PRESS RELEASE
Wednesday 8 August 2018
For immediate release

SECURE TRUST BANK PLC

Interim Results for the six months to 30 June 2018

Strategic repositioning yielding significant benefits

Secure Trust Bank PLC ("STB", the "Bank" or the "Group") is pleased to announce a 31.3% year-on-year increase in Group profit before tax to £15.1m for the six months to 30 June 2018.

The repositioning of the business model towards lower risk lending in attractive market segments, and continued growth in both Business Finance and Consumer Finance, have led to income growth and reduced impairment losses. Improvement in impairment performance has offset any impact of the new IFRS 9 accounting standard on reported profits. The cost of risk is down 20% compared with the same period in 2017.

Capital and funding positions remain healthy and the flexibility of the Group's business model allows the Group to continue to pursue its ambitions in line with its risk appetite.

FINANCIAL HIGHLIGHTS

- Statutory profit before tax of £15.1m (2017: £11.5m), up 31.3%
- Underlying profit before tax of £16.5m (2017: £12.1m), up 36.4%
- Cost of risk 2.0% on IAS 39 basis (2017: 2.5%), down 20%
- Common equity tier 1 ratio of 13.6% (2017: 15.3%) – post payment of 2018 interim dividend
- Total pro-forma capital ratio, including Tier 2 capital raised in July 2018 and after 2018 interim dividend, of 15.1%
- Operating income £72.5m (2017: £61.1m), up 18.7%
- Basic earnings per share 68.7p (2017: 50.3p), up 36.6%
- Underlying earnings per share 74.7p (2017: 53.0p), up 40.9%
- Interim dividend of 19p per share (2017: 18p per share), to be paid in September 2018
- Total assets £2.19bn (2017: £1.63bn), up 34.4%

Note: Underlying profit and underlying earnings per share relate to the Group's normal recurring business activities. Comparative figures for 2017 are reported on a continuing operations basis, which excludes the unsecured personal loans book that was sold in December 2017.

OPERATIONAL HIGHLIGHTS

- Overall loan book increased to £1,839.1m (2017: £1,461.1m – continuing operations), up 25.9%
- One millionth customer signed up: total customer numbers increased by 30.7% to 1,096,854
- Customer deposits increased to £1,645.4m (2017: £1,325.8m). up 24.1%
- Capital structure enhanced by issue of £25m Tier 2 capital in July 2018 annual coupon 6.75%
- Invoice Finance business has funded over £2bn of customer invoices since inception in 2014
- Retail Finance lending balances now exceed £500m
- Real Estate Finance lending growth up 30.2% year-on-year
- Internet banking offered utilising new deposits platform
- Continuing high levels of customer satisfaction as measured by FEEFO

Lord Forsyth, Chairman, said:

“I am pleased to report very good progress over the last six months including signing up our one millionth customer and improved profitability. This reflects well on the hard work and dedication of all our staff and their commitment to the business. This positive momentum sets us up well for the rest of 2018 and beyond notwithstanding the economic and political uncertainties.”

Paul Lynam, Chief Executive, said:

“During 2016 and 2017 we repositioned our business away from higher risk, higher income consumer credit activities and reallocated capital to lower risk lending segments across a focused selection of attractive market segments. The growth of more than 36% in underlying profits before tax reported today clearly shows the benefits of this decision. Balance sheet and customer numbers have grown strongly in the first six months of 2018 as we have invested our capital. We remain well positioned to continue developing our business model in line with our ambitions, creating sustainable value for our consumer and SME customers, our people and our shareholders.”

This announcement together with the associated investors’ presentation are available on:
www.securetrustbank.com/results-reports/results-reports-presentations

Enquiries:

Secure Trust Bank PLC
Paul Lynam, Chief Executive Officer
Neeraj Kapur, Chief Financial Officer
Tel: 0121 693 9100

Stifel Nicolaus Europe Limited (Joint Broker)
Robin Mann
Gareth Hunt
Stewart Wallace
Tel: 020 7710 7600

Canaccord Genuity Limited (Joint Broker)
Bobbie Hilliam
Sunil Duggal
Tel: 020 7523 8000

Tulchan Communications
Tom Murray
Sheebani Chothani
Tel: 020 7353 4200

Forward looking statements

This document contains forward looking statements with respect to the business, strategy and plans of Secure Trust Bank PLC and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Secure Trust Bank PLC’s or management’s beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Secure Trust Bank PLC’s actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors. These include UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks including interest rate risk, inherent risks regarding market conditions and similar contingencies outside Secure Trust Bank PLC’s control, any adverse experience in inherent operational risks, any unexpected developments in regulation or regulatory and other factors.

The forward looking statements contained in this document are made as of the date hereof, and Secure Trust Bank PLC undertakes no obligation to update any of its forward looking statements.

Interim business review

Chairman's statement

Secure Trust Bank PLC has made good progress in the first half of 2018, building on the significant strategic repositioning of the business and its balance sheet over the last few years. The benefit of reducing exposure to higher risk, higher margin consumer credit activities and instead focusing on lower risk lending at this point in the economic cycle is apparent in the strong results for the first half of 2018.

We achieved a number of milestones during the last six months including signing up our one millionth customer, surpassing £2 billion of customers' invoices financed via our invoice finance business and our Retail Finance loan balances now exceed £500 million.

Our underlying profit has grown by 36.4% compared to the same period in 2017 and this provides a solid foundation for the second half of the year and beyond.

The UK's macroeconomic environment currently remains stable with signs emerging that GDP growth may be picking up after a slow start to 2018. Record numbers of people are in employment, inflation has fallen and real wages are now growing, albeit modestly, after a sustained period of pressure on household disposable income. That said there are risks to navigate. These include the potential for a disruptive trade war, a slowing of house price inflation, the impact of potential increased taxation on consumers and businesses to fund further investment in the NHS and the continued uncertainty created by the UK's negotiations to exit the EU. These factors have informed our risk appetite.

I would like to take this opportunity, on behalf of my Board, to thank all of our employees for their commitment and hard work which has delivered strong growth and consistently high levels of customer satisfaction.

The new UK Corporate Governance Code takes effect in our case from 1 January 2019 and we are assessing the implications to be fully compliant. We regularly review our governance and succession planning and had initiated a process earlier this year to identify new independent non-executive directors. I was pleased to note that our shareholders were supportive of the resolutions proposed at our AGM in May 2018. We fully recognise the importance of engaging with our shareholders. We are also assessing ways to enhance engagement with our workforce.

As a result of the strong first half performance the Board proposes to pay an interim dividend of 19 pence per share (June 2017 interim: 18 pence), representing a 5.6% increase on the prior year. This will be paid on 28 September 2018 to shareholders on the register as at 1 September 2018.

Given the resources at our disposal and the flexibility of our business model we face the future with optimism.

Lord Forsyth
Chairman
7 August 2018

Chief Executive's statement

I am delighted to confirm that my interim statement this year clearly shows the benefits we expected from the strategic repositioning undertaken during 2016 and 2017.

To recap we reduced our risk appetite and evolved the business model away from higher risk unsecured consumer credit and to focus the Group towards lower risk secured lending across a focused group of attractive asset classes. Refocusing in this manner inevitably created a short term economic impact as the reduced income effect comes through faster than the impairment benefit thus creating a short term drag on profit growth. This was reflected in the 2017 results. It is encouraging to note that a substantial element of the legacy higher risk loan book has now run off and therefore the drag effect of legacy subprime related impairments on profits has largely abated.

We entered 2018 with our largest ever pipeline of new business and have enjoyed considerable success in converting this into new customer lending balances which are 25.9% higher at £1,839.1 million as at 30 June 2018 than the same date in 2017 on a continuing operations basis (June 2017: £1,461.1 million. See Appendix to the interim report on page 67 for a reconciliation of continuing operations). This strong growth in customer lending has enabled us to profitably deploy some of the surplus capital held at the end of 2017.

Customer satisfaction levels remain high as measured by FEEFO and the continued growth in the size of the customer base is encouraging.

The financial results for the first half of 2018 reflect these positive dynamics with the Group statutory profit before tax for the first half increasing by 31.3% to £15.1 million compared to the £11.5 million of profit before tax generated from continuing operations during the first half of last year. Underlying profit before tax on the same basis has increased by 36.4% to £16.5 million. Basic underlying earnings per share increased by 40.9% over the same period. As shown on page 16, the Group's underlying return metrics have also increased.

Given the very healthy new business pipelines and ongoing positive momentum we expect further progress in the business in the second half of 2018.

Strong customer satisfaction

I remain grateful for the ongoing commitment of our team members who continue to strive to deliver good customer outcomes in a customer friendly and professional manner, as the Group's lending and deposit taking activities grow. This in turn is reflected in customer satisfaction levels which, as measured by the independent FEEFO customer feedback forum, are consistently in the 90-95% range.

Customer numbers continue to grow and are over 30% higher than at 30 June last year at 1,096,854 (30 June 2017: 839,208 on a continuing operations basis).

Healthy Capital and Liquidity positions

The Bank's capital and funding positions remain healthy.

Our Common Equity Tier one ratio was 13.6% as at 30 June 2018 compared to 15.3% at the same point last year. Our overall leverage ratio was 10.4% (June 2017: 12.7%), and the total capital ratio was 13.6% (June 2017: 15.7%). The year on year movement is a function of the investment of capital to support the strong growth in the loan portfolios.

As detailed in the 2017 results the Board has reviewed the Group's capital structure during the period and determined that an issuance of £25 million of Tier 2 capital at an annual coupon of 6.75% per annum was advantageous. This is a post-tax cost of 5.4% and negates the need to otherwise raise £25 million of longer term deposits which would cost circa 3%. This issuance will help to reduce the Bank's weighted average cost of capital. We will continue to seek to optimise the composition and cost of the Group's capital base particularly given our ongoing growth and ambition.

Secure Trust Bank has continued to fund its lending activities primarily from customers' deposits. Our loan to deposit ratio was 111.8% at 30 June 2018 which compares to 110.2% at 30 June 2017, on a continuing basis. Usage of the Term Funding Scheme was increased prior to the closure of the scheme in order to lock in some of the unutilised capacity. This remains a modest part of the Bank's funding. The Bank has continued broadly to match-fund its customer lending with customer deposits. This strategy seeks to mitigate maturity transformation and interest basis risks. Customer demand for our deposit products remains very strong, and I am pleased to note that the majority of customers with maturing medium term savings bonds chose to reinvest their funds into deposit products with us.

Lending activities

Our strategic repositioning and our reduced credit loss appetite have guided the allocation of capital to support growth particularly in lower risk lending activities during the period. Overall net customer lending as at 30 June 2018 of £1,839.1 million represents 25.9% growth over the same period in 2017 (£1,461.1 million on a continuing operations basis. See the Appendix to the interim report on page 67). As at 30 June 2018, 53.3% of these lending balances are in secured lending (30 June 2017: 51.1%, 31 December 2017: 51.6% on a continuing operations basis).

The total volume of new loans written in the period was £610.4 million representing a 14.3% increase on a continuing basis on the £534.2 million for the same period last year. Growth in the targeted segments of the lending market remained strong, while the overall Group growth rate reflected the cessation of some higher risk lending activities as previously mentioned.

Motor Finance balances have grown to £272.0 million from £258.4 million a year ago and £274.6 million as at 31 December 2017 representing 5.3% growth and 0.9% contraction respectively. As previously disclosed, we stopped writing new subprime motor loans in January 2017 and have been running this part of the book off. The run off assets are being replaced by lower risk, albeit lower margin loans. These dynamics are reflected in the balance sheet growth and profit metrics. On the latter aspect I am pleased that the shift in the portfolio mix has driven the expected significant reduction in impairments.

Motor Finance remains an important and profitable line of business for us. It is good to see profit margins here improve as the drag effect of the run off of the subprime part of the book abates. A clear opportunity exists to deliver prime and near prime products and services in this market though a new Motor lending platform. The Motor Finance business is developing initiatives to enhance system capabilities and to deliver a broader range of products. This is expected to further improve the credit quality of the portfolio and drive business growth.

We have continued to prioritise Retail Point of Sale lending during this period, noting this is the best quality consumer lending we write and also the shortest in duration. Balances have grown to £508.0 million from £394.3 million a year ago and £452.3 million as at 31 December 2017 representing 28.8% and 12.3% growth respectively. The cost of risk for the V12 portfolio has also fallen. However, the volatility of the IFRS 9 methodology compared to IAS 39 is having an impact on the V12 reported results.

The mortgage market is exhibiting significant competitive pressures, with lenders increasingly competing on price and risk appetite to drive new business volumes. We are being careful to avoid being sucked into a race to the bottom and are tempering the growth of this part of the business at this time. Mortgage lending balances have increased from £16.5 million as at 31 December 2017 to £37.3 million as at 30 June 2018 being growth of 126%. I continue to expect that following the closure of the Term Funding Scheme in February 2018 we will see pricing pressures ease which will allow us to compete more effectively. As previously disclosed the creation of this new business operation involves up-front investment and attractive returns on equity will take time to materialise whilst we work through the front book: back book dynamic that is a prominent feature of mortgage lending. The Basel Committee changes referred to below should, in time, have a positive effect on returns for lower LTV lending undertaken by smaller banks.

As at 30 June 2018, Real Estate Finance lending balances have grown to £704.8 million from £541.4 million a year ago and £580.8 million as at 31 December 2017, representing 30.2% growth and 21.3% growth respectively. The loan book is performing well and remains biased in favour of modestly leveraged residential investment lending. This is reflected in the portfolio composition, which in round terms is split 70% / 30% in favour of investment lending.

There is a long-term shortage of housing in the UK and government policy is seeking to improve supply through the construction of 300,000 new homes per year by the mid-2020s, a material increase from the levels seen in recent years. Small and medium-sized house builders account for 41% of all new builds. However, access to finance remains a major barrier for the majority of SME house builders as larger lenders continue to retrench from the market. We are working with HM Government and bodies such as the British Business Bank to explore ways to support the Government's public policy agenda.

Asset Finance lending balances have contracted as forecast and were £87.9 million as at 30 June 2018 compared to £111.5 million a year ago. Some lenders are offering loans up to or exceeding 100% of open market value on asset finance at extremely low margins, by historical standards. We are not prepared to compromise on risk or price simply to achieve short term net balance sheet growth, and as matters stand expect this part of the lending portfolio to continue to contract. We will revisit our appetite for recommencing new lending in light of market developments in this scale part of the UK SME lending market.

