2	82.2	81.2
Cash flow hedge reserve		(0.3)	–	–
Revaluation reserve		1.3	0.9	1.1
Retained earnings		211.7	177.0	162.3
Total equity		**302.4**	**267.6**	**252.0**
Total liabilities and equity		**2,885.9**	**2,661.2**	**2,680.7**

The financial statements on pages 108 to 171 were approved by the Board of Directors on 23 March 2022 and were signed on its behalf by:

Lord Forsyth
Chairman

David McCreadie

David McCreadie
Chief Executive Officer

The Notes on pages 115 to 171 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 December

	Note	2021 £million	Restated 2020 £million	Restated 2019 £million
ASSETS				
Cash and balances at central banks		235.7	181.5	105.8
Loans and advances to banks	13	47.4	61.7	45.2
Debt securities	14	25.0	–	25.0
Loans and advances to customers	15	2,450.3	2,269.8	2,353.6
Fair value adjustment for portfolio hedged risk	18	(3.5)	5.7	(0.9)
Derivative financial instruments	18	3.8	4.8	0.9
Investment property	20	5.7	5.3	4.8
Property, plant and equipment	21	3.7	4.5	6.5
Right-of-use assets	22	1.5	2.0	2.5
Intangible assets	23	5.4	6.2	7.4
Investments in group undertakings	24	4.3	4.1	4.1
Current tax assets		1.5	–	–
Deferred tax assets	25	6.8	7.1	8.6
Other assets	26	99.8	104.4	101.2
Total assets		**2,887.4**	**2,657.1**	**2,664.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	27	390.8	276.4	308.5
Deposits from customers	28	2,103.2	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	18	(5.3)	4.7	(0.7)
Derivative financial instruments	18	6.2	6.1	0.6
Current tax liabilities		–	0.4	2.2
Lease liabilities	29	2.3	2.9	3.3
Other liabilities	30	43.8	61.8	42.0
Provisions for liabilities and charges	31	1.3	1.9	0.7
Subordinated liabilities	32	50.9	50.8	50.6
Total liabilities		**2,593.2**	**2,397.5**	**2,427.5**
Equity attributable to owners of the parent				
Share capital	34	7.5	7.5	7.4
Share premium		82.2	82.2	81.2
Cash flow hedge reserve		(0.3)	–	–
Revaluation reserve		0.7	0.7	0.7
Retained earnings		204.1	169.2	147.9
Total equity		**294.2**	**259.6**	**237.2**
Total liabilities and equity		**2,887.4**	**2,657.1**	**2,664.7**

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

The financial statements on pages 108 to 171 were approved by the Board of Directors on 23 March 2022 and were signed on its behalf by:

David McCreadie

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

Registered number: 00541132

The Notes on pages 115 to 171 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2020 (as previously stated)	**7.4**	**81.2**	–	**1.1**	**164.4**	**254.1**
Software-as-a-Service adjustment net of tax (see Note 1.3)	–	–	–	–	(2.1)	(2.1)
Balance at 1 January 2020 (as restated)	**7.4**	**81.2**	–	**1.1**	**162.3**	**252.0**
Total comprehensive income for the period						
Profit for 2020	–	–	–	–	15.4	15.4
Other comprehensive income, net of income tax						
Revaluation reserve	–	–	–	(0.4)	–	(0.4)
Tax on revaluation reserve	–	–	–	0.2	–	0.2
Total other comprehensive income	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**–**	**(0.2)**	**15.4**	**15.2**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	0.1	1.0	–	–	–	1.1
Share-based payments	–	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**–**	**(0.7)**	**0.4**
Balance at 31 December 2020	**7.5**	**82.2**	**–**	**0.9**	**177.0**	**267.6**
Total comprehensive income for the period						
Profit for 2021	–	–	–	–	45.6	45.6
Other comprehensive income, net of income tax						
Cash flow hedge reserve	–	–	(0.4)	–	–	(0.4)
Tax on cash flow hedge reserve	–	–	0.1	–	–	0.1
Revaluation reserve	–	–	–	0.5	–	0.5
Tax on revaluation reserve	–	–	–	(0.1)	–	(0.1)
Total other comprehensive income	**–**	**–**	**(0.3)**	**0.4**	**–**	**0.1**
Total comprehensive income for the period	**–**	**–**	**(0.3)**	**0.4**	**45.6**	**45.7**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(11.9)	(11.9)
Share-based payments	–	–	–	–	1.0	1.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(10.9)**	**(10.9)**
Balance at 31 December 2021	**7.5**	**82.2**	**(0.3)**	**1.3**	**211.7**	**302.4**

The Notes on pages 115 to 171 are an integral part of these consolidated financial statements.

Company statement of changes in equity

	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2020 (as previously stated)	**7.4**	**81.2**	**–**	**0.7**	**150.0**	**239.3**
Software-as-a-Service adjustment net of tax (see Note 1.3)	–	–	–	–	(2.1)	(2.1)
Balance at 1 January 2020 (as restated)	**7.4**	**81.2**	**–**	**0.7**	**147.9**	**237.2**
Total comprehensive income for the period						
Profit for 2020	–	–	–	–	22.0	22.0
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	0.1	1.0	–	–	–	1.1
Share-based payments	–	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**–**	**(0.7)**	**0.4**
Balance at 31 December 2020	**7.5**	**82.2**	**–**	**0.7**	**169.2**	**259.6**
Total comprehensive income for the period						
Profit for 2021	–	–	–	–	45.8	45.8
Other comprehensive income, net of income tax						
Cash flow hedge reserve	–	–	(0.4)	–	–	(0.4)
Tax on cash flow hedge reserve	–	–	0.1	–	–	0.1
Total other comprehensive income	**–**	**–**	**(0.3)**	**–**	**–**	**(0.3)**
Total comprehensive income for the period	**–**	**–**	**(0.3)**	**–**	**45.8**	**45.5**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(11.9)	(11.9)
Share-based payments	–	–	–	–	1.0	1.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(10.9)**	**(10.9)**
Balance at 31 December 2021	**7.5**	**82.2**	**(0.3)**	**0.7**	**204.1**	**294.2**

The Notes on pages 115 to 171 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

