PRESS RELEASE

Thursday 25 March 2021
For immediate release

SECURE TRUST BANK PLC

Audited Final Results for the year ended 31 December 2020

A resilient performance. Growth opportunities ahead.

Secure Trust Bank PLC ("STB", the "Bank" or the "Group") is pleased to announce a Statutory Profit before Tax of £20.1 million for the year ended 31 December 2020 (2019: £38.7 million).

Having put in place the measures required to maintain customer service and employee welfare in response to the COVID-19 pandemic, the Group delivered a resilient performance. The initial UK lockdown, which followed a strong first quarter, resulted in a contraction of the balance sheet in the mid-part of the year. Growth in the final quarter brought revenue up to a similar level as delivered in 2019. Cost discipline was maintained throughout the year reducing the cost income ratio by 3.2%.

Impairment charges increased, mostly driven by forward-looking estimates which take account of the expected deterioration of the UK economy prior to the recovery from the pandemic taking hold. Capital ratios improved, given the short duration of the Group's lending portfolios, and the liquidity position remains very healthy.

The Group will recommend a final dividend for 2020 of 44 pence. These results provide the Group with a strong platform from which to take advantage of economic recovery and return to lending growth.

FINANCIAL HIGHLIGHTS

	Full Year 2020	Full Year 2019	Change %
Statutory profit before tax	**£20.1m**	**£38.7m**	**(48.1)**
Basic earnings per share	87.0p	168.3p	(48.3)
Ordinary dividend per share	**44p**	**20p**	**120.0**
Return on average equity	6.1%	13.5%	(54.8)
Net interest margin	6.3%	6.5%	(3.1)
Cost of Risk	2.3%	1.4%	64.3
Cost income ratio	55.1%	56.9%	(3.2)

	31 Dec 2020	31 Dec 2019	Change %
Loan Book	£2,358.9m	£2,450.1m	(3.7)
Deposits	£1,992.5m	£2,020.3m	(1.4)
CET 1 capital ratio	**14.2%**	**12.7%**	**11.8**
Total capital ratio	**16.4%**	**15.0%**	**9.3**

OPERATIONAL HIGHLIGHTS

- Total customer numbers reduced by 3.9% to 1,536,602 (2019: 1,598,256)
- Customer satisfaction scores, as measured by FEEFO, maintained at 4.7 stars
- Total new business lending volumes fell by 27.1% to £1,030.2m (2019: £1,413.0m)
- Total Business Finance balances increased by 4.1% to £1,293.0m (2019: £1,241.6m), with growth in Real Estate Finance balances more than offsetting contraction in Commercial Finance balances
- Total Consumer Finance balances reduced by 11.6% to £1,061.8m (2019: £1,200.9m), with contraction across all businesses and Motor Finance particularly impacted by the temporary ceasing of new business generation and tightened credit risk appetite in 2020
- Customer deposits of £1,992.5m (2019: £2,020.3m), with management of the mix of the savings book contributing to an improvement in cost of funding from 2.0% to 1.8% (net of interest on swaps)
- Investment in Motor Transformation Programme continued throughout the pandemic, with new prime product offerings and systems infrastructure ready for use

OUTLOOK AND STRATEGY

The Group has seen the robust performance of 2020 continue into the early months of 2021. The pandemic has continued to impact on business demand and lending volumes, and there remains uncertainty on the impact once Government support comes to an end. However, the Group's diversified business model and capital strength have proven to be key strengths and the Group is well placed to navigate that uncertainty.

We remain focused on our strategy of operating in segments offering attractive returns, utilising our strong risk management skills and optimising our capital and liquidity to create shareholder value. We see potential to further grow our core businesses by extending our product offerings and leveraging our product platforms across the Group, by further developing our digital and data capabilities, and by enhancing our processes to improve efficiency. We are looking forward with confidence to returning to lending growth.

We are providing the following medium-term performance targets for the Group.