As at 30 June 2018 Invoice Finance lending balances have grown to £187.5 million from £94.2 million a year ago and £126.5 million as at 31 December 2017 representing 99.0% growth and 48.2% respectively. During this period we have surpassed the milestone of having funded over £2 billion of customers' invoices since we started invoice finance operations in September 2014.

On 1 January 2018, the IFRS 9 Accounting rules became effective. IFRS 9 is a more volatile methodology compared to the previous IAS 39. Changes in the performance of underlying loan balances are more immediately reflected in the required IFRS9 impairment charge as this operates on a forward looking basis whereas IAS 39 is an event of default triggered approach. The impairment requirement differential is most pronounced in rapidly growing or shrinking and rapidly improving or deteriorating portfolios. Noting it is the first year of the IFRS 9 methodologies we will adopt a cautious approach to impairment provisioning whilst we continue to embed this new approach.

Given the heightened levels of uncertainty we have continued to refine our credit risk appetite and acceptance criteria during this period. As a matter of course, we will regularly review our credit criteria and pricing to take into account our view of the current and future economic conditions.

Fee based services

The OneBill service remains closed for new business. Customer numbers continue to reduce in line with management expectations and ended the period at 18,438 (2017: 19,382).

Profits at our debt collection business, Debt Managers (Services) Limited, have continued to grow.

Evolving regulatory environment

When announcing our annual results for 2017 in March 2018, I noted that that the regulatory direction of travel appeared to be to reduce the capital differentials between the systemic and non-systemic firms. Consistent with this, in April 2018 the Prudential Regulation Authority published a policy statement providing further guidance on capital requirements. During the first half of 2018 a number of stakeholders have recognised that post Brexit HM Government will be free to adopt a much more proportionate approach to the regulation of smaller non-internationally active banks than is possible today. Certainly one of the implications of the UK's exit from the European Union is that it can address the shortcomings of the 'one size fits all' Capital Requirements Regulation implementing the Capital Requirements Directive IV, if the appetite exists.

Such an approach would bode well for smaller banks and building societies. It should also benefit consumers and SMEs by fostering competition thereby creating more innovation and choice and reducing the risks that the taxpayer will need to fund the bail out of failed banks in the future.

I was encouraged by the tone of the Financial Conduct Authority's progress report into UK Retail Banking published in June 2018. They note that whilst progress has been made by smaller and challenger banks, the dominant players continue to enjoy huge incumbency advantages and some regulatory interventions may be required to help foster competition to achieve better outcomes for customers.

We will remain engaged with these important stakeholders as their work in these areas progresses.

Strategic priorities

The Group's three strategic priorities of: (i) organic growth, (ii) diversification and (iii) M&A activity are unchanged.

The benefits of a diversified business model have been evident over recent periods when we have been able to reallocate capital from higher risk higher margin to lower risk lower margin lending activities whilst continuing to scale the Group's balance sheet and grow our profitability.

The focus for 2018 is on:

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

We have been active across all five of these areas during the last six months and will remain so for the rest of 2018 and beyond.

In support of our strategy, we have engaged in a number of discussions relating to inorganic business opportunities during the last six months but none progressed to a conclusion that was acceptable to us. Our previous M&A activities have generated considerable shareholder value due in part to the discipline that we apply. We will continue to be disciplined in our approach to opportunities, prioritizing the creation of sustainable, long-term shareholder value. We are continuing to work on a diverse pipeline of external business opportunities.

Outlook

It is pleasing to report the positive momentum and strong profit growth during the period. We expect further progress during the second half of the year but need to be mindful that our forward looking economic indicators are pointing to a period of low confidence and tepid, albeit slowly improving economic growth. We feel the Bank's lending portfolio is well positioned for the current conditions and the short duration nature of our asset portfolio means we can react quickly to both opportunities and threats.

Our approach to the market will reflect evolving economic conditions and our credit appetite will be kept under review. We expect the second half to build on the positive trends in the first half. Our long term strategic objective is to be active in Consumer Credit, SME Finance and Mortgage Lending. This enables flexibility to restrict lending in areas which may be overheating and allocate capital for more sustainable returns. Notwithstanding the current uncertain economic outlook, I believe there is scope to pursue our strategic priorities by developing the business model organically and pursuing attractive acquisition opportunities.

Paul Lynam
Chief Executive Officer
7 August 2018

	Period ended 30 June 2018	**Period ended 30 June 2017**	**Year ended 31 December 2017**
Financial highlights (on a continuing operations basis)			
Loan to deposit ratio	111.8%	110.2%	107.8%
Profit before tax	£15.1 million	£11.5 million	£25.0 million
Operating income	£72.5 million	£61.1 million	£129.5 million
Common Equity Tier 1 ('CET1') capital ratio	13.6%	15.3%	16.5%
Underlying profit before tax	£16.5 million	£12.1 million	£27.0 million
Total assets	£2,187.1 million	£1,625.9 million	£1,891.6 million

See Appendix to the interim report on page 67 for a reconciliation of continuing operations.

	New business volumes in the previous six months £million	Loans and advances to customers at 30 June 2018 £million
Operational highlights		
Business Finance		
Real Estate Finance	143.9	704.8
Asset Finance	5.7	87.9
Commercial Finance	62.2	187.5
Consumer Finance		
Retail Finance	297.4	508.0
Motor Finance	77.2	272.0
Consumer mortgages	21.3	37.3
Other	2.7	41.6
	610.4	**1,839.1**

Interim financial review

Summarised income statement	Period ended 30 June 2018 Continuing operations and Total £million	Period ended 30 June 2017 Continuing operations £million	Period ended 30 June 2017 Discontinued operations £million	Period ended 30 June 2017 Total £million	Year ended 31 December 2017 Continuing operations £million	Year ended 31 December 2017 Discontinued operations £million	Year ended 31 December 2017 Total £million

Interest, fee and commission income	89.0	74.3	4.7	79.0	157.3	8.0	165.3
Interest, fee and commission expense	(16.5)	(13.2)	-	(13.2)	(27.8)	-	(27.8)
Operating income	72.5	61.1	4.7	65.8	129.5	8.0	137.5
Impairment losses	(16.3)	(16.4)	(2.1)	(18.5)	(33.5)	(3.4)	(36.9)
Operating expenses	(41.1)	(33.5)	(0.2)	(33.7)	(71.3)	(0.3)	(71.6)
Profit on sale of equity investment available-for-sale	-	0.3	-	0.3	0.3	-	0.3
Profit before tax	**15.1**	**11.5**	**2.4**	**13.9**	**25.0**	**4.3**	**29.3**
Underlying adjustments to profit (see below)	1.4	0.6	(2.4)	(1.8)	2.0	(4.3)	(2.3)
Underlying profit before tax	**16.5**	**12.1**	**-**	**12.1**	**27.0**	**-**	**27.0**
Underlying tax	(2.7)	(2.3)	-	(2.3)	(5.5)	-	(5.5)
Underlying profit after tax	**13.8**	**9.8**	**-**	**9.8**	**21.5**	**-**	**21.5**
Underlying basic earnings per share (pence) (Note 5)	**74.7**	**53.0**	**-**	**53.0**	**116.4**	**-**	**116.4**
Statutory results							
Profit before tax	15.1	11.5	2.4	13.9	25.0	4.3	29.3
Tax	(2.4)	(2.2)	(0.5)	(2.7)	(5.1)	(0.8)	(5.9)
Profit after tax	**12.7**	**9.3**	**1.9**	**11.2**	**19.9**	**3.5**	**23.4**
Gain recognised on disposal after tax	-	-	-	-	-	0.4	0.4
Profit for the period	**12.7**	**9.3**	**1.9**	**11.2**	**19.9**	**3.9**	**23.8**
Basic earnings per share (pence) (Note 5)	**68.7**	**50.3**	**10.3**	**60.6**	**107.7**	**21.1**	**128.8**
Underlying adjustments to profit							
Fair value amortisation	0.1	0.4	-	0.4	0.9	-	0.9
Transformation costs	0.4	0.5	-	0.5	0.8	-	0.8
Other bonus payments	0.9	-	-	-	0.6	-	0.6
Profit on sale of NSF plc shares	-	(0.3)	-	(0.3)	(0.3)	-	(0.3)
Discontinued operations	-	-	(2.4)	(2.4)	-	(4.3)	(4.3)
Underlying adjustments to profit	**1.4**	**0.6**	**(2.4)**	**(1.8)**	**2.0**	**(4.3)**	**(2.3)**

Basis of preparation

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

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

Transformation costs comprise principally the costs of potential M&A activity (30 June 2017 and 31 December 2017: comprised the costs of setting up the Group's Consumer Mortgage operation and of closing the current account and unsecured personal lending products).

The other bonus payments, profit on sale of Non-Standard Finance plc (NSF) shares and discontinued activities also represent non-core activities, which have therefore been adjusted for to derive underlying profit.

A summary of the KPIs is set out on page 16 of this Financial Review. These are all alternative performance measure that are not defined or specified under IFRS. Therefore, definitions of the KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix to the interim report on page 67. In the narrative of this financial review, KPIs are identified by being in bold font.

IFRS 9 'Financial Instruments'

The new standard, effective for period beginning 1 January 2018, has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. Adoption of the standard has resulted in new accounting policies for interest income and expense, the classification and measurement of financial instruments and the impairment of financial assets and loan commitments which are set out in Note 1.3. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except that comparative periods for the periods ended 30 June 2017 and 31 December 2017 are stated on an IAS 39 basis, and therefore have not been restated.

Discontinued operations

On 21 December 2017 the Group sold a portfolio of legacy unsecured personal loans (PLD) to Alpha Credit Solutions 8 S.à.r.l., a company owned by AnaCap Credit Opportunities III LP. Results relating to the portfolio of unsecured personal loans have therefore been analysed as discontinued operations for the period ended 30 June 2017 and the year ended 31 December 2017 throughout this interim report. The profit before tax relating to the unsecured personal loan portfolio announced shortly after its sale for the six months ended 30 June 2017, together with its results for the year ended 31 December 2017 on a similar basis, has been adjusted for statutory purposes as follows:

	Profit before tax as announced £million	Internal cost of funds added back £million	Internal attributable costs added back £million	Statutory profit before tax £million	Tax £million	Statutory profit after tax £million
Year ended 31 December 2017	2.4	1.5	0.4	4.3	(0.8)	3.5
Six months ended 30 June 2017	1.3	0.8	0.3	2.4	(0.5)	1.9

Unless otherwise stated, the analyses that follow relate to continuing operations, which represents all of the Group's divisions, excluding PLD.

Interest, fee and commission income

Interest, fee and commission income is made up of interest receivable, which is predominantly earned on loans and advances to customers, and fee and commission income, which consists principally of weekly and monthly fees from the OneBill, Commercial Finance, Retail Finance, Motor Finance products, and commissions earned on debt collection activities in DMS.

Interest receivable from continuing operations was £79.2 million for the period, increasing by £12.7 million (19.1%) on June 2017, which was driven by the growth of the Group's loan books over the period.

Fee and commission income from continuing operations was £9.8 million for the period, increasing by £2.0 million (25.6%) on June 2017. The fee income relating to OneBill has continued to decrease, as this product has been closed to new business. This income has been replaced by increasing levels of fees earned on Commercial Finance and Retail Finance lending, as these books continue to grow.

Interest, fee and commission expense

Interest, fee and commission expense is made up of interest expense in respect of deposits from customers, and fee and commission expense, comprising mainly fees and commissions on the Commercial Finance and Motor products, and commissions paid on debt collection activities in DMS.

Interest expense was £15.5 million for the period, increasing by £2.8 million (22.0%) on June 2017. The **cost of funds** reduced from 1.9%% for June 2017 to 1.8% for June 2018. This reflects the market for funding, in which the Group has continued to be able to replace maturing term deposits with new deposits of the same tenor, but at a lower rate. In addition a greater proportion of new fixed bonds have a lower tenor and this has resulted in the reduction in interest rates of fixed rate products in the deposit book.

The Group's **net interest margin** reduced from 8.2% in June 2017 to 7.6% in June 2018 as a result of the repositioning to lower risk lower return lending, partially offset by the reduction achieved in funding costs.

Fee and commission expense has increased by £0.5 million (100.0%), mainly arising from the increase in activity in DMS.

Operating income

Operating income increased by 18.6% to £72.5 million.

The **net revenue margin** for the period was 8.6% compared with 9.3% for June 2017. The **gross revenue margin** for 2018 was 10.6% compared with 11.3% for June 2017. The reductions in these margins are due to the factors referred to above.

Impairment losses

Impairment losses during the period were £16.3 million (June 2017: £16.4 million). The impairment losses for the period are calculated using IFRS 9 methodology, whereas the comparative calculated impairment losses were calculated under IAS 39. A breakdown of the charge by product is shown in note 7. The expected increase in charge brought about by the change in methodology to IFRS 9 has been offset by improvement in performance, particularly in respect of Motor Finance lending. The provision charge includes the impact of applying expert credit judgement, resulting in an overlay being added to provision levels estimated using the Group's models.

The **cost of risk** for the period was 1.9%, compared with 2.5% for June 2017. Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 6, 7 and 17.

Operating expenses

Operating expenses from continuing operations have increased, reflecting the investments made in the infrastructure and staff resources of the Group to achieve growth targets, from £33.5 million in June 2017 to £41.1 million in the period. The Group's **cost to income ratio** increased to 56.7% from 54.8% for June 2017.

Underlying profit

On a continuing operations basis, **underlying profit before tax** was £16.5 million (June 2017: £12.1 million).

Taxation

The **effective underlying tax rate** has fallen to 16.4% (June 2017: 19.0%), being underlying tax of £2.7 million divided by underlying profit before tax of £16.5 million (June 2017: underlying tax of £2.3 million divided by underlying profit before tax of £12.1 million). The effective rate in the period was reduced by a deferred tax credit of £0.5 million arising from a reassessment of the rates that the deferred tax asset on the IFRS 9 transition adjustment will reverse at over the next nine and a half years. The new Bank Corporation tax surcharge of 8%, which is effective from 1 January 2016, will apply to any taxable profits of Secure Trust Bank Plc company that exceed £25.0 million.

Distributions to shareholders

The directors recommend the payment of an interim dividend of 19 pence per share (June 2017:18 pence).

Earnings per share

Detailed disclosures of earnings per ordinary share are shown in Note 5. **Basic earnings per share** increased by 37% to 68.7 pence per share (June 2017: 50.3 pence), as a result of the increase in profit after tax. The **underlying basic earnings per share** increased by 41% to 74.7 pence per share (June 2017: 53.0 pence per share).