	Note	2021 £million	Restated 2020 £million
Cash flows from operating activities			
Profit for the year		45.6	15.4
Adjustments for:			
Income tax expense	10	10.4	3.7
Depreciation of property, plant and equipment	21	1.3	1.4
Depreciation of right-of-use assets	22	0.7	0.7
Loss on disposal of intangible assets		–	0.5
Amortisation of intangible assets	23	1.5	2.0
Impairment charge on loans and advances to customers		4.5	51.3
(Gains)/losses on modification of financial assets	5	(1.5)	3.1
Share-based compensation	35	1.0	(0.3)
Revaluation (gain)/impairment	20,21,22	(0.4)	1.1
Loss on disposal of loan books	6	1.4	–
Other non-cash items included in profit before tax		0.4	1.5
Cash flows from operating profits before changes in operating assets and liabilities		64.9	80.4
Changes in operating assets and liabilities:			
– loans and advances to customers		(238.4)	37.5
– loans and advances to banks and balances at central banks		4.7	(3.5)
– other assets		6.0	(0.9)
– deposits from customers		110.7	(27.8)
– provisions for liabilities and charges		(0.7)	(0.7)
– other liabilities		(24.4)	15.4
Income tax paid		(12.6)	(4.8)
Net cash (outflow)/inflow from operating activities		**(89.8)**	**95.6**
Cash flows from investing activities			
Consideration on sale of loan books	6	60.4	–
Redemption of debt securities		90.0	130.0
Purchase of debt securities		(90.0)	(105.0)
Purchase of property, plant and equipment	21	(0.2)	(0.8)
Purchase of intangible assets	23	(1.1)	(1.1)
Net cash inflow from investing activities		**59.1**	**23.1**
Cash flows from financing activities			
Drawdown/(repayment) of amounts due to banks		114.4	(31.7)
Issue of ordinary shares		–	1.1
Dividends paid	12	(11.9)	–
Repayment of lease liabilities	29	(0.9)	(1.0)
Net cash inflow/(outflow) from financing activities		**101.6**	**(31.6)**
Net increase in cash and cash equivalents		**70.9**	**87.1**
Cash and cash equivalents at 1 January		232.1	145.0
Cash and cash equivalents at 31 December	36	**303.0**	**232.1**

The Notes on pages 115 to 171 are an integral part of these consolidated financial statements.

Company statement of cash flows

For the year ended 31 December

	Note	2021 £million	Restated 2020 £million
Cash flows from operating activities			
Profit for the year		45.8	22.0
Adjustments for:			
Income tax expense	10	9.5	2.8
Depreciation of property, plant and equipment	21	0.8	1.0
Depreciation of right-of-use assets	22	0.5	0.5
Loss on disposal of intangible assets		–	0.5
Amortisation of intangible assets	23	1.2	1.6
Impairment charge on loans and advances to customers		2.7	41.0
(Gains)/losses on modification of financial assets	5	(1.5)	3.1
Share-based compensation	35	0.8	(0.3)
Revaluation (gain)/impairment	20,21.22	(0.4)	1.0
Investment income		(4.8)	–
Loss on disposal of loan books	6	1.4	–
Other non-cash items included in profit before tax		0.5	1.5
Cash flows from operating profits before changes in operating assets and liabilities		56.5	74.7
Changes in operating assets and liabilities:			
– loans and advances to customers		(244.1)	40.4
– loans and advances to banks and balances at central banks		4.7	(3.5)
– other assets		11.7	(3.2)
– deposits from customers		110.7	(27.8)
– provisions for liabilities and charges		(0.8)	(0.7)
– other liabilities		(19.4)	19.8
Income tax paid		(11.1)	(3.5)
Net cash (outflow)/inflow from operating activities		**(91.8)**	**96.2**
Cash flows from investing activities			
Consideration on sale of loan books	6	60.4	–
Redemption of debt securities		90.0	130.0
Purchase of debt securities		(90.0)	(105.0)
Purchase of property, plant and equipment	21	–	(0.3)
Purchase of intangible assets	23	(0.8)	(0.9)
Net cash inflow from investing activities		**59.6**	**23.8**
Cash flows from financing activities			
Drawdown/(repayment) of amounts due to banks		114.4	(31.7)
Issue of ordinary shares		–	1.1
Dividends paid	12	(11.9)	–
Repayment of lease liabilities	29	(0.7)	(0.7)
Net cash inflow/(outflow) from financing activities		**101.8**	**(31.3)**
Net increase in cash and cash equivalents		**69.6**	**88.7**
Cash and cash equivalents at 1 January		230.5	141.8
Cash and cash equivalents at 31 December	36	**300.1**	**230.5**

The Notes on pages 115 to 171 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 2021 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

1.2. Basis of presentation

The 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. 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.

IFRS interest rate benchmark reform

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 17.

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

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

1.3. Software-as-a-Service agreements prior year adjustment

The Group's previous accounting policy was to treat all configuration and customisation work carried out by the Software-as-a-Service ('SaaS') provider, third parties and contractors as part of a SaaS contract as a prepayment, which was amortised over the underlying hosting contract.

However, during the year, the IFRS Interpretations Committee published an agenda decision clarifying how arrangements in respect of SaaS cloud technology arrangements should be accounted for. Only configuration and customisation work carried out by the SaaS provider or a subcontractor (agent) of the SaaS provider, which is distinct from SaaS access, should be treated as a prepayment, with the prepayment being amortised over the underlying hosting contract. Configuration and customisation work carried out by third parties or employees or in-house contractors that do not meet the definition of an intangible asset should be expensed as incurred.

Therefore the Group was required to change its accounting policy, to remove costs incurred by third parties and contractors from the SaaS prepayment and expense these amounts, and to adjust the amortisation charge accordingly.

Due to the change in accounting policy, the Group is required to restate its comparatives in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The prior year adjustment reduces opening retained earnings at 1 January 2020 by £2.1 million (being a £2.6 million restatement of prepayments less deferred tax of £0.5 million) and reduces profit after tax for the year ended 31 December 2020 by £0.8 million (being an increase in operating expenses of £1.0 million less £0.2 million deferred tax). Accordingly, the prior year adjustment to opening retained earnings at 1 January 2021 is £2.9 million.

Notes to the financial statements
continued

1. Accounting policies continued

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

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

Income statement	As originally stated 2020 £million	Prior year adjustment 2020 £million	Restated 2020 £million
Operating income	**166.1**	**–**	**166.1**
Net impairment charge on loans and advances to customers	(51.3)	–	(51.3)
Losses on modification of financial assets	(3.1)	–	(3.1)
Operating expenses	(91.6)	(1.0)	(92.6)
Profit before income tax	**20.1**	**(1.0)**	**19.1**
Income tax expense	(3.9)	0.2	(3.7)
Profit for the year	**16.2**	**(0.8)**	**15.4**
Basic earnings per share	**87.0**	**4.3**	**82.7**

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

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

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

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

1. 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 EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the financial statements
continued

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 and loss' ('FVTPL'). A financial asset is measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

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

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

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

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

The Group currently has no financial instruments classified as FVOCI.

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

All other assets are classified as FVTPL.

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

Financial liabilities (with the exception of derivative financial instruments)

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

1.6. Foreign currencies

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

2. Critical accounting judgements and key sources of estimation uncertainty

2.1. Judgements

No critical judgements have been identified.

2.2. Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty all relate to allowances for impairment of loans and advances and are therefore set out in Note 17.

3. Operating segments

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

Business Finance

1) Real Estate Finance: lending on portfolios of residential property as well as the development of new build property.