	2020 Actual	**Medium Term**
Net Interest Margin	6.3%	>6.0%
Cost income ratio	55.1%	50% - 55%
Return on Average Equity	6.1%	14% - 16%
CET 1	14.2%	>12.0%

CAPITAL MARKETS DAY

The Group plans to host a Capital Markets Day during the second half of 2021, at which more detail will be shared on its purpose and rearticulated strategy, its businesses and markets, and its long-term growth ambitions. More detail will be provided in the coming months.

Lord Forsyth, Chairman, said:

"A profit before tax of £20.1 million in such a challenging year is an excellent result and a tribute to our employees. Our determination to preserve Capital and maintain a prudent approach to lending has enabled us to pay a dividend of 44p. I am confident we are now well placed to take advantage of recovery."

David McCreadie, Chief Executive, said:

"The Group has delivered a strong and resilient performance in the face of extremely challenging conditions and is well placed to flourish as the market recovers.

I would like to thank my colleagues for their own resilience and commitment in adapting so positively to the ever-evolving circumstances of the last year. This allowed us to achieve our objective of delivering our usual high levels of service and support to our existing customers.

Our performance last year demonstrated the many strengths of STB. The experience of our team, our diversified portfolio and the short duration of our balance sheet allowed us to navigate through the uncertainty with agility and effectiveness.

I am excited about the journey ahead. We are well-positioned in attractive, specialist lending markets and see a clear opportunity to build on our strong foundations. STB will become simpler, more efficient, and clearer in its growth ambitions. I am confident in our ability to return to growth and create sustainable value for our stakeholders."

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

Secure Trust Bank will host a webcast for analysts and investors today, 25 March 2021 at 10.00, which can be accessed by registering at: results webcast. For those wishing to ask a question, please dial in to the event by conference call: results webcast.

For those wishing to ask a question, please dial in to the event by conference call:

Dial: +44 (0)330 336 9434

Confirmation code: 2766354

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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.

Key performance indicators

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

The Remuneration Report, starting on page 83 of the Annual Report and Accounts, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics. Certain KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix. In the narrative of the financial review, KPIs are identified by being in bold font. Further explanation of the non-financial KPIs is provided in the Managing our business responsibly section on page 52 of the Annual Report and Accounts. Adjustments to profit have been removed for 2020, so key performance indicators which were based on adjusted profit have been removed. Return metrics for both 2020 and 2019 are now stated on a statutory rather than adjusted basis.

	2020	2019
Margin ratios		
Net interest margin	**6.3%**	6.5%
Why we measure this: Shows the interest margin earned on the Group's loan books, net of funding costs		
Net revenue margin	**6.9%**	7.3%
Why we measure this: Shows the overall net margin earned on the Group's loan books, including fees and commissions		
Gross revenue margin	**8.7%**	9.4%
Why we measure this: Shows the yield of the Group's loan books, including fee and commission income		
Cost ratios		
Cost of funds	**1.7%**	2.0%
Why we measure this: Measures the cost of the Group's customer deposits and other funding sources		
Cost to income ratio	**55.1%**	56.9%
Why we measure this: Measures how efficiently the Group utilises its cost base to produce income		
Cost of risk	**2.3%**	1.4%
Why we measure this: Measures how effectively the Group manages the credit risk of its lending portfolios		