Summarised balance sheet (on a continuing operations basis)

	June 2018 £million	June 2017 £million	December 2017 £million
Assets			
Cash and balances at central banks	126.7	114.0	226.1
Debt securities	150.0	-	5.0
Loans and advances to banks	34.2	25.5	34.3
Loans and advances to customers	1,839.1	1,461.1	1,598.3
Other assets	37.1	25.3	27.9
	2,187.1	**1,625.9**	**1,891.6**
Liabilities			
Due to banks	263.0	63.0	113.0
Deposits from customers	1,645.4	1,325.8	1,483.2
Other liabilities	53.7	46.3	46.3

	1,962.1	**1,435.1**	**1,642.5**

See Appendix to the interim report on page 67 for a reconciliation of continuing operations.

The assets of the Group increased during the period by 15.6% to £2,187.1 million, primarily driven by the growth in the Group's loan portfolios and the raising of debt securities.

The Group measures **underlying returns on average assets, average equity and required equity** as set out in the KPIs table on page 16. These ratios have all improved in comparison to the prior period, driven by a combination of the improving profitability and the impact of the IFRS 9 transition adjustment reducing assets and equity at 1 January 2018.

The liabilities of the Group increased by 19.5% to £1,962.1 million, primarily driven by the increase in deposits from customers, providing funding for the Group's lending activities, and the use of the Term Funding Scheme as shown in amounts due to banks.

Loans and advances to customers

Loans and advances to customers include secured and unsecured loans and finance lease receivables. After excluding the PLD loan book from the prior period balance sheet, the composition of the June 2018 loan book remains broadly consistent with June 2017, with the Consumer Finance book being approximately 42% of total lending, and the Business Finance book being approximately 53%. The Consumer Mortgage business currently accounts for 2% of total lending.

Loan originations in the period, being the total of new loans and advances to customers entered into during the period, increased to £610.4 million, which is significantly ahead of loan originations in both the first half of 2017 (£534.2 million, 14.3% increase) and the second half (£542.9 million, 12.4% increase). Almost half of the new business volume (£297.4 million) was generated by the Retail Finance business. This business has a shorter term on average than the rest of the book, so this new business resulted in an increase during the period in the Retail Finance book of £55.7 million (12.3%).

Further analyses of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 6 and 7.

Debt Securities

Debt Securities consists solely of sterling UK Government treasury bills. The increase in the period to £150 million from £5 million in December 2017 is for the purpose of collateral against Term Funding Scheme drawings with the Bank of England.

Due to Banks

The amount due to banks consists solely of drawings from the Bank of England Term Funding Scheme. The Group has taken advantage of this low cost source of funding which will result in an overall reduction in cost of funds.

Deposits from customers

Customer deposits include term, notice and sight deposits, as well as the Group's OneBill product. Customer deposits grew by 10.9% during the period to close at £1,645.4 million, to fund the increased lending balances.

Debt Managers (Services) Limited

Debt Managers (Services) Limited (DMS) is the Bank's debt collection business. DMS collects debt on behalf of a range of clients as well as for group companies. It also selectively invests in purchased debt portfolios from fellow subsidiary undertakings and external third parties. DMS was purchased by the Bank in January 2013, since then it has grown its number of debts under management to over 429,000.

DMS has had a strong period, building on the profitable growth established throughout 2017. Income from selective debt purchases increased, whilst the company maintained similar levels of contingent and business process outsourcing income, thus establishing DMS as a true hybrid credit management company. To support this growth the business has undertaken a number of transformational projects, including a refurbishment of its building, all of which will allow it to work with companies across new target sectors in the industry.

Key performance indicators

The following key performance indicators, stated for continuing operations, are the primary measures used by management to assess the performance of the Group:

	June 2018	June 2017	December 2017
Financial KPIs:			
Earnings per shares			
Basic earnings per share – Continuing operations (Note 5)	68.7 pence	50.3 pence	107.7 pence
Underlying basic earnings per share (Note 5)	74.7 pence	53.0 pence	116.4 pence
Margin ratios			
Net interest margin	7.6%	8.2%	8.1%
Net revenue margin	8.6%	9.3%	9.1%
Gross revenue margin	10.6%	11.3%	11.1%
Cost ratios			
Cost of risk	1.9%	2.5%	2.4%
Cost of funds	1.8%	1.9%	1.9%
Cost to income ratio	56.7%	54.8%	55.1%
Underlying profit			
Underlying profit before tax	£16.5 million	£12.1 million	£27.0 million
Underlying profit after tax	£13.8 million	£9.8 million	£21.5 million
Return ratios			
Underlying return on average assets	1.4%	1.3%	1.3%
Underlying return on average equity	12.3%	8.2%	8.9%
Underlying return on required equity	14.6%	13.0%	13.5%
Funding ratios			
Loan to deposit ratio	111.8%	110.2%	107.8%
Total funding ratio	116.0%	111.4%	115.5%
Non-financial KPIs:			
Customer FEEFO ratings (mark out of 5 based on star rating from 510 reviews (June 2017: 400 reviews, December 2017: 608 reviews))	4.6	4.6	4.7
Employee survey engagement score (based on 2017 all staff survey)	N/A	N/A	78%
Environmental intensity indicator (tonnes carbon dioxide per £1 million group income)	N/A	N/A	4.2

Definitions of the KPIs, their calculation and the reasons for their use can be found in the Appendix to the interim report on page 67.

The employee survey and environmental intensity work are carried out on an annual basis, and are therefore not available for reporting for the interim periods.

Capital, leverage and liquidity

Capital

The Group's 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. The Board reviews the capital position at every Board meeting.

Prior to the implementation of IFRS 9, the Group's regulatory capital was divided into:

- CET1 which comprises shareholders' funds, after deducting intangible assets and deferred tax assets which have arisen due to losses
- Tier 2 capital which comprises the collective allowance for impairment.

Under IFRS 9, there is no longer a collective allowance, and therefore at 1 January 2018 the Group did not hold any Tier 2 capital. In July 2018 the Group issued £25.0 million of Tier 2 capital. Further information is contained in Note 20.

The Group has elected to adopt the IFRS 9 transitional rules. For 2018 this allows 95% of the IFRS 9 impact to be added back to eligible capital.

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

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.

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Capital			
CET1 capital	235.9	218.5	238.9
Total Tier 2 capital	-	5.3	4.4
Total capital	**235.9**	**223.8**	**243.3**
Total Risk Exposure	**1,729.2**	**1,426.4**	**1,446.1**

CRD IV ratios (calculated on the basis defined by the regulator)			
CET1 capital (Group consolidated)	13.6%	15.3%	16.5%
Leverage ratio	10.4%	12.7%	12.3%

The CET1 capital ratio is the ratio of CET1 capital divided by the Total Risk Exposure. Excluding the interim dividend, the CET1 capital ratio is 13.8% and the leverage ratio is 10.6%.The Group has maintained a robust CET1 capital ratio and this provides a capital buffer for continued growth.

Leverage

The Basel III leverage ratio is defined by the Capital Requirements Regulation as Tier 1 capital divided by on and off balance sheet asset exposure values, expressed as a percentage. The UK leverage ratio framework sets a minimum ratio of 3.0%, which increased to 3.25% on 1 January 2018.

As shown in the table above, the Bank has a leverage ratio at 31 December 2017 of 10.4% (30 June 2017: 12.7%, 31 December 2017: 12.3%), comfortably ahead of the minimum requirement.

Liquidity

The Group continues to manage its liquidity on a conservative basis by holding High Quality Liquid Assets and utilising predominantly retail funding from customer deposits. In December 2012, Secure Trust Bank was admitted as a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework, to participate in the Discount Window Facility. From July 2013, the Group was permitted to draw down facilities under the Funding for Lending Scheme. Funding for Lending Scheme monies were maintained as a liquidity buffer, above that required to support lending. During 2017, these borrowings were repaid by the Group, and exposure to the Funding for Lending Scheme ended. Subsequently, funds were redrawn for a similar purpose under the new less expensive Term Funding Scheme.

At 30 June 2018 and throughout the period, the Group had significant surplus liquidity over the minimum requirements due to its stock of High Quality Liquid Assets, in the form of the Bank of England Reserve Account and UK Treasury Bills. As shown in the table below, total liquid assets increased by 123% from £139.5 million to £310.9 million, with the High Quality Liquid Assets balance being £276.7 million.

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million

Liquid assets			
Aaa – Aa3	276.7	114.0	231.1
A1 – A3	29.2	20.5	29.3
Unrated	5.0	5.0	5.0
Balance sheet total	**310.9**	**139.5**	**265.4**

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

The Group's Liquidity Coverage Ratio ("LCR"), and other measures used by management to manage liquidity risk, are described in the Principal Risks and Uncertainties section of the Strategic Report.

Interim business review – Business Finance

Real Estate Finance

Real Estate Finance was formed as a division within the Group in 2013. The division supports SMEs in providing finance principally for residential development and residential investment.

Revenue and lending performance vs prior periods

	Period ended 30 June 2018 £million	Period ended 30 June 2017 £million	Year ended 31 December 2017 £million
Lending revenue	18.3	14.8	32.3
Lending balance	704.8	541.4	580.8
Impairment losses/(gains)	0.5	0.1	(0.2)

2018 performance

The Group has continued to grow its Real Estate Finance business, with balances up 30.2% since June 2017 and up 21.3% since December 2017. Growth during the first half of the year has been more balanced between the development and investment books with the higher yielding development book increasing to 33% of the total book, compared to 28% at the end of 2017. This has helped to drive the increase in lending revenues, which have increased 24% compared to the first half of 2017 and are up 5% compared to the second half of 2017. There has been an increase in impairment losses following the transition to IFRS9, albeit that the increase largely arises from the impact of watch-list cases, as opposed to a fully crystallised impairment.

Looking forward

The business continues to remain cautious around credit policy in the light of more uncertain market conditions, but expects to continue to grow the business. The impact of higher capital requirements continues to affect the Group's ability to remain competitive in all parts of the market, and growth will be managed carefully to ensure that returns are maximised whilst maintaining credit quality.

Asset Finance

Asset Finance was formed as a division within the Group in December 2014. It provides funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

Revenue and lending performance vs prior periods

	Period ended 30 June 2018 £million	Period ended 30 June 2017 £million	Year ended 31 December 2017 £million
Lending revenue	3.8	4.3	8.5
Lending balance	87.9	111.5	116.7
Impairment losses	0.9	0.5	1.0

2018 performance

Following the decision to cease new business, the portfolio is in run-off and therefore the lending balances and income have reduced during the first half of 2018, with balances down by 21.2% against June 2017 and down 24.7% so far in 2018.

Impairment losses have increased during the first half of the year to £0.9 million compared to a charge of £0.5 million in both previous periods.

Looking forward

The asset finance division has operated through a partnership with Haydock Finance to date. With the sale of Haydock in January, 2018, the Group continues to assess options within the Asset Finance market, but in the meantime, the Asset Finance portfolio will be expected to reduce in line with contractual repayments from customers.

Commercial Finance

Commercial Finance was formed as a division within the Group in 2014. The division specialises in providing a full range of invoice financing solutions to UK businesses including invoice discounting and factoring.

Revenue and lending performance vs prior periods

	Period ended 30 June 2018 £million	Period ended 30 June 2017 £million	Year ended 31 December 2017 £million
Lending revenue	6.2	3.0	7.2
Lending balance	187.5	94.2	126.5
Impairment losses	0.2	-	0.1

2018 performance

The Commercial Finance business has continued to evolve in the first half of 2018, with lending balances increasing by almost 50%. Income has also grown accordingly against a stable cost base and the nominal levels of impairment are underpinned by a strong culture of risk management.

Alongside this, the business has further improved its infrastructure with the establishment of a regional footprint, confirmed by the opening of offices in central Birmingham and Leeds. Key to this success has been the recruitment and engagement of high calibre people, combined with the ongoing support of the Group. Client service remains at the heart of the business.

Looking forward

For the growth of the Commercial Finance business to remain sustainable, the Group must continue to invest in the regional model, retain and attract the best talent and ensure that the capital allocated is invested in the right opportunities and with the most appropriate returns.

By focussing on our core strengths the Group aims to provide a first class customer centric proposition which firmly cements its existing position as a top ten independent provider of asset based lending facilities in the UK market.

Interim business review – Consumer Finance

Retail Finance

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

Revenue and lending performance vs prior periods

	Period ended 30 June 2018 £million	Period ended 30 June 2017 £million	Year ended 31 December 2017 £million
Lending revenue	29.4	23.4	50.7
Lending balance	508.0	394.3	452.3
Impairment losses	9.0	6.6	13.8

2018 performance

The four largest sub-markets for the Retail Finance business are the provision of finance for the purchase of sports and leisure equipment (including cycles), jewellery, consumer electronics and furniture.

The business has continued to grow strongly across all of the core business sectors. Growth has been driven particularly by increasing market share in jewellery and furniture sectors with new lending volumes increasing by 17.0%. Lending assets totalled £508.0 million at the half year end (June 2017: £394.3 million) which is an increase of 28.8% on the previous year.

Income from retail lending increased by 25.6% to £29.4 million, whilst impairment losses continued to be well controlled. The requirement to book a day one impairment provision under IFRS 9, which was not applicable last year, combined with the increase in the loan book during the period, resulted in impairment losses of £9.0 million (an increase of 36.4% on the previous year).

Looking forward

The Group plans continued growth in Retail Finance for the remainder of 2018 with the focus on acquiring increased market share across its target markets.

A number of initiatives are underway to further enhance systems capabilities to ensure that quality of service to retailers and customers are maintained or improved as the business continues to expand. The business intends to enhance the customer journey by implementing improved telephony systems as well as providing customers with self-serve facilities through an online portal. The business continues to invest in its workforce through improvements to the office environment, support services and training facilities.

Motor Finance

Finance is arranged through motor dealerships and brokers and involves fixed rate, fixed term hire purchase arrangements, predominantly on used cars. The Group uses its Moneyway brand for this business.

Revenue and lending performance v prior periods

	Period ended 30 June 2018 £million	Period ended 30 June 2017 £million	Year ended 31 December 2017 £million
Lending revenue	23.8	22.4	47.1
Lending balance	272.0	258.4	274.6
Impairment losses	6.4	9.2	20.8

2018 performance

The Motor Finance business saw an increase in new business volumes from £72.2 million in the period ended 30 June 2017 to £77.2 million in for period to 30 June 2018. The business narrowed its credit parameters during 2017 in order to reduce potential future impairment losses, hence the increased volume reflects a higher credit quality.

Impairment losses for the period have improved from £9.2 million to £6.4 million reflecting the shift away from subprime motor lending discontinued during 2017. The improvement has been supported by the Motor Finance leadership increasing levels of resource and delivering process improvement within the Collections and Recoveries teams.