2) Asset Finance: lending to small and medium sized enterprises to acquire commercial assets, which was sold during 2021.

3) Commercial Finance: lending is predominantly against receivables, typically releasing 90% of qualifying invoices under invoice discounting and factoring services. Unsecured lending to existing customers through the Government guaranteed Coronavirus Business Interruption Loan Scheme, Coronavirus Large Business Interruption Loan Scheme and Recovery Loan Scheme is also provided.

Consumer Finance

4) Vehicle Finance: hire purchase lending for used cars primarily to prime and near-prime customers and Personal Contract Purchase lending into the consumer prime credit market, both secured against the vehicle financed. In addition a Stocking Funding product is also offered to allow dealers to finance vehicles on their forecourt as part exchanges, from auction partners or from other trade sources.

5) Retail Finance: a market leading online service to retailers, providing unsecured prime lending products to the UK customers of its retail partners to facilitate the purchase of a wide range of consumer products.

6) Debt Management: a credit management services business which primarily invests in purchased debt portfolios from third parties, as well as fellow group undertakings. In addition, it collects debt on behalf of a range of clients.

7) Consumer mortgages for the self-employed, contract workers, those with complex income and those with a recently restored credit history, sold via select mortgage intermediaries, which was sold during 2021.

Other

The 'Other' segment includes other products, which are individually below the quantitative threshold for separate disclosure and fulfil the requirement of IFRS 8.28 by reconciling operating segments to the amounts in the financial statements.

Other includes principally OneBill (the Group's consumer bill management service), which was closed during 2021 and RentSmart (principally the funding and operation of finance leases through a disclosed agency agreement with RentSmart Limited). Assets and liabilities in respect of the RentSmart business are included in Assets and liabilities held for sale (see Note 19 for further details).

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

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

Notes to the financial statements
continued

3. Operating segments continued

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge/(credit) on loans and advances to customers £million	Loans and advances to customers £million
31 December 2021					
Real Estate Finance	54.5	0.3	54.8	0.1	1,109.6
Asset Finance	0.3	–	0.3	0.1	–
Commercial Finance	8.8	8.6	17.4	(0.2)	313.3
Business Finance	63.6	8.9	72.5	–	1,422.9
Retail Finance	65.0	2.7	67.7	5.0	764.8
Vehicle Finance	38.0	1.3	39.3	0.1	263.3
Debt Management	14.3	0.3	14.6	(0.6)	79.6
Consumer Mortgages	1.3	–	1.3	–	–
Consumer Finance	118.6	4.3	122.9	4.5	1,107.7
Other	(2.2)	1.1	(1.1)	–	–
	180.0	**14.3**	**194.3**	**4.5**	**2,530.6**

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge/(credit) on loans and advances to customers £million	Loans and advances to customers £million
31 December 2020					
Real Estate Finance	54.0	–	54.0	5.2	1,051.9
Asset Finance	1.5	–	1.5	0.9	10.4
Commercial Finance	7.3	7.9	15.2	1.1	230.7
Business Finance	62.8	7.9	70.7	7.2	1,293.0
Retail Finance	68.5	2.2	70.7	14.5	658.4
Vehicle Finance	44.6	0.9	45.5	20.7	243.9
Debt Management	14.2	0.6	14.8	8.9	81.8
Consumer Mortgages	3.3	0.1	3.4	(0.1)	77.7
Consumer Finance	130.6	3.8	134.4	44.0	1,061.8
Other	(0.9)	4.3	3.4	0.1	4.1
	192.5	**16.0**	**208.5**	**51.3**	**2,358.9**

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

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

4. Operating income

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

4.1 Net interest income

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

Interest income and expense accounting policy

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

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

In calculating the effective interest rate for financial instruments, other than assets that were credit-impaired on initial recognition, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges and broker commissions) and anticipated customer behaviour, but does not consider future credit losses. For financial assets that were impaired on initial recognition (also referred to as purchased or originated credit-impaired assets – 'POCI'), a credit adjusted effective interest rate is calculated using estimated future cash flows, including expected credit losses.

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

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

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

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

Notes to the financial statements
continued

4. Operating income continued

4.2 Net fee and commission income

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

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

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

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

Net fee and commission income accounting policy

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

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

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

5. Gains/(losses) on modification of financial assets

Although not included as an option within customer contracts, following regulatory guidance the Group offered payment holidays to its Consumer Finance and Asset Finance customers during 2020 due to the COVID-19 pandemic, which were not considered to be substantial. This is considered under IFRS 9 as a modification to contractual cash flows, which requires the carrying value of these loans to be adjusted to the net present value of future cash flows.

A small number of payment holidays were granted during 2021, resulting in no further loan modification losses being recognised.

The movement during the year in the net present value of the loans remaining to be unwound as a result of the modification was as follows:

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

5. Gains/(losses) on modification of financial assets continued

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

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

Modification of loans accounting policy

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

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

6. Loss on disposal of loan books

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

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

7. Losses on derivatives and hedge accounting

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

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

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

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

Notes to the financial statements
continued

7. Losses on derivatives and hedge accounting continued

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

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

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

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

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

Derivative financial instruments accounting policy

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

The Group does not hold contracts containing embedded derivatives.

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

Hedge accounting

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

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

The Group does not have hedges of net investments.

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

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

7. Losses on derivatives and hedge accounting 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). As at 31 December 2020, the reserve balance was insignificant, and therefore is not disclosed in the statement of financial position.

8. Operating expenses

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

As described in Note 3, operating expenses are not aligned to operating segments for day-to-day management of the business, so they cannot be allocated on a reliable basis.

Notes to the financial statements
continued

8. Operating expenses continued

Post-retirement obligations accounting policy

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

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

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

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

9. Average number of employees

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

10. Income tax expense

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

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

10. Income tax expense continued

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

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

Deferred tax is based on the combined effect of Corporation Tax and banking surcharge as enacted at the balance sheet date and therefore the proposed banking surcharge change has not been reflected in the revised forecast tax rates used in these financial statements. The main component of the deferred tax asset is deferred tax on the IFRS 9 transition adjustment, which reverses on a straight-line basis over 10 years commencing in 2018. The reduction in the closing deferred tax asset from applying the draft legislation is not expected to be material.

Income taxation accounting policy

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

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

11. Earnings per ordinary share

11.1 Basic

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

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

11.2 Diluted

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

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

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12. Dividends

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

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

Dividends accounting policy

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

13. Loans and advances to banks

Moody's long-term ratings are as follows:

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

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

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

14. Debt securities

Group and Company

Debt securities of £25.0 million (2020: £nil) consist solely of sterling UK Government Treasury Bills ('T-Bills'). The Group's intention is to hold the asset to collect its contractual cash flows of principal and interest and, therefore, they are stated in the statement of financial position at amortised cost. The number of T-Bills held increased to £25.0 million over the year, from £nil as at 31 December 2020 which was temporarily required to be utilised as collateral against the Term Funding Scheme with additional incentives for SMEs.