Loans		
Loans and advances to customers	**£2.358.9 million**	£2,450.1 million
Why we measure this: Shows the growth in the Group's lending balances, which generate income		
Loan to deposit ratio	**118.4%**	121.3%
Why we measure this: Measures the adequacy of liquidity by comparing loan balances to customer deposits		
Total funding ratio	**109.7%**	107.5%
Why we measure this: Measures the adequacy of liquidity by comparing all funding held by the Group to loan balances		
EPS		
Basic earnings per share	**87.0 pence**	168.3 pence
Why we measure this: Demonstrates the earnings attributable to each shareholder		
Capital		
CET1 ratio	**14.2%**	12.7%
Why we measure this: The Common Equity Tier 1 ('CET1') ratio demonstrates the Group's capital strength		
Return ratios		
Return on average equity	**6.1%**	12.8%
Why we measure this: Measures the Group's ability to generate profit from the equity available to it		
Return on required equity	**6.5%**	13.3%
Why we measure this: Relates profitability to the capital that the Group is required to hold		
Return on average assets	**0.6%**	1.2%
Why we measure this: Demonstrates how profitable the Group's assets are in generating revenue		
Non-financial KPIs		
Customer FEEFO ratings	**4.7 stars**	4.7 stars
(mark out of 5 based on star rating from 1,466 reviews. 2019: 1,754 reviews) Why we measure this: Indicator of customer satisfaction with the Group's products and services		
Employee survey trust index score	**82%**	79%
(based on 2020 all staff survey) Why we measure this: Indicator of employee engagement and satisfaction		
Environmental intensity indicator	**3.1**	4.7
(tonnes of carbon dioxide per £1 million Group income) Why we measure this: Indicator of the Group's impact on the environment.		

Chairman's statement

Profitable and resilient

None of us will ever forget 2020. At STB the year started well with an excellent performance in the first quarter. The impact of COVID-19 changed everything and our objectives have been to preserve capital, keep our people safe, support our customers and preserve employment. I am delighted to report that your company has succeeded in meeting these challenges and achieved a positive result with a profit before tax of £20.1 million (2019: £38.7 million). Given the year we have all faced, this is an excellent result.

The short duration of our loan book enabled us to tighten credit criteria quickly and we are well-placed to take advantage of recovery. Our capital position is significantly ahead of last year, with a CET 1 ratio of 14.2% compared with 12.7% at the end of 2019. We have maintained our high customer satisfaction scores with Feefo ratings averaging 4.7 stars, supported our Retail and Motor Finance customers in difficulty with payment holidays free of additional interest charges and minimised levels of impairment. Our savings platform has won numerous awards over the past few years and continues to do so.

All of this has only been possible because our employees have gone that extra mile and I would like to thank every one of them for their resilience, flexibility and commitment in this most challenging of years. Employee satisfaction scores, despite everything, rose from 79% to 82% and we continue to improve on our already impressive position in the Great Place to Work® rankings. This was enhanced by initiatives to maintain high levels of internal communication, such as STB Group Radio, set up and hosted by our staff whose talents as producers, interviewers and disc jockeys had been undiscovered until now.

Lockdown did not prevent staff from continuing to raise money for charities, including those supported by Alan Karter, our General Counsel who sadly passed away at the end of 2020.

Dividends

The Board decided not to pay a final dividend in respect of 2019 or a 2020 interim dividend in order to conserve capital. I am pleased to announce that the Board proposes a final dividend for 2020 of 44 pence, recognising both the performance for 2020 and the absence of a final dividend in 2019. The dividend results in an average payout ratio of 25% over the two years. If approved at the AGM, this dividend will be paid on 21 May 2021 to shareholders on the register as at 23 April 2021.

Changing of the guard

The year has also seen a changing of the guard, with Paul Lynam moving on after more than a decade as Chief Executive Officer and David McCreadie seamlessly taking up the reins in line with our succession plan. The Board would like to record our thanks to Paul for the tremendous contribution he has made to making STB the bank that it is today and wish him well in his new role.

Rachel Lawrence joined the Board as our new Chief Financial Officer and together with David will take forward the Group's strategy as the economy rebounds from the impact of lockdown.

Finally I would like to thank the Board for their indefatigable support. Managing the COVID-19 crisis has necessitated additional involvement and commitment which has been very much appreciated.

Looking forward

Although the immediate outlook for the UK economy remains uncertain, the Group has shown its adaptability and resilience in the face of extreme circumstances. The result for the year leaves us in a good position to take advantage of improving economic conditions as the recovery from the pandemic takes hold.

Given the resources at our disposal, the talents of our people, the flexibility of our business model and our clear strategy, we can embrace the future with optimism.