Lending revenue improved modestly, by 6%, reflecting the reduction in margin for higher credit quality business. This shift in business alongside improved collections performance has driven an improvement in impairments.

Looking Forward

Over the period the business has made some key appointments to drive growth in the prime and near-prime motor business with new Motor Finance MD, FD, Product Director and Head of Dealer Sales all now on board.

A clear opportunity exists to deliver prime and near-prime products and services in the Motor lending market through a new Motor Finance lending platform. The Motor Finance business is developing initiatives to enhance system capabilities and to deliver a broader range of products. This is expected to improve the credit quality of the portfolio and drive business growth.

Alongside these initiatives, the business will continue to focus on the near-prime market sector through its existing introducer channel. Following the narrowing of its credit parameters in 2017 the shift in business mix towards lower risk lending is expected to continue driving improvements in overall portfolio quality.

Personal Lending

Revenue and lending performance vs prior periods

	Period ended	Period ended	Year ended

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Lending revenue	-	4.7	8.0
Lending balance	-	48.5	-
Impairment losses	-	2.1	3.4

On 21 December 2017, the Group sold its remaining personal lending portfolio to Alpha Credit Solutions and the loans have been migrated to the third party administrator appointed by the purchaser. The Group will continue to monitor the market and consider re-entering it once returns are better aligned with risk.

Interim business review – Consumer Mortgages

Consumer Mortgages was launched during 2017. The division supports residential customers who are underserved by the traditional high street lenders.

Revenue and lending performance v prior periods

	Period ended 30 June 2018 £million	Period ended 30 June 2017 £million	Year ended 31 December 2017 £million
Lending revenue	0.4	-	0.1
Lending balance	37.3	-	16.5
Impairment losses	-	-	-

2018 performance

The first half of 2018 has seen the business build upon the foundations established since launch in March 2017. Attention has been focused on developing the intermediary distribution relationships, bringing additional key partners on board and promoting and educating the broker base on the Group's offering.

The product set and customer focused proposition has continued to develop with the introduction of Interest Only and Part & Part mortgages in March 2018, the 90% Loan to Value product extension in July 2018 and further bespoke opportunities for partner relationships.

Challenges seen in the first half relate to the general slowdown in the purchase market, competitor positioning relating to the specialist market and the ongoing potential of rate rises.

Looking forward

The business is focused on continuing its growth curve by cementing intermediary relationships and becoming the specialist lender of choice. There is a roadmap of continuous improvement in plan, centred on customer service, operational excellence and proposition development; building a compliant scalable business with excellent customer service which has put the Group in a good position to grow.

It is anticipated that the challenges within the wider market will remain and as a result competition in the specialist space will increase. The Group is well placed to serve this market, with the ability to identify, manage and react to market movements and customer risks accordingly.

Interim business review - Savings

The Group is funded primarily via deposits from individuals and small to medium sized businesses, attracting and retaining sizeable balances with competitive rates of interest.

The key terms of accounts that are usually offered from time to time are summarised below:

- 60 to 180 day notice periods and fixed term savings over one to seven years.
- Minimum balance of £1,000.
- Maximum balance of £1 million for sole account holders and £2 million for business and joint accounts.
- Interest paid quarterly (notice) or annually (fixed term) to a nominated account.

Savings balances vs prior periods

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Interest expense	**15.5**	**12.7**	**26.7**
Savings balances			

Notice deposits	449.8	419.0	455.3
Fixed Term Savings	1,180.6	890.8	1,013.4
Sight/Instant Access	15.0	16.0	14.5
Total balances	**1,645.4**	**1,325.8**	**1,483.2**

2018 performance

During the period, total balances from customers have grown £162 million or 11% with over 8,000 new customers. This level of growth has been supported by almost 70% of existing customers choosing to keep their savings balances with the Group at the end of their fixed rate bond.

The Group has been recognised for the high quality of its savings products in the last six months; winning Best Notice Provider in the Savings Champion and being highly commended for its Notice Accounts and shortlisted for the Best Bank Savings Provider by Moneyfacts. Customer ratings of the Group remain strong with Feefo awarding Secure Trust Bank their 'Gold Trusted Service Award'.

Following the successful introduction of a new Banking platform in 2017 the Group, having embedded the new system, has commenced utilising its full capability, starting with the launch of internet banking facilities. Of new customers in 2018, 99% have signed up to the service, of which over 70% have already logged in for the first time. Over 25% of total customers are now registered.

Looking forward

The Group expects more competition for Savings following the Term Funding Scheme being withdrawn. Average market rates have risen during the first half of the year, to levels last seen in 2016, as a result of associated funds being refinanced into the market. The growing competition for customer deposits is expected to become a continuing trend as systemic and mid-tier banks return to the market.

Having already invested in a new savings platform ahead of this, the range of savings products the Group offers to customers is to be expanded in preparation for increasing competition for deposit raising:

- Introducing Fixed Term Cash ISAs; allowing new subscriptions and ISA transfers
- Appraising the opportunity to introduce a broader range of notice and instant access products
- Launching Business Savings; allowing for access to a broader range of potential customers, and
- Enhancement of existing product features; the introduction of monthly income fixed bonds.

The Group will continue to seek further cost efficiency in its operational processes and diversification of product distribution including the potential for distributing its savings products via third party platforms. These will allow the Group to continue to raise deposits to support the Group lending operations at a competitive cost of funds.

The roll-out of internet banking to the existing customer base will further bring efficiencies to the savings operations and a refresh of the web-site will help as part of marketing and distribution initiatives to drive customer deposits, using other tools besides a rate led offer.

Principal risks and management

Risk overview

On an ongoing basis, the Directors carry out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The following are considered to be the principal risks facing the Group:

Risk	Description
Credit Risk	The risk that a counterparty will be unable to pay amounts in full when due
Liquidity Risk	The risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset
Operational Risk	The risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above
Capital Risk	The risk that the Group will have insufficient capital resources to support the business

Market Risk	The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates
Conduct Risk	The potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff
Regulatory Risk	The risk that the Group fails to be compliant with all relevant regulatory requirements

Overview

The Group's risk management statement is set out in the Annual Report and Accounts for the year ended 31 December 2017 starting on page 67. There have been no significant changes to this statement during the period to 30 June 2018.

Changes to the Group's risk profile

Changes to the Group's risk profile since the position set out in the 2017 Annual Report and Accounts are set out in the following sections:

Credit risk

Consumer Finance Credit Risk

The Group made the strategic decision to withdraw the Unsecured Personal Lending product at the start of 2017, largely due to excessively aggressive competition by lenders that now offer unsecured loans in the near-prime market driving prices and margins down below the Group's risk appetite. The Group sold this portfolio in December 2017.

The Retail business has continued to grow strongly in the first half of 2018. A new scorecard was introduced in December 2017, which will refine the balance between acceptance of applications, maintaining risk appetite and generating the required return on equity.

Business Finance Credit Risk

Real Estate Finance and Commercial Finance lending have continued to grow, with continued application of robust risk governance, credit appetite and lending policies, alongside the significant experience within the lending teams. The credit assessment process now utilises credit grading models, developed as part of the Group's IFRS 9 programme, which model the probability of default and loss given default for loans within these portfolios.

Business Finance impairments and arrears have remained minimal to date. Management continue to closely monitor the portfolios and the external events and environment that could impact on each of them.

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. The security on the Real Estate Finance and Consumer Mortgages businesses is principally located in London and the South East of the United Kingdom, whilst the remainder of the loan book is spread around the country broadly in proportion to the population.

Liquidity risk

The Group has continued to use competitive interest rates to attract new fixed and variable rate deposits over terms ranging from one to seven years. A moderate amount of borrowing under the Bank of England's Term Funding Scheme has also been used, with £263.0 million drawn up to 30 June 2018.

The Overall Liquidity Adequacy Requirement has been maintained significantly above regulatory levels throughout the period. This is the Board's own 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 assesses net 30 day cash outflows as a proportion of High Quality Liquid Assets, was also significantly higher than the regulatory requirement throughout the period.

At 30 June 2018, the **total funding ratio** was 116.0% (30 June 2017: 111.4%, 31 December 2017: 115.5%). This ratio has increased in line with the drawdown of TFS funding. Definitions of this ratio, its calculation and the reasons for its use can be found in the Appendix to the interim report on page 67.

Operational Risk

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

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

Key Risk themes of Operational Risk focus in 2018 include:

- **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 introduced a more effective control framework and developed its assurance requirements.
- **Operational Resilience** – The Group recognises that any disruption to the services it provides could cause detriment to its customers and could affect the Group financial stability. In 2018 the Group is developing and further improving its operational resilience.
- **Information Security and Cyber Risk** – As a financial institution, the Group is subject to a heightened risk of actual or attempted IT security breaches by sophisticated cybercrime groups. Any failure by the Group's intrusion detection and anti-penetration software to anticipate, prevent or mitigate a breach of the Group's IT network could significantly disrupt the Group's operations. The Group continues to invest in its information security controls in response to emerging cybercrime threats and to seek to ensure that controls for known threats remain robust.

Capital Risk

At 30 June 2018, the CET1 Ratio was 13.6% (30 June 2017: 15.3%, 31 December 2017: 16.5%) and the Leverage Ratio was 10.4% (30 June 2017: 12.7%, 31 December 2017: 12.3%) on a Group consolidated basis. Both ratios are significantly higher than regulatory requirements. The Group has continued to utilise capital arising from the sale of Everyday Loans to enable balance sheet growth. See Note 13 for further details.

The Group has developed processes by which it can access additional forms of capital, culminating in the issue of £25 million of Tier 2 Fixed Rate Reset Callable Subordinated Notes in July 2018 at a rate of 6.75%. Further details are given in Note 20. The Total Capital Requirement is currently under review and will be confirmed by the PRA in the second half of the year.

Market risk

The Group has continued to focus on interest rate risk in the banking book by monitoring the Interest Rate Sensitivity Gap. It has continued to operate a broadly matched asset and liability model.

The Group remained within risk appetite in respect of interest rate risk throughout the year.

Conduct risk

In line with the Operational Risk Framework, the conduct risk and control assessments have been reviewed by the business units with self-attestations by first line risk owners.

Monthly review and challenge of Key Risk Indicators takes place in the product ExCo meetings, with the Customer Focus Committee providing oversight of the first line activities to assure senior management that the first line are identifying conduct risks when they arise and taking appropriate actions to mitigate them.

Training on conduct risk is provided to first line staff as part of an annual training and communication programme, with an eLearning module completed by staff during the period.

Regulatory risk

In the period, the Group has delivered changes to implement the General Data Protection Regulation (GDPR) and the second Payment Services Directive (PSD2). The Group continues to work on new and revised regulations and legislation that will come into force over the next 18 months and beyond.

Consolidated statement of comprehensive income

	Note	Period ended 30 June 2018	Period ended 30 June 2017	Period ended 30 June 2017	Period ended 30 June 2017	Year ended 31 December 2017	Year ended 31 December 2017	Year ended 31 December 2017
		Unaudited Continuing and Total	Unaudited Continuing	Unaudited Discontinued	Unaudited Total	Audited Continuing	Audited Discontinued	Audited Total
		£million	£million	£million	£million	£million	£million	£million
Income statement								
Interest receivable and similar income		79.2	66.5	4.7	71.2	141.3	8.0	149.3
Interest expense and similar charges		(15.5)	(12.7)	-	(12.7)	(26.7)	-	(26.7)
Net interest income		**63.7**	**53.8**	**4.7**	**58.5**	**114.6**	**8.0**	**122.6**
Fee and commission income		9.8	7.8	-	7.8	16.0	-	16.0
Fee and commission expense		(1.0)	(0.5)	-	(0.5)	(1.1)	-	(1.1)
Net fee and commission income		**8.8**	**7.3**	-	**7.3**	**14.9**	-	**14.9**
Operating income		**72.5**	**61.1**	**4.7**	**65.8**	**129.5**	**8.0**	**137.5**
Impairment losses on loans and advances to customers	7	(16.3)	(16.4)	(2.1)	(18.5)	(33.5)	(3.4)	(36.9)
Operating expenses		(41.1)	(33.5)	(0.2)	(33.7)	(71.3)	(0.3)	(71.6)
Profit on sale of equity instruments available-for-sale	8	-	0.3	-	0.3	0.3	-	0.3
Profit before income tax		**15.1**	**11.5**	**2.4**	**13.9**	**25.0**	**4.3**	**29.3**
Income tax expense	4	(2.4)	(2.2)	(0.5)	(2.7)	(5.1)	(0.8)	(5.9)
Profit after income tax		**12.7**	**9.3**	**1.9**	**11.2**	**19.9**	**3.5**	**23.4**
Gain recognised on disposal	19	-	-	-	-	-	0.4	0.4
Profit for the period		**12.7**	**9.3**	**1.9**	**11.2**	**19.9**	**3.9**	**23.8**
Other comprehensive income								
Items that will not be reclassified to the income statement								
Revaluation reserve		-	-	-	-	0.1	-	0.1
		-	-	-	-	0.1	-	0.1
Items that may subsequently be reclassified to the income statement								
Available-for-sale reserve		-	2.8	-	2.8	2.8	-	2.8
		-	2.8	-	2.8	2.8	-	2.8
Other comprehensive income for the period, net of income tax		-	**2.8**	-	**2.8**	**2.9**	-	**2.9**
Total comprehensive income for the period		**12.7**	**12.1**	**1.9**	**14.0**	**22.8**	**3.9**	**26.7**
Profit attributable to:								
Equity holders of the Company		**12.7**	**9.3**	**1.9**	**11.2**	**19.9**	**3.9**	**23.8**
Total comprehensive income attributable to:								

Equity holders of the Company		**12.7**	**12.1**	**1.9**	**14.0**	**22.8**	**3.9**	**26.7**
Earnings per share for profit attributable to the equity holders of the Company during the period (pence per share)								
Basic earnings per share	5	**68.7**	**50.3**	**10.3**	**60.6**	**107.7**	**21.1**	**128.8**
Diluted earnings per share	5	**67.6**	**49.8**	**10.2**	**60.0**	**106.4**	**20.9**	**127.3**