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

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

15. Loans and advances to customers

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

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

15. Loans and advances to customers continued

Group and Company

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

The following loans are secured upon real estate:

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

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

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

Group

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

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

16. Finance lease receivables

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

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

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

Lessor accounting policy

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

Notes to the financial statements
continued

17. Allowances for impairment of loans and advances

Group

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2021						
Business Finance:						
Real Estate Finance	0.1	0.4	2.7	3.2	1,112.8	0.3%
Commercial Finance	0.5	0.1	0.5	1.1	314.4	0.3%
Consumer Finance:						
Retail Finance	10.0	7.6	4.1	21.7	786.5	2.8%
Vehicle Finance:						
Voluntary termination provision	4.2	–	–	4.2		
Other impairment	3.7	11.9	14.4	30.0		
	7.9	11.9	14.4	34.2	297.5	11.5%
Debt Management	–	–	7.3	7.3	86.9	8.4%
	18.5	**20.0**	**29.0**	**67.5**	**2,598.1**	**2.6%**

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%
Consumer Finance:						
Retail Finance	13.2	7.9	3.5	24.6	683.0	3.6%
Vehicle Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.2	16.0	15.2	37.4		
	11.0	16.0	15.2	42.2	286.1	14.8%
Debt Management	–	–	7.0	7.0	88.8	7.9%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	4.1	0.0%
	27.1	**27.2**	**28.4**	**82.7**	**2,441.6**	**3.4%**

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

	2021 £million	2020 £million
Expected credit losses: impairment charge	4.9	50.3
Charge in respect of off balance sheet loan commitments	(0.2)	0.7
Loans written off, net of amounts utilised	–	0.6
Recoveries of loans written off	(0.2)	(0.3)
	4.5	**51.3**

17. Allowances for impairment of loans and advances continued

Total provisions above include expert credit judgements as follows:

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

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

For further details on Consumer Finance affordability and Vehicle Finance used car valuations, see Notes 17.1.2. and 17.1.5 respectively.

POCI adjustment

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

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

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2021	27.1	27.3	28.3	82.7
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.3)	27.1	(0.2)	21.6
– Transfer to stage 3	(0.1)	(15.7)	20.6	4.8
– Transfer to stage 1	2.9	(5.3)	–	(2.4)
Passage of time	(10.9)	(6.7)	(3.0)	(20.6)
New loans originated	18.2	–	–	18.2
Matured and derecognised loans	(4.1)	(4.1)	–	(8.2)
Changes to model methodology	(0.1)	(0.2)	0.9	0.6
Changes to credit risk parameters	(8.0)	(2.3)	0.7	(9.6)
Other adjustments	0.5	–	–	0.5
Charge to income statement	(6.9)	(7.2)	19.0	4.9
Allowance utilised in respect of write-offs	(1.7)	(0.1)	(18.3)	(20.1)
31 December 2021	**18.5**	**20.0**	**29.0**	**67.5**

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

Notes to the financial statements
continued

17. Allowances for impairment of loans and advances continued

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2020	21.6	24.1	14.9	60.6
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.4)	33.8	–	28.4
– Transfer to stage 3	–	(20.7)	28.3	7.6
– Transfer to stage 1	3.1	(6.6)	–	(3.5)
Passage of time	(10.9)	(10.5)	3.7	(17.7)
New loans originated	11.9	–	–	11.9
Matured and derecognised loans	(2.5)	(2.9)	–	(5.4)
Changes to credit risk parameters	11.4	10.1	7.4	28.9
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.7	3.2	39.4	50.3
Allowance utilised in respect of write-offs	(2.2)	–	(26.0)	(28.2)
31 December 2020	**27.1**	**27.3**	**28.3**	**82.7**

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

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

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

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

Other adjustments 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:

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

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

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

17. Allowances for impairment of loans and advances continued

Company

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2021						
Business Finance:						
Real Estate Finance	0.1	0.4	2.7	3.2	1,112.8	0.3%
Commercial Finance	0.5	0.1	0.5	1.1	314.4	0.3%
Consumer Finance:						
Retail Finance	10.1	7.7	4.1	21.9	786.5	2.8%
Vehicle Finance:						
Voluntary termination provision	4.2	–	–	4.2		
Other impairment	3.7	12.1	14.7	30.5		
	7.9	12.1	14.7	34.7	297.5	11.7%
	18.6	**20.3**	**22.0**	**60.9**	**2,511.2**	**2.4%**

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%
Consumer Finance:						
Retail Finance	13.8	8.2	3.6	25.6	683.0	3.7%
Vehicle Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.6	17.4	16.6	40.6		
	11.4	17.4	16.6	45.4	286.6	15.8%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	0.5	0.0%
	28.1	**28.9**	**22.9**	**79.9**	**2,349.7**	**3.4%**

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

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 2021	28.2	29.0	22.7	79.9
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.6)	28.6	(0.2)	22.8
– Transfer to stage 3	(0.1)	(16.5)	21.5	4.9
– Transfer to stage 1	3.1	(5.6)	–	(2.5)
Passage of time	(12.5)	(8.2)	(4.7)	(25.4)
New loans originated	19.1	–	–	19.1
Mature and derecognised loans	(4.3)	(4.4)	–	(8.7)
Changes to model methodology	(0.1)	(0.2)	0.9	0.6
Changes to credit risk parameters	(8.0)	(2.3)	0.4	(9.9)
Other adjustments	0.5	–	(0.1)	0.4
Charge to income statement	(7.9)	(8.6)	17.8	1.3
Allowance utilised in respect of write-offs	(1.7)	(0.1)	(18.5)	(20.3)
31 December 2021	**18.6**	**20.3**	**22.0**	**60.9**

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

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

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

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

17. Allowances for impairment of loans and advances continued

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

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

Stage 1 write-offs arise on Vehicle Finance accounts that have exercised their right to voluntarily terminate their agreements.

Impairment of financial assets and loan commitments accounting policy

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

Stage 1 assets

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

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

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

Stage 2 assets

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

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

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

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

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

Stage 3 assets

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

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

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

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

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

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

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

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

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

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

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

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

Exposure at default ('EAD')

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

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

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

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 retail property, loan-to-value ratios are key parameters in determining LGD. LGDs are calculated on a discounted cash flow basis using the financial instrument's origination effective interest rate as the discount factor.

Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss. This is achieved by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. To ensure material non-linear relationships between economic factors and credit losses are reflected in the calculation of ECL, a severe stress scenario is used as one of these scenarios. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. The four scenarios adopted and probability weighting applied are set out below.

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

Expert credit judgements

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

Presentation of loss allowance

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

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

For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision.