Lord Forsyth
Chairman
24 March 2021

Chief Executive's statement

Resilient performance

It is with great pleasure that I take up my position as Secure Trust Bank's Chief Executive Officer. This comes at a time when the Group has performed robustly in the face of extremely difficult conditions, and is well-placed to take advantage of the opportunities that we expect to arise in the coming years. I would like to echo our Chairman's thanks to my predecessor, Paul Lynam, whose long and successful stewardship of the Group has provided the platform to grow and create value in the years ahead.

When I first joined STB as a Board Director in 2019 it quickly became clear that STB is a business with many strengths. One of these is the diversity and short duration of our balance sheet and the advantages this brings. This flexibility has served the Group well during the COVID-19 crisis, allowing us to manage both our credit risk appetite and capital positions effectively as the pandemic evolved. Another strength is our focus on customers and I would like to thank all colleagues for the contribution they made to supporting our customers, and each other, during the year. Our teams responded superbly and our employee feedback shows high levels of motivation and engagement throughout the Group.

As outlined in more detail in the Financial Review, our balance sheet contracted as the government's response to the crisis took hold, closing slightly below where we started the year. Customer lending balances at the end of the year were £2,358.9 million, down 3.7% on the 2019 closing position of £2,450.1 million. Our mix has also been impacted, with the ratio of Business Finance balances to Retail Finance balances now approximately 55:45, compared to the broadly equal split of the past few years. This was largely due to our decision to stop all new Motor lending during the initial lockdown period.

Our customer lending balances had grown by 20.8% in 2019, and this momentum had continued into the first quarter of 2020, prior to the first lockdown taking hold. As a result, revenue in 2020 was very similar to 2019 levels.

As with most UK banks and building societies who report using IFRS 9, our results have been impacted by impairment provisions. The assistance we have provided to our customers and the considerable support offered by the government through the pandemic has so far diminished the level of actual defaults experienced. However, our provisions take account of the expected worsening of the economy, with unemployment predicted to rise sharply prior to starting to recover as the impact of the pandemic recedes.

The increase in provisions has reduced our profit before tax for the year to £20.1 million, a fall of 48.1% from our 2019 result of £38.7 million. Given the extreme impact of the pandemic, both globally and in the UK, I consider this to be a very creditable result.

Improved capital and liquidity positions

The initial contraction of our balance sheet provided opportunities to manage our capital and liquidity positions. As growth opportunities returned, we have been careful to flex our mix of business so as to reduce overall levels of credit risk and focus on asset classes with lower risk weightings. As set out in the Financial Review, regulatory intervention has also assisted the Group's capital position. The CET 1 ratio closed the year at 14.2%, up significantly from the 31 December 2019 ratio of 12.7%. The Total Capital ratio was likewise up to 16.4% from 15.0% at the end of 2019. These ratios reflect the proposed 2020 final dividend.

We entered 2020 with healthy liquidity levels, far exceeding regulatory limits. The reduced need to fund lending growth this year has allowed us to manage down the more expensive sections of our savings book. In this low interest rate environment, we have reduced our interest rates without significant customer attrition while continuing to offer our savings customers a fair return.

Our total funding ratio was 107.5% at the end of 2019, and we have aimed to keep this ratio relatively steady as we allowed savings balances to fall in line with customer lending. Liquidity levels increased in the final month of the year, to fund expected drawdowns in early 2021, pushing this ratio up to 109.7% as at 31 December 2020.

Customer service

We have risen to the challenge of maintaining our customer service levels throughout this difficult period, as borne out by our Feefo and Net Promoter Scores. As set out in the Managing our business responsibly section, I am delighted we have maintained our average Feefo score of 4.7. We also retained the government's Customer Service Excellence standard for the eighth successive year.

Keeping our operations running and maintaining lines of communication with our customers has been paramount. For Business Finance, this has involved working closely with borrowers throughout the pandemic, to understand the impact on them and provide support accordingly. This has included providing CBILS and CLBILS (see page 17 of the Annual Report and Accounts for definition) to a number of our existing Commercial Finance customers.