Consolidated statement of financial position

	Note	30 June 2018 Unaudited £million	30 June 2017 Unaudited £million	31 December 2017 Audited £million
ASSETS				
Cash and balances at central banks		126.7	114.0	226.1
Loans and advances to banks		34.2	25.5	34.3
Loans and advances to customers	6	1,839.1	1,509.6	1,598.3
Debt securities		150.0	-	5.0
Property, plant and equipment		11.6	11.2	11.5
Intangible assets		10.3	9.8	10.4
Deferred tax assets		7.4	0.9	0.6
Other assets		7.8	3.4	5.4
Total assets		**2,187.1**	**1,674.4**	**1,891.6**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	9	263.0	63.0	113.0
Deposits from customers	10	1,645.4	1,325.8	1,483.2
Current tax liabilities		2.8	3.5	3.0
Deferred tax liabilities		-	0.3	-
Other liabilities		49.3	41.3	41.9
Provisions for liabilities and charges	11	1.6	1.2	1.4
Total liabilities		**1,962.1**	**1,435.1**	**1,642.5**
Equity attributable to owners of the parent				
Share capital		7.4	7.4	7.4
Share premium		81.2	81.2	81.2
Revaluation reserve		1.3	1.2	1.3
Retained earnings		135.1	149.5	159.2
Total equity		225.0	239.3	249.1
Total liabilities and equity		**2,187.1**	**1,674.4**	**1,891.6**

Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Available-for-sale reserve £million	Retained earnings £million	Total £million
(Unaudited) Balance at 1 January 2018 (as previously stated)	**7.4**	**81.2**	**1.3**	**-**	**159.2**	**249.1**
IFRS 9 transition adjustment	-	-	-	-	(25.8)	(25.8)
(Unaudited) Balance at 1 January 2018 (as restated)	**7.4**	**81.2**	**1.3**	**-**	**133.4**	**223.3**
Total comprehensive income for the period						
Profit for the six months ended 30 June 2018	-	-	-	-	12.7	12.7
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	-	(11.3)	(11.3)
Share-based payments	-	-	-	-	0.3	0.3

Total contributions by and distributions to owners	-	-	-	-	**(11.0)**	**(11.0)**
Balance at 30 June 2018	**7.4**	**81.2**	**1.3**	-	**135.1**	**225.0**
(Unaudited) Balance at 1 January 2017	**7.4**	**81.2**	**1.2**	**(2.8)**	**149.0**	**236.0**
Total comprehensive income for the period						
Profit for the six months ended 30 June 2017	-	-	-		11.2	11.2
Other comprehensive income, net of income tax						
Available-for-sale reserve	-	-	-	2.8	-	2.8
Total other comprehensive income	-	-	-	**2.8**	-	**2.8**
Total comprehensive income for the period	-	-	-	**2.8**	**11.2**	**14.0**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	-	(10.7)	(10.7)
Total contributions by and distributions to owners	-	-	-	-	**(10.7)**	**(10.7)**
Balance at 30 June 2017	**7.4**	**81.2**	**1.2**	-	**149.5**	**239.3**
(Audited) Balance at 1 January 2017	**7.4**	**81.2**	**1.2**	**(2.8)**	**149.0**	**236.0**
Total comprehensive income for the period						
Profit for the twelve months ended 31 December 2017	-	-	-	-	23.8	23.8
Other comprehensive income, net of income tax						
Revaluation reserve	-	-	0.1	-	-	0.1
Available-for-sale reserve	-	-	-	2.8	-	2.8
Total other comprehensive income	-	-	**0.1**	**2.8**	-	**2.9**
Total comprehensive income for the period	-	-	**0.1**	**2.8**	**23.8**	**26.7**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	-	(14.0)	(14.0)
Tax on share-based payments	-	-	-	-	0.4	0.4
Total contributions by and distributions to owners	-	-	-	-	**(13.6)**	**(13.6)**
Balance at 31 December 2017	**7.4**	**81.2**	**1.3**	-	**159.2**	**249.1**

Consolidated statement of cash flows

	Period ended 30 June 2018	Period ended 30 June 2017	Period ended 30 June 2017	Period ended 30 June 2017	Year ended 31 December 2017	Year ended 31 December 2017	Year ended 31 December 2017
	Total	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited	Audited
	£million	£million	£million	£million	£million	£million	£million
Cash flows from operating activities							
Profit for the period	12.7	9.3	1.9	11.2	19.9	3.9	23.8

Adjustments for:							
Income tax expense	2.4	2.2	0.5	2.7	5.1	0.8	5.9
Depreciation of property, plant and equipment	0.4	0.4	-	0.4	0.8	-	0.8
Amortisation of intangible assets	1.0	0.9	-	0.9	2.0	-	2.0
Impairment losses on loans and advances to customers	16.3	16.4	2.1	18.5	33.5	3.4	36.9
Share-based payments	0.3	-	-	-	-	-	-
Gain recognised on disposal	-	-	-	-	-	(0.4)	(0.4)
Profit on sale of equity instruments available-for-sale	-	(0.3)	-	(0.3)	(0.3)	-	(0.3)
Cash flows from operating profits before changes in operating assets and liabilities	33.1	28.9	4.5	33.4	61.0	7.7	68.7
Changes in operating assets and liabilities:							
- net (increase)/decrease in debt securities	(145.0)	20.0	-	20.0	15.0	-	15.0
- net increase/(decrease) in loans and advances to customers	(288.9)	(224.1)	17.0	(207.1)	(378.3)	28.0	(350.3)
- net (increase)/decrease in other assets	(2.4)	1.5	-	1.5	(1.0)	-	(1.0)
- net increase in deposits from customers	162.2	174.0	-	174.0	331.4	-	331.4
- net increase/(decrease) in other liabilities	7.3	(7.8)	-	(7.8)	(7.0)	-	(7.0)
Income tax paid	(3.1)	(1.7)	-	(1.7)	(5.1)	-	(5.1)
Net cash (outflow)/inflow from operating activities	**(236.8)**	**(9.2)**	**21.5**	**12.3**	**16.0**	**35.7**	**51.7**
Cash flows from investing activities							
Sale of discontinued operation	-	-	-	-	37.1	-	37.1
Proceeds from sale of equity instruments available-for-sale	-	16.6	-	16.6	16.6	-	16.6
Purchase of property, plant and equipment	(0.5)	(0.2)	-	(0.2)	(0.8)	-	(0.8)
Purchase of computer software	(0.9)	(1.7)	-	(1.7)	(3.4)	-	(3.4)
Net cash (outflow)/inflow from investing activities	**(1.4)**	**14.7**	**-**	**14.7**	**49.5**	**-**	**49.5**
Cash flows from financing activities							
Net increase/(decrease) in amounts due to banks	150.0	(7.0)	-	(7.0)	43.0	-	43.0
Dividends paid	(11.3)	(10.7)	-	(10.7)	(14.0)	-	(14.0)
Net cash inflow/(outflow) from financing activities	**138.7**	**(17.7)**	**-**	(17.7)	**29.0**	**-**	**29.0**
Net (decrease)/increase in cash and cash equivalents	**(99.5)**	**(12.2)**	**21.5**	**9.3**	**94.5**	**35.7**	**130.2**
Cash and cash equivalents at start of period	260.4	130.2	-	130.2	130.2	-	130.2
Cash and cash equivalents at end of period	**160.9**	**118.0**	**21.5**	**139.5**	**224.7**	**35.7**	**260.4**

The consolidated statement of cash flows has been restated in a columnar format, as this enhances the user's understanding of the cash flows of the business.

Proceeds from sale of equity instruments available-for-sale and net (decrease)/increase in amounts due to banks have been moved from operating activities to investing activities and financing activities respectively, as this better represents the nature of the underlying activity.

Notes to the interim report

1. Accounting policies

The principal accounting policies applied in the preparation of this interim report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

1.1. Reporting entity

Secure Trust Bank PLC is a company incorporated in the United Kingdom (referred to as 'the Company'). The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The interim report of the Company as at and for the period ended 30 June 2018 comprises Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

1.2. Basis of presentation

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

A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The previous auditor's report on those accounts was not qualified, did not include a reference to any matters to which the previous auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The results for the periods ending 30 June 2018 and 30 June 2017 are unaudited. The results for the year ending 31 December 2017 are audited.

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

The preparation of the interim report in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the interim report are disclosed in Notes 1.3 and 2.

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

In assessing the Group as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the 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.

1.3. Accounting policies

The accounting policies applied in preparing the unaudited condensed interim report are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2017, except for the following:

1.3.1 IFRS 9 'Financial Instruments'

The new standard, effective for period beginning 1 January 2018, has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. Adoption of the standard has resulted in new accounting policies for interest income and expense, the classification and measurement of financial instruments and the impairment of financial assets and loan commitments which are presented below.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as noted below:

- Comparative periods have not been restated. Information presented for 2017 will not therefore be comparable. Differences in the carrying amounts of financial instruments resulting from adoption of IFRS 9 are recognised in retained earnings at 1 January 2018
- The determination of the business model within which the financial asset is held has been assessed based on facts that existed at the date of initial application and

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk of the asset had not increased significantly since initial recognition. A financial asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of investment grade.

Implementation of IFRS 9 resulted in a £25.8 million reduction in the Group's opening equity at 1 January 2018, being £32.1 million net of £6.3 million related to associated deferred tax impacts. There has been no change in the carrying amount of financial instruments on the basis of their measurement categories. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss impairment approach with an expected credit loss (ECL) approach. Further details are provided in Note 18.

1.3.2 Interest income and expense

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), 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 1.3.4.

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. 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 1.3.4.

1.3.3 Classification of financial instruments

Financial Assets

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 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 assets are therefore currently classified as amortised cost. Loans are recognised when funds are advanced to customers and are carried at amortised cost using the effective interest method.

The amortised cost of an instrument is the amount at which it is measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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. All financial assets are measured at amortised cost.

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 OCI. 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. The Group currently has no financial assets 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

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 method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the statement of financial position date.

The Group has not elected to measure any financial liabilities at fair value.

1.3.4 Impairment of financial assets and loan commitments

The Group recognises loss allowances for ECLs on all financial assets carried at amortised cost, including lease receivables and loan commitments.

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; and
- 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.

Such assets are classified as stage 1 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 or considered to be in default are classified as stage 2 assets. The Group's definitions of a significant increase in credit risk and default are set out below.

A financial 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.

Definition of default/credit impaired financial assets (Stage 3 loans)

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired (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. 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 or
- Initiation of repossession proceedings.

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 such that they are no longer considered 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; and
- Unpaid debtor balances that are dated at least 6 months past their normal recourse period.

Significant increase in credit risk (Stage 2 loans)

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.

Performing assets which have experienced a significant increase in credit risk since initial recognition 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.

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, with the exception of Real Estate Finance, 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. For the Real Estate Finance portfolio payments would need to be maintained for twelve consecutive months.

Expected credit loss

ECLs 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.

Further details regarding key inputs into the calculation of ECL are provided in Note 2.

Loss allowances for ECL are presented in the statement of financial position as follows with the loss recognised in the statement of comprehensive income:

- 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.

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. Where the terms of a financial asset have been modified and the modification has not resulted in derecognition, the expected cash flows arising from the modified financial asset are included in calculating any cash shortfalls from the existing asset. Any change in the carrying value of the modified asset would be recognised immediately in the income statement.

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.

1.3.5 Taxation

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

1.3.6 Standards in issue but not yet effective

New and amended standards and interpretations need to be adopted in the first interim report issued after their effective date (or date of early adoption). IFRS 9, IFRS 15 'Revenue' and IFRS 17 'Insurance contracts' all became effective for the first time for the six months ended 30 June 2018. The effect of adopting IFRS 9 is set out in this Note. IFRS 15 and IFRS 17 had no material effect on the group.

IFRS 16 'Leases' has been issued but is only effective for annual periods beginning after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 'Leases', and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases, except short term and low value leases, are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. The effect of this standard is currently being assessed, but it is unlikely to be substantial. Lessor accounting remains unchanged from IAS 17.

2. Critical judgements and estimates

Judgements

In the course of preparing the financial statements, no significant judgements have been made in applying the Group's accounting policies, other than those involving estimations set out below that have had a significant effect on the amounts recognised in the financial statements.

Estimates

Note 1.3 above outlines the main sources of estimation uncertainty inherent within the application of IFRS 9. Those estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty are outlined below, along with corresponding sensitivity analysis which demonstrated the impact of a reasonably possible change in assumption.

Modelling techniques
ECLs are calculated by multiplying three main components; the probability of default (PD), exposure at default (EAD) 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. Note 7 sets out in more detail the management adjustments made in this period.

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 information obtained during periodic client reviews, for example audited financial statements, management accounts, budgets and projections are considered, with particular focus on key ratios, compliance with covenants and changes in senior management teams.

Exogenous, Maturity, Vintage (EMV) modelling is used in the production of forward looking lifetime PDs. This method entails modelling the effects of external (exogenous) factors against cohorts of lending and their time on the books creating a clean relationship to best demonstrate the movement in default rates as macroeconomic variables are changed. These models are extrapolated to provide PD estimates for the future, based on forecasted economic scenarios.

As the Group's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model (ERM) to incorporate the effects of recession.

The portfolios for which external benchmark information represents a significant input into the measurement of ECL are as follows:

		External benchmarks used	
	Exposure (£million)	LGD	PD
Real Estate Finance	705.4	CML repossessions and default rates	The benchmarks below relate to all three portfolios: S&P Ratings; BOE UK Possessions as proxy data for ERM
Asset Finance	90.2	N/A	
Commercial Finance	188.5	N/A	

The sensitivity of Consumer Finance provision levels to changes in PD is set out below:

	10% change in PD £million
Retail Finance	1.9
Motor Finance	2.2
	4.1

The directors consider that a change in PD of 10% is a reasonably possible change. The sensitivity of Business Finance provision levels to any reasonable change in PD is not material.

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 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 so as to improve the likelihood of full recovery of exposure from the debtors. Alternative recovery routes mitigating ECL would include refinance 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 (LTV) 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.

The sensitivity of Consumer Finance provision levels to changes in LGD is set out below:

	10% change in LGD £million
Retail Finance	2.0
Motor Finance	3.4
	5.4

The directors consider that a change in LGD of 10% is a reasonably possible change.

Of the £3.4 million sensitivity to LGD in Motor Finance above, an estimated £2.3 million relates to the expected loss on sale of repossessed vehicles.

The sensitivity of Business Finance provision levels to any reasonable change in LGD is not material.

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. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. The scenarios adopted and probability weighting applied are approved by the Assumptions Committee.

The scenarios adopted at 30 June 2018 remain unchanged from transition to IFRS 9 and are summarised below:

Scenario	Derivation	Weighting
Base case	Derived from external consensus forecasts, primarily from the Bank of England, and used in the Group's strategic planning and budgeting processes.	80%

Benign case	Assumes that the expected credit loss models are unaffected by changing macroeconomic variables.	5%
Stressed case	Management's assessment, based on historic data, of an adverse scenario that could occur once every 7 to 8 years.	10%
Deeper stress	Based on the scenario used by the PRA for the H1 2017 ICAAP. This can be found on the Bank of England's website: www.bankofengland.co.uk	5%

The key drivers of credit risk and credit losses included in the above scenarios have been identified as annual unemployment rate growth, changes to the consumer price index and annual house price index growth.