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

Vehicle Finance voluntary termination provision

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

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

Write off

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

Intercompany receivables

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

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 resultsand are therefore considered to be key sources of estimation uncertainty,all relate to the impairment charge on loans and advances to customers and are therefore set out below.

The continuing potential impact of COVID-19 on the macroeconomic environment has been considered in determining reasonably possible changes in key sources of estimation uncertainty which may occur in the next 12 months.

The impairment charge comprises of two principal elements:

- modelled expect credit losses ('ECLs'), and
- expert credit judgements, which are overlaid onto the output from the models.

As discussed above modelled ECLs are calculated by multiplying three main components: the probability of default ('PD'), exposure at default and loss given default ('LGD'). These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information.

Exogenous, Maturity, Vintage modelling is used in the production of forward-looking lifetime PDs in the calculation of ECLs. As the Group's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model to incorporate the effects of recession.

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

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

17.1.1. Estimation of PDs

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

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

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

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

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

17.1.2. Consumer Finance customer affordability

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

17.1.3. Vehicle Finance cure rates

Where loans are in stage 3 and return to less than 90 days past due, expected future cure rates are an element of the PD calculation. Cure rates are currently above the assumption used in the model of 6.3%, but management are expecting that cure rates will return to their pre-COVID-19 pandemic levels. An increase in the cure rate to 12% would decrease the ECL by £2.0 million.

17.1.4. Vehicle Finance recovery rates

With the exception of the Vehicle Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. The Vehicle Finance portfolio is particularly sensitive to changes in LGD due to the range of outcomes which could crystallise depending on whether the Group is able to recover the vehicle as security. For the Vehicle Finance portfolio a 20% change in the LGD is considered reasonably possible due to delays in the vehicle collection process. A 20% reduction in the vehicle recovery rate assumption element of the LGD for Vehicle Finance would increase the ECL by £2.0 million (2020: £1.9 million). During the year, there was a 0% (2020: 16%) change in the vehicle recovery rate assumption.

17. Allowances for impairment of loans and advances continued

17.1.5. Vehicle Finance used car values

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

17.1.6. LGD on Real Estate Finance loans in stage 3

The ECL on Real Estate Finance loans in stage 3 is calculated using a probability weighted expected outcome for each loan, with the scenarios ranging from best case to downside case(s) to worst case. If the base cases were removed, with a corresponding increase in downside case(s) and no movement in worst case, which management considers to be a reasonably possible outcome, the ECL would increase by £2.2 million. The average actual weighting given to the base cases at December 2021 was 62.5%.

17.1.7. Incorporation of forward-looking data

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

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

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

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

Notes to the financial statements
continued

17. Allowances for impairment of loans and advances continued

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

	Increase in downside case weighting by 10% and reduction in upside case		Increase in severe stress case weighting by 5% and reduction in base case	
	2021 £million	2020 £million	**2021 £million**	2020 £million
Vehicle Finance	0.2	0.4	0.2	0.2
Retail Finance	0.3	0.5	0.2	0.2

The sensitivity is immaterial for other lending products.

The Group recognised an impairment charge of £4.5 million (2020: £51.3 million). Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the increase/(decrease) on ECL provisions would be as follows:

Scenario	**Vehicle Finance 2021 £million**	**Retail Finance 2021 £million**	**Business Finance 2021 £million**	**Total Group 2021 £million**
Upside	(1.2)	(2.0)	(2.5)	(5.7)
Base	(0.4)	(0.4)	(1.9)	(2.7)
Downside	1.0	1.5	0.5	3.0
Severe	3.3	4.6	8.4	16.3

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

17.1.8. Debt Management forecast collections on POCI debt

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

17.1.9. Climate-risk impact

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

18. Derivative financial instruments

Group and Company

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

	Notional 2021 £million	Assets 2021 £million	Liabilities 2021 £million	Notional 2020 £million	Assets 2020 £million	Liabilities 2020 £million
Interest rate swaps designated in fair value hedges						
In less than one year	382.1	0.3	(0.7)	228.4	0.4	(0.6)
More than one year but less than three years	564.6	2.9	(3.0)	599.7	2.3	(3.1)
More than three years but less than five years	194.3	0.4	(2.2)	263.6	2.0	(2.4)
More than five years	–	–	–	1.8	0.1	–
	1,141.0	**3.6**	**(5.9)**	**1,093.5**	**4.8**	**(6.1)**
Interest rate swaps designated in cash flow hedges						
In less than one year				–	–	–
More than one year but less than three years	4.7	–	(0.1)	–	–	–
More than three years but less than five years	9.4	–	(0.2)	4.7	–	–
	14.1	**–**	**(0.3)**	**4.7**	**–**	**–**
Foreign exchange swaps						
In less than one year	15.3	0.2	–	13.0	–	–
	1,170.4	**3.8**	**(6.2)**	**1,111.2**	**4.8**	**(6.1)**

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

Notes to the financial statements
continued

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

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

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

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

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

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million
31 December 2020				
Interest rate swaps				
Derivative financial assets	**4.8**	**(4.8)**	**–**	**–**
Derivative financial liabilities	**(6.1)**	**4.8**	**1.3**	**–**

18. Derivative financial instruments continued

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

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

19. Assets and liabilities held for sale

As at 31 December 2021, assets of £1.3 million relating to a loan book and a liability of £2.0 million relating to collateral held, both in STB Leasing Limited, were in the process of being sold to its partner, RentSmart Limited. Under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, these are required to be reclassified as 'Held for sale' on the face of the statement of financial position as they are expected to be sold within 12 months of the balance sheet date. The assets and liabilities were sold for their carrying amount on 31 January 2022.

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

20. Investment property

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

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

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

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

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

Notes to the financial statements
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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 2020	7.4	0.1	8.4	15.9
Additions	–	–	0.7	0.7
Revaluation	(0.8)	–	–	(0.8)
At 31 December 2020	**6.6**	**0.1**	**9.1**	**15.8**
Additions	–	–	0.2	0.2
Revaluation	0.3	–	–	0.3
At 31 December 2021	**6.9**	**0.1**	**9.3**	**16.3**
Accumulated depreciation				
At 1 January 2020	–	–	(4.6)	(4.6)
Depreciation charge	(0.1)	–	(1.3)	(1.4)
Revaluation	0.1	–	–	0.1
At 31 December 2020	**–**	**–**	**(5.9)**	**(5.9)**
Depreciation charge	(0.2)	–	(1.1)	(1.3)
Revaluation	0.2	–	–	0.2
At 31 December 2021	**–**	**–**	**(7.0)**	**(7.0)**
Net book amount				
At 31 December 2020	**6.6**	**0.1**	**3.2**	**9.9**
At 31 December 2021	**6.9**	**0.1**	**2.3**	**9.3**