A significant proportion of our customers, particularly in Motor Finance, took advantage of government mandated payment holiday schemes. The majority have now returned to making normal payments. We took the decision to charge no additional interest to these Motor and Retail Finance customers, despite this having a material impact on our results for the year as shown in the Financial Review. In our view, with our customers facing very difficult circumstances, this was the right thing to do.

Customer numbers reduced slightly over the year. At the year-end we had 1,536,602 customers (31 December 2019: 1,598,256).

Customer lending activities

Our divisions have had to adapt quickly to the new environment. The emphasis this year has been on supporting our existing customers rather than generating new business. As a result, new business lending of £1,030.2 million in the year was 27.1% lower than the £1,413.0 million delivered in 2019. Much of the new lending was due to our Retail Finance division, which continued to provide finance to support retail purchases throughout the lockdowns, particularly via online channels.

The pandemic has impacted on each of our divisions differently, as summarised below. The diverse nature of our balance sheet has helped mitigate the risk brought by the pandemic, as demonstrated by our results for the year.

Business Finance

While the Real Estate Finance balance sheet continued to grow steadily over the year, closing at over £1 billion, more significant movements were seen in Commercial Finance. This business lends against our business customers' sales invoices, and with activity put on hold during the first lockdown, the lending that our customers could draw down reduced. This saw balances fall from £251.7 million at 31 December 2019 to £191.6 million at half-year. They fell further in the third quarter, before recovering strongly to close at £230.7 million. The return to growth was in part due to our provision of CBILS and CLBILS to our existing customers.

New business was also significantly reduced in Real Estate Finance. However, alongside supporting our customers through the crisis, we continued to advance funding to existing Development Finance customers once their projects were allowed to restart after the first lockdown. Unsurprisingly, we also saw lower levels of customer refinancing away from the Group at the conclusion of their initial deal terms. Balances therefore grew by 9.3%, from £962.2 million to £1,051.9 million.

No credit losses crystallised on either of these portfolios during the year. In line with the overall Group position, the higher impairment charges borne this year reflect the forward-looking factors built into IFRS 9 methodology.

Asset Finance balances continue to run-off and closed at £10.4 million (31 December 2019: £27.7 million). We have no current plans to re-establish this business line. Over 2020 we worked closely with our customers and joint venture partners to minimise losses, including providing payment holidays to a number of customers.

Consumer Finance
Our Consumer Finance businesses also experienced contrasting conditions in their markets as the pandemic progressed. For each of them, the lockdown shrank available markets, restricted collection activity and required downward valuation of loan balances.

With its strong online presence, Retail Finance was well-placed to adapt quickly to the crisis. We shifted our risk appetite towards higher credit quality customers over 2020, and continued to deliver strong levels of new business, though of course down from 2019. As in previous years, this division provided more than half of the Group's overall new business.

Motor Finance entered 2020 with its Motor Transformation Programme at an advanced stage and putting the finishing touches to its prime lending proposition. The pandemic significantly affected its market, however, with the UK used vehicle market being unable to operate normally during the first lockdown. Given the uncertain economic conditions, we decided to stop writing new Motor Finance business for three months from March, reopening in July 2020 with tightened lending criteria.

Given all of the hard work from many of our employees to bring the Transformation Programme to a successful point, this was disappointing, but we remain committed and ready to expand into the prime market when conditions improve. We are monitoring the position closely and will step up lending activity once the time is right.

Both portfolios saw a number of customers requesting payment holidays, though the majority returned to full payment once their holiday ended. As noted earlier, we provided payment holidays without penalising our customers by charging additional interest. The Financial Review explains how this required us to revalue our loan books downwards at the half-year, materially so for Motor Finance. The majority of this modification adjustment should reverse over the next few years.

After significant growth in 2019 and a strong start to 2020, our debt management business DMS also switched its focus away from new debt purchases to supporting existing customers. A number of our normal debt collection strategies were not appropriate during 2020, resulting in lower levels of cash collection versus expectation. This required a downwards revaluation of the DMS loan book in the second half, which contributed to an impairment charge of £8.9 million.