3. Operating segments

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

Business finance

1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate.
2) Asset Finance: loans to small and medium sized enterprises to acquire commercial assets.
3) Commercial Finance: invoice discounting and invoice factoring.

Consumer finance

4) Motor Finance: Hire purchase agreements secured against the vehicle being financed.
5) Retail Finance: Point of sale unsecured finance for in-store and online retailers.

Consumer mortgages

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

Other

Other includes OneBill, RentSmart, debt collection and a £30 million loan to Non-Standard Finance plc (NSF) as part of their purchase of ELG, which was repaid during the second half of 2017. OneBill has been closed to new customers since 2009.

Discontinued operations

Personal Lending: Unsecured consumer loans sold to customers via broker aggregators and business partners.

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

	Interest receivable and similar income	Fee and commission income	Revenue from external customers	Impairment losses on loans and advances to customers	Loans and advances to customers	Loan commitments
	£million	£million	£million	£million	£million	£million
Period ended 30 June 2018						
Business Finance						
Real Estate Finance	18.3	-	**18.3**	0.5	**704.8**	168.7
Asset Finance	3.8	-	**3.8**	0.9	**87.9**	-
Commercial Finance	2.3	3.9	**6.2**	0.2	**187.5**	53.2
Consumer Finance						
Retail Finance	27.4	2.0	**29.4**	9.0	**508.0**	25.8
Motor Finance	23.2	0.6	**23.8**	6.4	**272.0**	0.8
Consumer Mortgages	0.4	-	**0.4**	-	**37.3**	13.8
Other	3.8	3.3	**7.1**	(0.7)	**41.6**	1.0
	79.2	**9.8**	**89.0**	**16.3**	**1,839.1**	**263.3**

	Interest receivable and similar income £million	Fee and commission income £million	Revenue from external customers £million	Impairment losses on loans and advances to customers £million	Loans and advances to customers £million	Loan commitments £million
Period ended 30 June 2017						
Business Finance						
Real Estate Finance	14.7	0.1	**14.8**	0.1	**541.4**	109.5
Asset Finance	4.3	-	**4.3**	0.5	**111.5**	17.9
Commercial Finance	1.0	2.0	**3.0**	-	**94.2**	28.4
Consumer Finance						
Retail Finance	21.8	1.6	**23.4**	6.6	**394.3**	20.5
Motor Finance	22.0	0.4	**22.4**	9.2	**258.4**	0.6
Consumer Mortgages	-	-	**-**	-	**-**	-
Other	2.7	3.7	**6.4**	-	**61.3**	0.5
Continuing operations	**66.5**	**7.8**	**74.3**	**16.4**	**1,461.1**	177.4
Discontinued operations						
Personal Lending	4.7	-	**4.7**	2.1	**48.5**	-
	71.2	**7.8**	**79.0**	**18.5**	**1,509.6**	**177.4**

	Interest receivable and similar income £million	Fee and commission income £million	Revenue from external customers £million	Impairment losses on loans and advances to customers £million	Loans and advances to customers £million	Loan commitments £million
Year ended 31 December 2017						
Business Finance						
Real Estate Finance	32.1	0.2	**32.3**	(0.2)	**580.8**	98.6
Asset Finance	8.5	-	**8.5**	1.0	**116.7**	15.5
Commercial Finance	2.5	4.7	**7.2**	0.1	**126.5**	35.5
Consumer Finance						
Retail Finance	47.5	3.2	**50.7**	13.8	**452.3**	0.6
Motor Finance	46.2	0.9	**47.1**	20.8	**274.6**	20.1
Consumer Mortgages	0.1	-	**0.1**	-	**16.5**	7.7
Other	4.4	7.0	**11.4**	(2.0)	**30.9**	0.5
Continuing operations	141.3	16.0	**157.3**	33.5	**1,598.3**	178.5
Discontinued operations						
Personal Lending	8.0	-	**8.0**	3.4	**-**	-
	149.3	**16.0**	**165.3**	**36.9**	**1,598.3**	178.5

The 'other' segment above includes other products which are individually below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS 8.28 by reconciling operating segments to the amounts reported in the interim report. Currently, the Consumer Mortgages segment also falls below this threshold, but the directors consider that this segment represents a key part of the future strategy of the Group, and therefore merits separate disclosure.

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

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

4. Income tax expense

	Period ended 30 June 2018 Continuing operations	Period ended 30 June 2017 Continuing operations	Period ended 30 June 2017 Discontinued operations	Period ended 30 June 2017 Total	Year ended 31 December 2017 Continuing operations	Year ended 31 December 2017 Discontinued operations	Year ended 31 December 2017 Total

	and Total						
	£million	£million	£million	£million	£million	£million	£million
Current taxation							
Corporation tax charge - current period	2.9	2.9	0.5	3.4	5.5	0.8	6.3
Corporation tax charge - adjustments in respect of prior periods	-	(0.7)	-	(0.7)	-	-	-
	2.9	**2.2**	**0.5**	**2.7**	**5.5**	**0.8**	**6.3**
Deferred taxation							
Deferred tax charge - current period	(0.5)	0.1	-	0.1	(0.5)	-	(0.5)
Deferred tax charge - adjustments in respect of prior periods	-	(0.1)	-	(0.1)	0.1	-	0.1
	(0.5)	-	-	-	**(0.4)**	-	**(0.4)**
Income tax expense	**2.4**	**2.2**	**0.5**	**2.7**	**5.1**	**0.8**	**5.9**

The tax for the period ended 30 June 2018 has been calculated at the current effective rate, which is 19% throughout 2018 (30 June 2017 and 31 December 2017: 19.25%).

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 the next ten years. The Company is likely to suffer the 8% corporation tax surcharge on banking company profits in excess of £25.0 million during this period, but the timing of this is uncertain. Any changes in the forecast tax rate of the Company over this period could significantly affect the future tax charge.

5. Earnings per ordinary share

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:

	Period ended 30 June 2018	Period ended 30 June 2017	Year ended 31 December 2017
Profit attributable to equity holders of the parent (£ millions)			
Continuing operations	12.7	9.3	19.9
Discontinued operations	-	1.9	3.9
	12.7	11.2	23.8
Weighted average number of ordinary shares (number)	18,475,229	18,475,229	18,475,229
Earnings per share (pence)			
Continuing operations	68.7	50.3	107.7
Discontinued operations	-	10.3	21.1
	68.7	**60.6**	**128.8**

Diluted

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

	Period ended 30 June 2018	Period ended 30 June 2017	Year ended 31 December 2017
Weighted average number of ordinary shares	18,475,229	18,475,229	18,475,229
Number of dilutive shares in issue at the period end	319,374	180,210	219,007
Fully diluted weighted average number of ordinary shares	18,794,603	18,655,439	18,694,236
Dilutive shares being based on:			
Number of options outstanding at the period end	468,157	242,076	368,063
Exercise price (pence)	644	529	799
Average share price during the period (pence)	1,924	2,082	1,974
Diluted earnings per share (pence)			

Continuing operations	67.6	49.8	106.4
Discontinued operations	-	10.2	20.9
	67.6	**60.0**	**127.3**

Underlying

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

	Period ended 30 June 2018	Period ended 30 June 2017	Year ended 31 December 2017
Underlying profit attributable to equity holders of the parent (£ millions)	13.8	9.8	21.5
Weighted average number of ordinary shares (number)	18,475,229	18,475,229	18,475,229
Underlying earnings per share (pence)	**74.7**	**53.0**	**116.4**

6. Loans and advances to customers

	30 June 2018 (on an IFRS 9 basis) £million	30 June 2017 (on an IAS 39 basis) £million	31 December 2017 (on an IAS 39 basis) £million
Gross loans and advances	1,907.1	1,545.2	1,638.2
Less: allowances for impairment on loans and advances (Note 7)	(68.0)	(35.6)	(39.9)
	1,839.1	1,509.6	1,598.3

The 30 June 2018 column has been prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard, comparatives have not been restated. Refer to Notes 1.3 and 18 for further information.

The fair value of loans and advances to customers is shown in Note 14.

7. Allowances for impairment of loans and advances

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
Period ended 30 June 2018						
Business Finance:						
Real Estate Finance	0.1	0.5	-	0.6	705.4	0.1%
Asset Finance	0.3	0.1	1.9	2.3	90.2	2.5%
Commercial Finance	0.2	0.3	0.5	1.0	188.5	0.5%
Consumer Finance:						
Retail Finance	8.3	7.7	4.0	20.0	528.0	3.8%
Motor Finance:						
Voluntary termination provision	5.7	-	-	5.7		
Other impairment	5.3	15.4	14.4	35.1		
	11.0	15.4	14.4	40.8	312.8	13.0%
Consumer mortgages	0.1	-	-	0.1	37.4	0.3%
Other	-	-	3.2	3.2	44.8	7.1%
	20.0	**24.0**	**24.0**	**68.0**	**1,907.1**	**3.6%**

Total provisions above include expert credit judgements over the Group's IFRS 9 model results of £4.4 million, of which £1.8 million are specific overlays for the Business Finance portfolio.

The above table is prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard comparatives set out in the tables below have not been restated. Refer to Notes 1.3 and 18 for further information.

	Individual provision	Collective provision	Total	Gross loans and receivables	Provision cover

	£million	£million	£million	£million	%
Period ended 30 June 2017 (IAS 39 basis)					
Business Finance:					
Real Estate Finance	-	0.5	0.5	541.9	0.1%
Asset Finance	1.3	0.2	1.5	113.0	1.3%
Commercial Finance	0.4	0.2	0.6	94.8	0.6%
Consumer Finance:					
Retail Finance	4.8	1.2	6.0	400.3	1.5%
Motor Finance:					
Voluntary termination provision	0.9	-	0.9		
Other impairment	13.6	2.5	16.1		
	14.5	2.5	17.0	275.4	6.2%
Personal Lending	5.6	0.6	6.2	54.7	11.3%
Other	3.8	-	3.8	65.1	5.8%
	30.4	**5.2**	**35.6**	**1,545.2**	**2.3%**

	Individual provision £million	Collective provision £million	Total £million	Gross loans and receivables £million	Provision cover %
Year ended 31 December 2017 (IAS 39 basis)					
Business Finance:					
Real Estate Finance	-	0.3	0.3	581.1	0.1%
Asset Finance	1.0	0.2	1.2	117.9	1.0%
Commercial Finance	0.4	0.2	0.6	127.1	0.5%
Consumer Finance:					
Retail Finance	6.5	1.1	7.6	459.9	1.7%
Motor Finance:					
Voluntary termination provision	1.0	-	1.0		
Other impairment	23.3	2.6	25.9		
	24.3	2.6	26.9	301.5	8.9%
Consumer Mortgages	-	-	-	16.5	-
Other	3.3	-	3.3	34.2	9.6%
	35.5	**4.4**	**39.9**	**1,638.2**	**2.4%**

Provisions included in ‘Other’ are in respect of various legacy products. This segment also includes loans of £17.8 million (30 June 2017: £17.1 million, 31 December 2017: £17.2 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans.

The impairment losses disclosed in the income statement, for continuing operations, can be analysed as follows:

	Period ended 30 June 2018 (IFRS 9) £million	Period ended 30 June 2017 (IAS 39) £million	Year ended 31 December 2017 (IAS 39) £million
IFRS9 ECL/ IAS 39 incurred loss individual provision: charge for impairment losses	13.7	18.4	36.4
IFRS 9 impairment losses in respect of off balance sheet loan commitments	0.1	-	-
IAS 39 incurred loss collective provision: charge for impairment losses	-	(0.1)	(0.4)
Loans written off, net of amounts utilised	3.2	0.7	1.4
Recoveries of loans written off	(0.7)	(0.5)	(0.5)
	16.3	18.5	36.9
Less Personal Lending	-	(2.1)	(3.4)
	16.3	**16.4**	**33.5**

The 30 June 2018 column has been prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard comparatives have not been restated. Refer to Notes 1.3 and 18 for further information.

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

	Not credit impaired Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Credit impaired Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2018	18.9	24.9	27.9	71.7
Increase/(decrease)due to change in credit risk				
- Transfer to stage 2	(3.0)	15.7	-	12.7
- Transfer to stage 3	(0.1)	(12.2)	16.0	3.7
- Transfer to stage 1	0.8	(1.8)	-	(1.0)
Passage of time	(4.4)	(1.1)	(2.5)	(8.0)
New loans originated	8.5	0.1	-	8.6
Derecognised loans	(0.9)	(1.6)	-	(2.5)
Other adjustments	0.2	-	-	0.2
Charge to income statement	1.1	(0.9)	13.5	13.7
Allowance utilised in respect of write offs	-	-	(17.4)	(17.4)
30 June 2018	**20.0**	**24.0**	**24.0**	68.0

The above table is prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard comparatives have not been restated. Refer to Notes 1.3 and 18 for further information. The comparatives below are stated on an IAS 39 basis.

Other adjustments above represents the movement in the Motor voluntary termination provision.

	Period ended 30 June 2017 £million	Year ended 31 December 2017 £million
Individual allowances for impairment		
At 1 January	23.1	23.1
Charge for impairment losses	18.4	36.4
Amounts utilised	(7.3)	(13.5)
Changes to presentation in respect of debt sales	(3.8)	(3.6)
Sale of Personal Lending	-	(6.9)
	30.4	**35.5**
Collective allowances for impairment		
At 1 January	5.3	5.3
Charge for impairment losses	(0.1)	(0.4)
Sale of Personal Lending	-	(0.5)
	5.2	**4.4**
Total allowances for impairment	**35.6**	**39.9**

8. Equity instruments available-for-sale

On 13 April 2016, as part of the sale of Everyday Loans Group (ELG) to Non-Standard Finance plc ('NSF'), the Group acquired 23,529,412 shares in NSF at a cost of 69.25 pence per share. This equity instrument was considered to be available for sale, and therefore fair value changes on the Available-For-Sale securities were recognised directly in other comprehensive income and equity (AFS reserve).

In May 2017, the shares were sold at an average price of 71 pence, realizing a profit of £343,000. The AFS reserve balance of £2.8 million, which had arisen due to previous movements in the NSF share price, was reclassified from other comprehensive income to the income statement. This was settled prior to the implementation of IFRS 9, and therefore no reassessment of fair value through other comprehensive income, or fair value through profit and loss was required.