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

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

21. Property, plant and equipment continued
Company

	Freehold property £million	Computer and other equipment £million	Total £million
Cost or valuation			
At 1 January 2020	3.5	6.1	9.6
Additions	–	0.3	0.3
Transfer to investment properties	(1.1)	–	(1.1)
Revaluation	(0.3)	–	(0.3)
At 31 December 2020 and 31 December 2021	**2.1**	**6.4**	**8.5**
Accumulated depreciation			
At 1 January 2020	–	(3.1)	(3.1)
Depreciation charge	(0.1)	(0.9)	(1.0)
Revaluation	0.1	–	0.1
At 31 December 2020	**–**	**(4.0)**	**(4.0)**
Depreciation charge	–	(0.8)	(0.8)
At 31 December 2021	**–**	**(4.8)**	**(4.8)**
Net book amount			
At 31 December 2020	**2.1**	**2.4**	**4.5**
At 31 December 2021	**2.1**	**1.6**	**3.7**

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

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

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

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

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21. Property, plant and equipment continued

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

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

Property, plant and equipment accounting policy

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

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

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

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

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

22. Right-of-use assets

	Group			Company		
	Leasehold property £million	Leased motor vehicles £million	Total £million	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost						
At 1 January 2020	4.2	0.3	4.5	2.9	0.2	3.1
Additions	0.2	0.1	0.3	0.2	–	0.2
At 31 December 2020	**4.4**	**0.4**	**4.8**	**3.1**	**0.2**	**3.3**
Disposals	–	(0.1)	(0.1)	–	–	–
At 31 December 2021	**4.4**	**0.3**	**4.7**	**3.1**	**0.2**	**3.3**
Accumulated depreciation						
At 1 January 2020	(0.7)	(0.2)	(0.9)	(0.5)	(0.1)	(0.6)
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.4)	(0.1)	(0.5)
Impairment	(0.3)	–	(0.3)	(0.2)	–	(0.2)
At 31 December 2020	**(1.6)**	**(0.3)**	**(1.9)**	**(1.1)**	**(0.2)**	**(1.3)**
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.5)	–	(0.5)
Disposals	–	0.1	0.1	–	–	–
At 31 December 2021	**(2.2)**	**(0.3)**	**(2.5)**	**(1.6)**	**(0.2)**	**(1.8)**
Net book amount						
At 31 December 2020	**2.8**	**0.1**	**2.9**	**2.0**	–	**2.0**
At 31 December 2021	**2.2**	–	**2.2**	**1.5**	–	**1.5**

Lessee accounting policy

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

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

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

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

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23. Intangible assets
Group

	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2020	1.0	16.7	2.2	19.9
Additions	–	1.1	–	1.1
Transfers from property, plant and equipment	–	0.1	–	0.1
Disposals	–	(1.3)	–	(1.3)
At 31 December 2020	**1.0**	**16.6**	**2.2**	**19.8**
Additions	–	1.1	–	1.1
Transfers to cloud software development prepayments	–	(0.4)	–	(0.4)
At 31 December 2021	**1.0**	**17.3**	**2.2**	**20.5**
Accumulated amortisation				
At 1 January 2020	–	(9.3)	(1.6)	(10.9)
Amortisation charge	–	(1.8)	(0.2)	(2.0)
Disposals	–	0.8	–	0.8
At 31 December 2020	**–**	**(10.3)**	**(1.8)**	**(12.1)**
Amortisation charge	–	(1.3)	(0.2)	(1.5)
At 31 December 2021	**–**	**(11.6)**	**(2.0)**	**(13.6)**
Net book amount				
At 31 December 2020	**1.0**	**6.3**	**0.4**	**7.7**
At 31 December 2021	**1.0**	**5.7**	**0.2**	**6.9**

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

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

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

23. Intangible assets continued

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

	Years
Distribution channel	10

Company

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

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

Intangible assets accounting policy

(a) Goodwill

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

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

Notes to the financial statements
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23. Intangible assets continued

(b) Computer software

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

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

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

(c) Other intangibles

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

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

24. Investments in group undertakings

Company

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

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

Details are as follows:

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

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

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

25. Deferred taxation

	Group 2021 £million	Restated Group 2020 £million	Company 2021 £million	Restated Company 2020 £million
Deferred tax assets:				
Other short-term timing differences	6.9	6.6	6.8	7.1
At 31 December	**6.9**	**6.6**	**6.8**	**7.1**

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

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

Deferred tax accounting policy

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

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

26. Other assets

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

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

27. Due to banks

	Group 2021 £million	Group 2020 £million	Company 2021 £million	Company 2020 £million
Amounts due under the Bank of England's liquidity support operations, Term Funding Scheme and Term Funding Scheme with additional incentives for SMEs	390.0	273.0	390.0	273.0
Amounts due to other credit institutions	0.7	3.3	0.7	3.3
Accrued interest	0.1	0.1	0.1	0.1
	390.8	**276.4**	**390.8**	**276.4**

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

Notes to the financial statements
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28. Deposits from customers
Group and Company

	2021 £million	2020 £million
Access accounts	101.7	81.4
Fixed term bonds	974.6	1,076.4
Notice accounts	771.9	705.1
ISAs	255.0	129.6
	2,103.2	**1,992.5**

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

29. Lease liabilities

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

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

30. Other liabilities

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

31. Provisions for liabilities and charges

Group and Company

	Customer redress £million	ECL allowance on loan commitments £million	Other £million	Total £million
Balance at 1 January 2020	0.2	0.4	0.1	0.7
(Release)/charge to income statement	(0.2)	0.7	1.4	1.9
Utilised	–	–	(0.7)	(0.7)
Balance at 31 December 2020	**–**	**1.1**	**0.8**	**1.9**
(Release)/charge to income statement	–	(0.2)	0.3	0.1
Utilised	–	–	(0.7)	(0.7)
Balance at 31 December 2021	**–**	**0.9**	**0.4**	**1.3**

Customer redress provision

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

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

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9 the Group holds an ECL allowance against loans it has committed to lend but have not yet been drawn. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 31 December 2021 no provision was held for losses in excess of drawn amounts.

Other

Other includes

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

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

Provisions for liabilities and charges accounting policy

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

Notes to the financial statements
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32. Subordinated liabilities
Group and Company

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

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

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

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

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

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

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

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

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

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

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

34. Share capital

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

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

Equity instruments accounting policy

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

35. Share-based payments

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

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

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

	Outstanding at 1 January 2021 Number	Granted during the year Number	Forfeited lapsed and cancelled during the year Number	Exercised during the year Number	Outstanding at 31 December 2021 Number	Vested and exercisable at 31 December 2021 Number	Vesting dates	Weighted average exercise price of options outstanding at 31 December 2021 £	Weighted average exercise price of options outstanding at 31 December 2020 £
Equity settled									
2017 long term incentive plan	473,096	243,550	(300,999)	(13,847)	401,800	5,572	2022-2024	0.40	0.40
2017 Sharesave plan	572,464	57,645	(87,663)	–	542,446	8,589	2022-2024	6.17	12.28
2017 deferred bonus plan	51,319	13,023	(43,830)	(826)	19,686	1,670	2022-2024	0.40	0.40
	1,096,879	**314,218**	**(432,492)**	**(14,673)**	**963,932**	**15,831**		**3.65**	**5.26**
Weighted average exercise price	**5.26**	**2.29**	**2.76**	**0.40**	**3.65**				
Cash settled									
'Phantom' share option scheme	281,667	–	(187,500)	–	94,167	94,167	2019	25.00	25.00

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

Notes to the financial statements
continued

35. Share-based payments continued

35.1. Long term incentive plan ('LTIP')

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

35.1.1 LTIP Restricted share award

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

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

35.1.2 LTIP

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

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

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

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

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

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

35.2. Sharesave plan

The Sharesave plan was established on 3 May 2017.