9. Due to banks

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Amounts due to other credit institutions	263.0	63.0	113.0

Amounts due to banks at 30 June 2018 and 31 December 2017 represent monies arising from drawings under the Term Funding Scheme. These are due for repayment between May 2021 and February 2022 (December 2017: between May 2021 and November 2021).

Amounts due to banks at 30 June 2017 represented monies arising from the sale and repurchase of drawings under the Funding for Lending Scheme, which were repaid during 2017.

10. Deposits from customers

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Current/demand accounts	15.0	16.0	14.5
Term deposits	1,630.4	1,309.8	1,468.7
	1,645.4	**1,325.8**	**1,483.2**

The fair value of deposits from customers is shown in Note 14.

11. Provisions for liabilities and charges

Period ended 30 June 2018	Customer redress £million	Fraud £million	ECL allowance on loan commitment (IFRS 9 basis) £million	Total £million
Balance at 1 January	1.2	0.2	0.3	1.7
(Credited)/charged to income statement	-	(0.1)	0.1	-
Utilised	(0.1)	-	-	(0.1)
	1.1	**0.1**	**0.4**	**1.6**

The above table is prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard comparatives have not been restated. Refer to Notes 1.3 and 18 for further information. The comparatives below are stated on an IAS 39 basis.

Period ended 30 June 2017	Customer redress £million	Fraud £million	Total £million
Balance at 1 January	1.3	-	1.3
Charged to income statement	0.2	-	0.2
Utilised	(0.3)	-	(0.3)
	1.2	**-**	**1.2**

Period ended 31 December 2017	Customer redress £million	Fraud £million	Total £million
Balance at 1 January	1.3	-	1.3
Charged to income statement	0.4	0.2	0.6
Utilised	(0.5)	-	(0.5)
	1.2	**0.2**	**1.4**

Customer redress provision

The Group provides for its best estimate of redress payable in respect of historical sales of accident, sickness and unemployment insurance, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward to 2019, as management believe this to be an appropriate time horizon, recognising the significant decline in recent claims experience and the increasing subjectivity beyond that. The accuracy of these estimates would be affected, were there to be a significant change in either the number of future claims or, the incidence of claims upheld by the Financial Ombudsman Service.

The Financial Conduct Authority has announced a deadline for making these customer redress claims, which would give consumers until 29 August 2019 to make a claim.

Fraud

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

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9 the Group holds an ECL allowance against loans it has committed to lend but have not yet been drawn. The majority of the £0.4 million allowance held at 30 June 2018 relates to undrawn balances within Retail Finance. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 30 June 2018 no provision was held for losses in excess of drawn amounts.

12. Commitments

The Group's off-balance sheet exposure to undrawn loan commitments at 30 June 2018 was £263.3 million (30 June 2017: £177.4 million, 31 December 2017: £178.5 million). Details of the split by business is given in Note 3.

13. Capital

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

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

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Tier 1			
Share capital	7.4	7.4	7.4
Share premium	81.2	81.2	81.2
Retained earnings	135.1	138.2	159.2
Revaluation reserve	1.3	1.2	1.3
Goodwill	(1.0)	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(9.1)	(8.5)	(9.2)
Transitional IFRS 9 adjustment	24.5	-	-
CET 1 capital excluding interim dividend	239.4	218.5	238.9
Interim dividend	(3.5)	-	-
CET1 capital	**235.9**	**218.5**	**238.9**
Tier 2			
Collective allowance for impairment of loans and advances	-	5.3	4.4
Total Tier 2 capital	**-**	**5.3**	**4.4**
Own Funds	**235.9**	**223.8**	**243.3**
Reconciliation to total equity:			
Goodwill and other intangible assets net of attributable deferred tax	10.1	9.5	10.2
Collective allowance for impairment of loans and advances	-	(5.2)	(4.4)
Profits yet to be certified	-	11.2	-
Transitional IFRS 9 adjustment	(24.5)	-	-
Interim dividend	3.5	-	-

Total equity	**225.0**	**239.3**	**249.1**

Under IFRS 9, there is no longer a collective allowance, and therefore at 30 June 2018 the Group does not hold any Tier 2 capital.

Retained earnings within CET 1 Capital are reported on a certified basis and therefore did not include uncertified earnings of £11.2 million for the period ended 30 June 2017. The profits for the period ended 30 June 2018 have been certified by the auditors, and are therefore included within CET 1 Capital. This profit will not be included in the Group's Pillar 3 return for June 2018 as it is not yet approved by the regulator.

The transitional adjustment to capital arises from the Group making an election to phase in the impact of transitioning to IFRS 9 over a five year period, by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five respectively. At 30 June 2018, this amounted to 95% of the IFRS 9 transition adjustment of £25.8 million.

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

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

	Total carrying amount 30 June 2018 £million	Fair value 30 June 2018 £million	Total carrying amount 30 June 2017 £million	Fair value 30 June 2017 £million	Total carrying amount 31 December 2017 £million	Fair value 31 December 2017 £million
Loans and advances to customers	1,839.1	1,910.6	1,509.6	1,607.5	1,598.3	1,641.1
Deposits from customers	1,645.4	1,644.2	1,325.8	1,323.2	1,483.2	1,481.6

Equity investments held-for-sale and freehold land and buildings are carried at fair value. All other assets and liabilities are carried at amortised cost.

15. Share-based payments

At 30 June 2018, the Group had five share-based payment schemes in operation:

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

A summary of the key details of each scheme is set out below:

	Outstanding at the start of the period	Granted during the period Number	Leavers during the period Number	Outstanding at the end of the period Number	Vested and exercisable Number	Vesting Date	Exercise price £
Equity settled							
Share option scheme	177,084	-	-	177,084	177,084	2 November 2016	7.20
2017 long term incentive plan	67,992	94,504	-	162,496	-	1 June 2020, 20 April 2021	0.40
2017 sharesave plan	125,947	-	(12,060)	113,887	-	1 November 2020	13.19
2017 deferred bonus plan	-	14,690	-	14,690	-	20 April 2019, 20 April 2020, 20 April 2021	0.40
	371,023	109,194	(12,060)	468,157	177,084		
Cash settled							
'Phantom' share option scheme	312,917	-	-	312,917	-	16 March 2019	25.00

Share option scheme

The number of unexercised share options as at 30 June 2018 remains unchanged from the position as at 31 December 2017 and 30 June 2016. The intrinsic value of unexercised options is £2.0 million (30 June 2017: £2.2 million, 31 December 2017: £1.8 million).

2017 long term incentive plan

On 3 May 2017, the Group established the 2017 Long Term Incentive Plan Scheme entitling two directors and certain other key senior employees to purchase shares in the Company.

On 20 April 2018, a further 94,504 share options were granted at an exercise price of 40 pence per share, which are subject to the same rules as the awards granted under the plan during 2017. Details of the awards under the plan are set out below:

	Subject to a holding period of two years Number	Subject to no holding period 2017 Number	Total 2017 Number
At 1 January 2017	-	-	-
Awarded on 1 June 2017	33,467	34,525	67,992
At 30 June 2017 and 31 December 2017	33,467	34,525	67,992
Awarded on 20 April 2018	30,429	64,075	94,504
At 30 June 2018	63,896	98,600	162,496

The original grant date valuation of the 2017 awards was determined to be £12.19 for those awards that are subject to a holding period, and £14.82 for those awards not subject to a holding period, using a Black-Scholes model for the EPS and risk management tranches, and a Monte Carlo model for the total shareholder return ('TSR') tranche, and these valuations have been used in the calculation. Measurement inputs and assumptions used were as follows:

	At date of 2017 grant
Share price at grant date	£22.45
Expected dividend yield	3.80%
Awards subject to a holding period	
Expected stock price volatility	24.6%
Risk free interest rate	0.42%
Average expected life (years)	5.00
Discount for lack of marketability during holding period	10.00%
Awards not subject to a holding period	
Expected stock price volatility	25.1%
Risk free interest rate	0.19%
Average expected life (years)	3.00
Assumptions applicable to TSR tranche only	
Expected stock price volatility	25.50%
Grant date TSR performance of the Company compared to comparator group	Below median
Correlation	37%

At 30 June 2018, the original grant date valuation of the 2018 awards had not yet been assessed, as the impact of this share award on the period ended 30 June 2018 is not considered to be significant.

2017 Sharesave plan

At 30 June 2018, 203 employees with 113,887 share options (31 December 2017: 228 employees with 125,947 share options) remained in the 2017 Sharesave Plan.

2017 deferred bonus plan

On 3 May 2017, the Group established the 2017 deferred bonus plan, entitling eligible employees who earned a bonus in the prior financial year to a share option award equal to their deferred bonus.

As disclosed in the Directors' remuneration report in the annual report and accounts for the year ended 31 December 2017, 50% of the bonus earned by two Executive directors, amounting to £280,000, was deferred into shares under the deferred bonus plan. Accordingly, on 20 April 2018, 14,690 share options were granted at an exercise price of 40 pence per share, which will vest in three equal tranches after one, two and three years following deferral.

The original grant date valuation was determined to be £19.64 for those awards vesting after one year, £18.87 for those awards vesting after two years and £18.12 for those awards vesting after three years, using a Black-Scholes model, and these valuations have been used in the calculation. The share price at date of grant was £20.85 and the expected dividend yield was 3.96%. The other measurement inputs and assumptions used at the grant date were as follows:

	Awards vesting after one year	Awards vesting after two years	Awards vesting after three years
Expected stock price volatility	25.25%	30.90%	27.68%
Risk free interest rate	0.69%	0.77%	0.82%
Average expected life (years)	1.00	2.00	3.00

'Phantom' share option scheme

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.

As at 30 June 2018, 31 December 2017 and 30 June 2017, 312,917 share options remained outstanding. The options will vest on 16 March 2019, and be exercisable for a period of 10 years after grant date.

The estimated fair value was last calculated on 31 December 2017, prepared using the Black-Scholes model. There was no material change in the estimated fair value during the period ended 30 June 2018. Measurement inputs and assumptions used were as follows:

	30 June 2018	30 June 2017	31 December 2017
Expected stock price volatility	24.49%	24.6%	24.49%
Expected dividend yield	4.45%	3.8%	4.45%
Risk free interest rate	0.59%	0.56%	0.59%
Average expected life (years)	3.53	1.35	4.03

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

	30 June 2018	30 June 2017	31 December 2017
	£million	£million	£million
Liability at 1 January	0.3	0.6	0.6
Charge for the year	-	(0.3)	(0.4)
Liability at end of period	**0.3**	**0.3**	**0.2**

16. Related party transactions

There were no changes to the nature of the related party transactions during the period to 30 June 2018 that would materially affect the position or performance of the Group. Details of the transactions for the year ended 31 December 2017 can be found in the 2017 Annual Report.

17. Credit risk

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

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

Impairment provisions are provided for expected credit losses at the statement of financial position date. Significant changes in the economy could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages its exposures to credit risk as they consider this to be the most significant risk to the business.

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

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

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

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

	Stage 1	Stage 2			Stage 3			Total
		<= 30 days past due	> 30 days past due	Total	Excl. purchased credit impaired	Purchased credit impaired	Total	
	£million	£million	£million	£million	£million	£million	£million	£million
Business Finance								
Real Estate Finance	649.5	55.9	-	55.9	-	-	-	705.4
Asset Finance	76.2	4.6	0.4	5.0	9.0	-	9.0	90.2
Commercial Finance	170.7	17.2	-	17.2	0.6	-	0.6	188.5
Consumer Finance								
Retail	472.9	47.2	3.4	50.6	4.5	-	4.5	528.0
Motor	200.5	70.7	22.5	93.2	19.1	-	19.1	312.8
Consumer Mortgages	37.4	-	-	-	-	-	-	37.4
Other	13.4	-	-	-	12.4	19.0	31.4	44.8
Total drawn exposure	1,620.6	195.6	26.3	221.9	45.6	19.0	64.6	1,907.1
Off balance sheet								
Loan commitments	263.3	-	-	-	-	-	-	263.3
Total gross exposure	1,883.9	195.6	26.3	221.9	45.6	19.0	64.6	2,170.4
Less:								
Impairment allowance	(20.0)	(12.7)	(11.3)	(24.0)	(24.0)	-	(24.0)	(68.0)
Provision for loan commitments	(0.4)	-	-	-	-	-	-	(0.4)
Total net exposure	1,863.5	182.9	15.0	197.9	21.6	19.0	40.6	2,102.0

The above table is prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard comparatives have not been restated. Refer to Notes 1.3 and 18 for further information. The average IFRS 9 probability of default (PD) is based on 12 month PDs at the reporting date.

The table below further summarises the June 2017 and December 2017 loans and advances to customers on an IAS 39 basis as follows:

	30 June 2017 £million	30 June 2017 %	31 December 2017 £million	31 December 2017 %
Neither past due nor impaired	1,457.6	94.3%	1,545.6	94.4%
Not past due but impaired	0.6	0.0%	5.4	0.3%
Past due but not impaired	5.3	0.4%	0.3	0.0%
Past due up to 90 days and impaired	43.5	2.8%	37.8	2.3%
Past due after 90 days and impaired	38.2	2.5%	49.1	3.0%
Gross	1,545.2	100.0%	1,638.2	100.0%
Less: allowance for impairment	(35.6)		(39.9)	
Net loan and advances to customers	**1,509.6**		**1,598.3**	

Concentration risk

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

Geographical concentration

The Group's Real Estate Finance and Consumer Mortgages are secured against UK property only. The geographical concentration of these business loans and advances to customer at 30 June 2018, by location of the security, is set out below:

	Real Estate Finance 30 June 2018 £million	Consumer Mortgages 30 June 2018 £million
Concentration by region:		
Central England	26.5	6.5
Greater London	389.4	6.9
Northern England	80.2	6.7
South East England (excl. London)	186.8	10.4
South West England	9.2	4.9
Wales and Northern Ireland	13.3	2.0
Gross loans and receivables	705.4	37.4
Allowance for impairment	(0.6)	(0.1)
Total	**704.8**	**37.3**

The geographical concentration of these business loans and advances to customer at 30 June 2017 and 31 December 2017, by location of the borrower, is set out below:

	Real Estate Finance 30 June 2017 £million	Consumer Mortgages 30 June 2017 £million	Real Estate Finance 31 December 2017 £million	Consumer Mortgages 31 December 2017 £million
Concentration by region:				
Central England	2.8	-	6.8	2.1
Greater London	374.9	-	384.2	4.1
Northern England	9.2	-	12.1	2.1
Scotland	7.7	-	-	-
South East England (excl. London)	129.3	-	154.9	5.2
South West England	3.3	-	3.3	1.9
Wales and Northern Ireland	-	-	-	1.1
Other	14.7	-	19.8	-
Gross loans and receivables	541.9	-	581.1	16.5

Allowance for impairment	(0.5)	-	(0.3)	-
Total	**541.4**	**-**	**580.8**	**16.5**

The average LTV for the consumer mortgage portfolio was 59% at 30 June 2018 with a maximum LTV of 91% (31 December 2017: average LTV 59%, maximum LTV 85%).