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

35. Share-based payments continued

35.2. Sharesave plan

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

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

35.3. Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

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

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

Notes to the financial statements
continued

35. Share-based payments continued

35.3. Deferred bonus plan

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

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

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

35.4 Cash settled share-based payments

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

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

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

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

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

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

35. Share-based payments continued

35.4 Cash settled share-based payments

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

Share-based compensation accounting policy

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

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

36. Cash flow statement

36.1. Cash and cash equivalents

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

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

36.2. Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £0.1 million (2020: £0.1 million) of lease liabilities interest expense, as shown in Note 29, and £0.1 million (2020: £0.2 million) amortisation of issue costs on subordinated liabilities, as shown in Note 32.

Cash and cash equivalents accounting policy

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

37. Financial risk management strategy

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

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

Notes to the financial statements continued

37. Financial risk management strategy continued

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

38. Credit risk

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

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

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

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

Group

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

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2021								
Business Finance								
Real Estate Finance	911.4	161.4	–	161.4	40.0	–	40.0	1,112.8
Commercial Finance	291.7	17.5	–	17.5	5.2	–	5.2	314.4
Consumer Finance								
Retail Finance	659.4	120.1	2.6	122.7	4.4	–	4.4	786.5
Vehicle Finance	207.0	68.9	2.2	71.1	19.4	–	19.4	297.5
Debt Management	–	–	–	–	10.8	76.1	86.9	86.9
Total drawn exposure	**2,069.5**	**367.9**	**4.8**	**372.7**	**79.8**	**76.1**	**155.9**	**2,598.1**
Off balance sheet								
Loan commitments	271.0	2.9	–	2.9	–	–	–	273.9
Total gross exposure	**2,340.5**	**370.8**	**4.8**	**375.6**	**79.8**	**76.1**	**155.9**	**2,872.0**
Less:								
Impairment allowance	(18.5)	(16.6)	(3.4)	(20.0)	(23.1)	(5.9)	(29.0)	(67.5)
Provision for loan commitments	(0.9)	–	–	–	–	–	–	(0.9)
Total net exposure	**2,321.1**	**354.2**	**1.4**	**355.6**	**56.7**	**70.2**	**126.9**	**2,803.6**

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

38. Credit risk continued

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								
Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Vehicle Finance	173.7	87.2	2.6	89.8	22.6	–	22.6	286.1
Debt Management	–	–	–	–	11.7	77.1	88.8	88.8
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	4.1	–	–	–	–	–	–	4.1
Total drawn exposure	**1,915.3**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,441.6**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,176.8**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,703.1**
Less:								
Impairment allowance	(27.1)	(22.7)	(4.5)	(27.2)	(21.7)	(6.7)	(28.4)	(82.7)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,148.6**	**315.8**	**41.1**	**356.9**	**43.4**	**70.4**	**113.8**	**2,619.3**

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

Notes to the financial statements
continued

38. Credit risk continued

Company

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

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2021								
Business Finance								
Real Estate Finance	911.4	161.4	–	161.4	40.0	–	40.0	1,112.8
Commercial Finance	291.7	17.5	–	17.5	5.2	–	5.2	314.4
Consumer Finance								
Retail Finance	659.4	120.1	2.6	122.7	4.4	–	4.4	786.5
Vehicle Finance	207.0	68.9	2.2	71.1	19.4	–	19.4	297.5
Total drawn exposure	**2,069.5**	**367.9**	**4.8**	**372.7**	**69.0**	**–**	**69.0**	**2,511.2**
Off balance sheet								
Loan commitments	271.0	2.9	–	2.9	–	–	–	273.9
Total gross exposure	**2,340.5**	**370.8**	**4.8**	**375.6**	**69.0**	**–**	**69.0**	**2,785.1**
Less:								
Impairment allowance	(18.6)	(16.7)	(3.6)	(20.3)	(22.0)	–	(22.0)	(60.9)
Provision for loan commitments	(0.9)	–	–	–	–	–	–	(0.9)
Total net exposure	**2,321.0**	**354.1**	**1.2**	**355.3**	**47.0**	**–**	**47.0**	**2,723.3**

38. Credit risk continued

	Stage 1	Stage 2			Stage 3			Total
	£million	< 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								
Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Vehicle Finance	174.0	87.5	2.6	90.1	22.5	–	22.5	286.6
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	0.5	–	–	–	–	–	–	0.5
Total drawn exposure	**1,912.0**	**338.8**	**45.6**	**384.4**	**53.3**	**–**	**53.3**	**2,349.7**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,173.5**	**338.8**	**45.6**	**384.4**	**53.3**	**–**	**53.3**	**2,611.2**
Less:								
Impairment allowance	(28.1)	(24.2)	(4.7)	(28.9)	(22.9)	–	(22.9)	(79.9)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,144.3**	**314.6**	**40.9**	**355.5**	**30.4**	**–**	**30.4**	**2,530.2**

38.1. Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations the Directors consider the lending operations of the Group as a whole to be well diversified. Details of the Group's loans and advances to customers and loan commitments by product is provided in Notes 3 and 33 respectively.

Geographical concentration

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

Group and Company

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

Notes to the financial statements
continued

38. *Credit risk* *continued*

38.2. Forbearance

Business Finance

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

Consumer Finance

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

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

Throughout 2021 the Group did not routinely reschedule contractual arrangements where customers default on their repayments. In cases where it offered the customer the option to reduce or defer payments for a short period, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment purposes. Arrears tracking would continue on the account with any impairment charge being based on the original contractual due dates for all products.

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

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

39. Market risk

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

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

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

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

Interest rate risk

Group and Company

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

39. Market risk continued

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

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

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

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

40. Liquidity and funding risk

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

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

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

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

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2021						
Due to banks	390.8	394.1	0.1	1.0	393.0	–
Deposits from customers	2,103.2	2,131.9	752.6	807.4	566.1	5.8
Subordinated liabilities	50.9	56.8	0.8	2.5	53.5	–
Liabilities associated with assets held for sale	2.0	2.0	2.0	–	–	–
Lease liabilities	3.1	3.3	0.9	2.3	0.1	–
Other financial liabilities	18.3	18.3	18.3	–	–	–
	2,568.3	**2,606.4**	**774.7**	**813.2**	**1,012.7**	**5.8**
Derivative financial liabilities	6.2	5.5	0.1	1.5	3.9	–
	2,574.5	**2,611.9**	**774.8**	**814.7**	**1,016.6**	**5.8**

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

Notes to the financial statements
continued

40. Liquidity and funding risk continued

Company

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

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

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

41. Capital risk

Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support the business. The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP'). The Group manages Tier 1 and Tier 2 as capital, noting the regulatory adjustments required in the table below.

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

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

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

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

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

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

Notes to the financial statements
continued

42. Classification of financial assets and liabilities

Group

	Total carrying amount £million 2021	Fair value £million 2021	Fair value hierarchy level 2021	Total carrying amount £million 2020	Fair value £million 2020	Fair value hierarchy level 2020
Cash and balances at central banks	235.7	235.7	Level 1	181.5	181.5	Level 1
Loans and advances to banks	50.3	50.3	Level 2	63.3	63.3	Level 2
Debt securities	25.0	25.0	Level 1	–	–	–
Loans and advances to customers	2,530.6	2,568.6	Level 3	2,358.9	2,420.6	Level 3
Derivative financial instruments	3.8	3.8	Level 2	4.8	4.8	Level 2
Assets held for sale	1.3	1.3	Level 3	–	–	–
Other financial assets	0.4	0.4	Level 3	3.3	3.3	Level 3
	2,847.1	**2,885.1**		**2,611.8**	**2,673.5**	
Due to banks	390.8	390.8	Level 2	276.4	276.4	Level 2
Deposits from customers	2,103.2	2,106.9	Level 3	1,992.5	2,010.2	Level 3
Derivative financial instruments	6.2	6.2	Level 2	6.1	6.1	Level 2
Liabilities held for sale	2.0	2.0	Level 3	–	–	–
Lease liabilities	3.1	3.1	Level 3	3.9	3.9	Level 3
Other financial liabilities	18.3	18.3	Level 3	46.2	46.2	Level 3
Subordinated liabilities	50.9	50.7	Level 2	50.8	50.6	Level 2
	2,574.5	**2,578.0**		**2,375.9**	**2,393.4**	

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

Company

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

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

42. Classification of financial assets and liabilities continued

Fair value classification

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

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

Loans and advances to customers and Deposits from customers

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

Debt securities

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

Derivative financial instruments

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

Subordinated liabilities

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

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

43. Related party transactions

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

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

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

Notes to the financial statements
continued

43. Related party transactions continued

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

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

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

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

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

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

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

Directors' remuneration

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

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

44. Immediate parent company and ultimate controlling party

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

45. Country-by-Country reporting

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

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

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

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

46. Post balance sheet events

46.1 Acquisition of AppToPay Limited

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

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

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

46.2 Sale of loan book and associated liabilities to Rentsmart Limited

As at 31 December 2021, assets of £1.3 million relating to a loan book and a liability of £2.0 million relating to collateral held, both in STB Leasing Limited, were in the process of being sold to its partner, RentSmart Limited. These assets and liabilities were sold for their carrying amount on 31 January 2022. Further details are set out in Note 19.

46.3 Sale of Debt Managers (Services) Limited loan portfolio

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

All the above items are non-adjusting events.

Five year summary (unaudited)

	2021 £million	Restated 2020 £million	Restated* 2019 £million	2018 £million	2017 £million
Profit for the year					
Interest and similar income	180.0	192.5	191.4	169.2	149.3
Interest expense and similar charges	(29.2)	(41.6)	(46.0)	(35.5)	(26.7)
Net interest income	**150.8**	**150.9**	**145.4**	**133.7**	**122.6**
Net fee and commission income	13.7	15.2	20.1	17.9	14.9
Operating income	**164.5**	**166.1**	**165.5**	**151.6**	**137.5**
Net impairment charge on loans and advances to customers	(4.5)	(51.3)	(32.6)	(32.4)	(36.9)
Gains/(losses) on modification of financial assets	1.5	(3.1)	–	–	–
Loss on disposal of loan books	(1.4)	–	–	–	–
Losses *from derivatives and hedge accounting*	(0.1)	–	–	–	–
Profit on sale of equity instruments available-for-sale	–	–	–	–	0.3
Operating expenses	(104.0)	(92.6)	(96.8)	(84.5)	(71.6)
Profit before income tax	**56.0**	**19.1**	**36.1**	**34.7**	**29.3**

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

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

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

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures

(i) Net interest margin ratio

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over 13 months:

	2021 £million	2020 £million
Interest income and similar income	180.0	197.5
Interest expense and similar charges	(29.2)	(41.6)
Net interest income	150.8	150.9
Opening loan book	2,358.9	2,450.1
Closing loan book (including loans included in assets held for sale of £1.3 million)	2,531.9	2,358.9
Average loan book	2,374.0	2,406.0
Net interest margin	**6.4%**	**6.3%**

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

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

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

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

(iii) Return on average equity

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

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

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

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

Appendix to the Annual Report (unaudited) continued

Key performance indicators and other alternative performance measures continued

(iv) Cost to income ratio

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

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

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

(v) Cost of risk

Cost of risk is calculated as the total of the net impairment charge on loans and advances to customers and gains and losses on modification of financial assets for the financial period as a percentage of the average loan book:

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

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

(vi) Cost of funds

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

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

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

(vii) Funding ratio

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

	2021 £million	2020 £million
Deposits from customers	2,103.2	1,992.5
Borrowings under the Bank of England's liquidity support operations, Term Funding Scheme and the Term Funding Scheme with additional incentives for SMEs (including accrued interest)	390.1	273.1
Tier 2 capital (including accrued interest)	50.9	50.8
Equity	302.4	267.6
	2,846.6	2,584.0
Loan book (including loans included in assets held for sale of £1.3 million)	2,531.9	2,358.9
Funding ratio	**112.4%**	**109.5%**

The funding ratio measure the Group's liquidity.

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 'core' loans and advances to customers since 31 December 2020.
CET1 capital	Common Equity Tier 1 capital comprises share capital, share premium, retained earnings, revaluation reserve and regulatory adjustments.
CET1 capital ratio	The Common Equity Tier 1 capital ratio is the ratio of the bank's CET1 capital to its Total Risk Exposure. This signifies a bank's financial strength. The CET1 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 and balances at central banks 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.

Term	Explanation
Term Funding Scheme ('TFS')/Term Funding Scheme with additional incentives for SMEs ('TFSME')	The TFS was introduced in August 2016, and was designed to reinforce the transmission of Bank of England Base Rate cuts to those interest rates actually faced by households and businesses. The TFS closed to new lending in February 2018. 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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