18. Implementation of IFRS 9

The table below summarises the adjustments arising on adoption of IFRS 9 on the Group's balance sheet at 1 January 2018. There has been no change in the carrying amount of financial instruments on the basis of their measurement categories. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss impairment approach with an expected credit loss approach. The Group's classification and measurement and loss impairment accounting policies are provided in Note 1.3.

At 1 January 2018	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount £million	ECL adjustment £million	IFRS 9 carrying amount £million
ASSETS					
Cash and balances at central banks	Loans and receivables	Amortised cost	226.1	-	226.1
Loans and advances to banks	Loans and receivables	Amortised cost	34.3	-	34.3
Loans and advances to customers	Loans and receivables	Amortised cost	1,598.3	(31.8)	1,566.5
Debt securities	Held to maturity	Amortised cost	5.0	-	5.0
Property, plant and equipment	N/A	N/A	11.5	-	11.5
Intangible assets	N/A	N/A	10.4	-	10.4
Deferred tax asset	N/A	N/A	0.6	6.3	6.9
Other assets	N/A	N/A	5.4	-	5.4
Total assets			**1,891.6**	**(25.5)**	**1,866.1**
LIABILITIES AND EQUITY					
Due to banks	Other financial assets and liabilities	Amortised cost	113.0	-	113.0
Deposits from customers	Other financial assets and liabilities	Amortised cost	1,483.2	-	1,483.2
Current tax liabilities	N/A	N/A	3.0	-	3.0
Other liabilities	N/A	N/A	41.9	-	41.9
Provisions for liabilities and charges	N/A	N/A	1.4	0.3	1.7
Total liabilities			**1,642.5**	**0.3**	**1,642.8**
Equity attributable to owners of the parent					
Share capital	N/A	N/A	7.4	-	7.4
Share premium	N/A	N/A	81.2	-	81.2
Revaluation Reserve	N/A	N/A	1.3	-	1.3
Retained earnings	N/A	N/A	159.2	(25.8)	133.4
Total equity			**249.1**	**(25.8)**	**223.3**
Total liabilities and equity			**1,891.6**	**(25.5)**	**1,866.1**

The following table reconciles the Group's closing IAS 39 impairment allowance to the opening IFRS 9 allowance as at 1 January 2018:

	Closing IAS 39 balance at 31 December 2017 £million	ECL adjustment £million	Opening IFRS 9 balance at 1 January 2018 £million
Specific allowances for impairment	35.5	36.2	71.7
Collective allowances for impairment	4.4	(4.4)	-
Impairment against on balance sheet assets	**39.9**	**31.8**	**71.7**
Provision for loan commitments	-	0.3	0.3
Total impairment and provision	**39.9**	**32.1**	**72.0**

Total provisions above include expert credit judgements over the Group's IFRS 9 model results of £2.5 million, of which £1.2 million are specific overlays for the Business Finance portfolio.

An analysis of the Group's opening gross loans and advances to customers and ECL impairment allowance by IFRS 9 stage is provided below:

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL	Stage 2: Subject to lifetime ECL	Stage 3: Excl. purchased credit impaired	Stage 3: Purchased credit impaired	Total	Provision cover
1 January 2018	£million	£million	£million	£million	£million	%
Gross loans and advances						
Business finance						
Real Estate Finance	516.5	64.6	-	-	581.1	
Asset Finance	103.1	11.3	3.5	-	117.9	
Commercial Finance	125.4	1.2	0.5	-	127.1	
Consumer finance						
Retail Finance	398.8	57.5	3.6	-	459.9	
Motor Finance	182.0	94.0	25.5	-	301.5	
Consumer mortgages	16.5	-	-	-	16.5	
Other	15.4	0.1	3.1	15.6	34.2	
Total on balance sheet	**1,357.7**	**228.7**	**36.2**	**15.6**	**1,638.2**	
Loan commitments	**178.5**	**-**	**-**	**-**	**178.5**	
ECL Impairment allowance						
Business finance						
Real Estate Finance	0.1	-	-	-	0.1	0.0%
Asset Finance	0.3	0.1	1.0	-	1.4	1.2%
Commercial Finance	0.2	0.2	0.4	-	0.8	0.6%
Consumer finance						
Retail Finance	6.8	7.4	3.1	-	17.3	3.8%
Motor Finance:						
ECL allowance	5.9	16.9	20.1	-	42.9	
Voluntary termination provision	5.6	-	-	-	5.6	
	11.5	16.9	20.1	-	48.5	16.1%
Consumer mortgages	-	-	-	-	-	0.0%
Other	-	0.3	3.3	-	3.6	10.5%
Impairment allowance against on balance sheet assets	**18.9**	**24.9**	**27.9**	**-**	**71.7**	**4.4%**
Provision for loan commitments	**0.3**	**-**	**-**	**-**	**0.3**	**0.2%**

As set out in Note 1.3 for the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both a drawn and undrawn element and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both the drawn and undrawn component of the loan is recognised as an impairment allowance and deducted from the gross carrying amount of the drawn component. At 1 January 2017 loan commitments held for the Real Estate Finance and Commercial Finance portfolios were £98.6 million and £35.5 million respectively.

19. Discontinued operations

On 21 December 2017, the Bank agreed to sell its remaining portfolio of unsecured personal loans to Alpha Credit Solutions 8 S.à.r.l., a company owned by AnaCap Credit Opportunities III LP. As previously highlighted, the Group made the decision to withdraw from the unsecured personal loan market in 2016, and the sale of this portfolio represents a full exit by the Group from this market.

The net proceeds of sale, after transaction costs, amounted to £36.6 million, which will be used for general corporate purposes including other forms of lending. The cash purchase consideration for the portfolio was calculated based on an agreed price for the portfolio as at 30 June 2017, adjusted for cash receipts the Group has already received from the portfolio during the period up to the date of completion.

The effect of the transaction is to accelerate capital realisation to reinvest into the Group's core business while removing any future credit risk associated with the portfolio. The profit arising on sale of the portfolio was £0.5 million before tax. The Group continued to administer the portfolio until the completion of a migration of the portfolio to a third party administrator appointed by the purchaser, which was completed during May 2018.

Details of the net assets disposed of and consequential gain recognised on disposal are set out below:

Net assets disposed and gain recognised on disposal	Assets sold on 21 December 2017 £million
ASSETS	
Loans and advances to customers	36.1
Consideration	
Cash	37.1
Less selling costs	(0.5)
	36.6
Gain recognised on disposal before tax	**0.5**
Tax	(0.1)
Gain recognised on disposal after tax	**0.4**

20. Post balance sheet event

On 17 July 2018, Secure Trust Bank PLC issued £25 million 6.75% Fixed Rate Reset Callable Subordinated Notes due 2028 (the "Notes"). The Notes mature in 2028 but the issuer may at its discretion redeem the Notes in 2023.

The Notes will be treated as Tier 2 regulatory capital which will be 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 on-going programme to diversify and expand the capital base of the Bank.

Appendix to the interim report

Key performance indicators

All revenue, income, impairments, and expenses used in the calculations below are stated on a continuing operations basis.

(i) Margin ratios

Net interest margin is calculated as interest receivable and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book, net revenue margin is calculated as operating income for the financial period as a percentage of the average loan book and gross revenue margin is calculated as interest receivable and similar income plus fee and commission income for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions and discontinued operations, over seven or thirteen months as appropriate for the financial period. The resulting margins for June 2018 and June 2017 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2018 £million	June 2017 £million	December 2017 £million
Net interest margin			
Interest receivable and similar income	79.2	66.5	141.3
Interest expense and similar charges	(15.5)	(12.7)	(26.7)
Net interest income	63.7	53.8	114.6
Net revenue margin			
Net interest income	63.7	53.8	114.6
Net fee and commission income	8.8	7.3	14.9
Operating income	72.5	61.1	129.5
Gross revenue margin			
Interest receivable and similar income	79.2	66.5	141.3

Fee and commission income	9.8	7.8	16.0
Gross revenue	89.0	74.3	157.3
Opening loan book	1,566.5	1,255.5	1,255.5
Closing loan book	1,839.1	1,461.1	1,598.3
Average loan book	1,699.0	1,329.7	1,418.1
Net interest margin	**7.6%**	**8.2%**	**8.1%**
Net revenue margin	**8.6%**	**9.3%**	**9.1%**
Gross revenue margin	**10.6%**	**11.3%**	**11.1%**

A reconciliation of the loan book figures used above to the statement of financial position is as follows:

	June 2018 £million	1 January 2018 £million	December 2017 £million	June 2017 £million	December 2016 £million
Balance sheet loan book	1,839.1	1,598.3	1,598.3	1,509.6	1,321.0
Discontinued operations	-	-	-	(48.5)	(65.5)
IFRS 9 transition adjustment	-	(31.8)	-	-	-
	1,839.1	**1,566.5**	**1,598.3**	**1,461.1**	**1,255.5**

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

(ii) Cost ratios

Cost of risk is calculated as impairment losses on loans and advances to customers for the financial period as a percentage of the average loan book, cost of funds is calculated at interest expense for the financial period as a percentage of average loan book and cost to income ratio is calculated as operating expenses for the financial period as a percentage of operating income for the financial period. The resulting ratios for June 2018 and June 2017 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2018 £million	June 2017 £million	December 2017 £million
Impairment losses on loans and advances to customers	16.3	16.4	33.5
Average loan book	1,699.0	1,329.7	1,418.1
Cost of risk	**1.9%**	**2.5%**	**2.4%**
Interest expense	15.5	12.7	26.7
Average loan book	1,699.0	1,329.7	1,418.1
Cost of funds	**1.8%**	**1.9%**	**1.9%**
Operating expenses	41.1	33.5	71.3
Operating income	72.5	61.1	129.5
Cost to income ratio	**56.7%**	**54.8%**	**55.1%**

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

(iii) Return ratios

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

Underlying profit after tax is profit after tax attributable to continuing operations, adjusted for items that are non-controllable items or other items that fall outside of the Group's core business activities. A reconciliation of underlying profit after tax to statutory profit after tax is provided on page 11.

Average assets is calculated as the average of the monthly assets balances, net of discontinued operations, over seven or thirteen months as appropriate for the financial period, average equity is calculated as the average of the monthly equity balances over seven or thirteen months as appropriate for the financial period and average required equity is calculated as the average of the monthly balances of total required equity over seven or thirteen months as appropriate for the financial period. Total required equity is calculated as the equity required to achieve a CET1 ratio of 12%, excluding equity required against discontinued operations. The resulting returns for June 2018 and June 2017 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2018 £million	June 2017 £million	December 2017 £million
Underlying profit after tax	13.8	9.8	21.5
Opening assets	1,866.1	1,444.5	1,444.5
Closing assets	2,187.1	1,625.9	1,891.6
Average assets	2,035.1	1,509.8	1,639.9
Opening equity	223.3	236.0	236.0
Closing equity	225.0	239.3	249.1
Average equity	226.2	239.9	242.0
Opening required equity	173.3	146.1	146.1
Closing required equity	204.3	166.8	173.3
Average required equity	190.7	152.3	159.8
Annualised underlying return on average assets	**1.4%**	**1.3%**	**1.3%**
Annualised underlying return on average equity	**12.3%**	**8.2%**	**8.9%**
Annualised underlying return on required equity	**14.6%**	**13.0%**	**13.5%**

A reconciliation of assets to the balance sheet is as follows:

	June 2018 £million	1 January 2018 £million	December 2017 £million	June 2017 £million	December 2016 £million
Balance sheet assets	2,187.1	1,891.6	1,891.6	1,674.4	1,510.0
Discontinued operations	-	-	-	(48.5)	(65.5)
IFRS 9 transition adjustment	-	(25.5)	-	-	-
	2,187.1	**1,866.1**	**1,891.6**	**1,625.9**	**1,444.5**

A reconciliation of opening equity at 1 January 2017 is as follows:

	£million
At 31 December 2017	249.1
IFRS 9 transition adjustment	(25.8)
At 1 January 2018	**223.3**

Annualised underlying return on average assets measures how hard the assets of the Group are working, and annualised underlying return on average and annualised underlying return on required equity both measure how much profit the Group generates with the money shareholders have invested.

(iv) Funding ratios

The loan to deposit ratio is calculated as the loan book, net of discontinued operations, at the period end, divided by deposits from customers at the period end, and the total funding ratio is calculated as the total funding at the period end, being the sum of deposits from customers, borrowings under the Term Funding Scheme, or the Funding for Lending Scheme, and equity, divided by the loan book, net of discontinued operations, at the period end:

	June 2018 £million	June 2017 £million	December 2017 £million
Loan book (on a continuing basis)	1,839.1	1,461.1	1,598.3
Deposits from customers	1,645.4	1,325.8	1,483.2
Borrowings under the Term Funding Scheme, or the Funding for Lending Scheme	263.0	63.0	113.0
Equity	225.0	239.3	249.1
Total funding	2,133.4	1,628.1	1,845.3

Loan to deposit ratio	**111.8%**	**110.2%**	**107.8%**
Total funding ratio	**116.0%**	**111.4%**	**115.5%**

The funding ratios measure the Group's liquidity.

(v) Cost of risk: IAS 39 vs IFRS 9

Cost of risk is calculated as impairment losses on loans and advances to customers for the financial period as a percentage of the average loan book. The ratio is multiplied by 365/181 to give an annual equivalent comparable to the annual results.

	£million
IAS 39 impairment charge	16.8
Impact of IFRS 9	(0.5)
IFRS 9 impairment charge	16.3
Average loan book	1,699.0
Cost of risk on an IAS 39 basis	**2.0%**
Cost of risk on an IFRS 9 basis	**1.9%**

Directors' responsibility statement

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

- the condensed financial statements have been prepared in accordance with International Accounting Standard 34 - 'Interim Financial Reporting', issued by the IASB and as adopted and endorsed by the European Union;

- the interim business review includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and

- the interim business review includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so).

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

Paul Lynam
Chief Executive Officer

Neeraj Kapur
Chief Financial Officer

7 August 2018