The Consumer Mortgages book continues to run-off, reducing from £105.9 million at 31 December 2019 to £77.7 million at 31 December 2020. We also supported Mortgage customers with payment holidays, with impairments remaining at a minimal level.

Savings
Our Savings team has done an excellent job in recent years, raising the customer deposits that form the majority of our funding. Given the growth in lending balances in prior years, this has required hard work, innovation and exceptional customer service. All of these have been delivered by the team.

This year has provided different challenges and opportunities. With lending balance growth halted by the pandemic, deposit balances remained at a similar level to 2019, closing at £1,992.5 million (31 December 2019: £2,020.3 million). We have been able to use our expanded product set, developed over 2019, to reduce our cost of funding while continuing to provide good value to our savings customers.

We took the difficult decision in 2020 to close our OneBill product. This household budgeting product was closed to new business in 2009 and customer levels had reduced to 14,835 by the end of 2020 (31 December 2019: 17,024 customers). We continue to support our OneBill customers as we manage the closure of these accounts.

Our strategic priorities remain unchanged
The Group's medium-term strategy remains unchanged. We will of course continue to prioritise supporting colleagues, customers and business partners as we manage the challenges presented by the pandemic.

Tight control over credit risk, capital and liquidity positions and costs remains in place while the pandemic continues to impact on the economy. As the external environment improves we will refocus on the Group's strategic priorities of:

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

Outlook
This year has brought conditions that none of us ever thought we would experience, either personally or professionally. There is cause for optimism in respect of the rollout of COVID-19 vaccines, but we will see further economic deterioration before the expected recovery takes hold. The full extent of the damage caused by the pandemic will likely not be known until we are well into 2022.

The uncertainty surrounding the UK's exit from the European Union has in part abated, with the signing of a trade deal late in 2020. Businesses are still coming to terms with the new arrangements and, as the long-term impact is not yet clear, we will continue to monitor developments closely.

I am confident that the flexibility, agility and financial strength that stood us in such good stead in 2020 will be invaluable as we navigate the period ahead. We are also focused on the long-term opportunity for the Group. We have assessed a wide range of scenarios, to ensure the return to growth balances our desire to meet customer needs, profitability targets, credit risk appetite and capital requirements. We are ready to return to controlled growth and all of our core products are expected to grow in 2021.

There continues to be strong growth potential for all of our key business units, and our diversity gives us a wide range of capital allocation options as conditions start to improve. Our lending portfolio is well-positioned to react both to continuing difficulties and to more productive conditions when the time comes. Our capital and liquidity positions leave us well-placed to return to organic growth as well as supporting the consideration of suitable acquisition opportunities that may arise.

In 2020 we showed that our expectations of how Secure Trust Bank would be able to respond to stress were well founded, in more difficult conditions than we could have imagined. Once the crisis clears, we will demonstrate once again the benefits of controlled growth across a range of diverse, well-managed businesses.

David McCreadie
Chief Executive Officer
24 March 2021

Business review – Business Finance

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

Commercial Finance
Provision of invoice discounting and factoring to UK businesses.

Supporting UK property development
The first UK lockdown brought a halt to construction activity in the UK. Once this restriction was lifted, our property development customers needed access to continued funding, to allow their projects to continue.

We were pleased to be able to provide this support, with robust credit management processes in place. This, plus reduced levels of repayments due to slower market conditions, brought our Real Estate Finance lending balances up to record levels, over £1 billion.

2020 Performance
Continued cautious growth in Real Estate Finance, offset by reduced Commercial Finance lending balances driven by the first lockdown's impact on our customers' activity levels.

Real Estate Finance

What we do: Residential Development
We lend to enable the development of new build property, commercial to residential conversions (including those with permitted development rights) and refurbishment projects.

Residential Investment
We lend on portfolios of residential property where the rental income will repay the underlying borrowing over a fixed term period. This excludes the regulated buy-to-let mortgage sector.

Other lending
We have limited appetite for other commercial lending (either development or investment) and have limited exposure to mixed development schemes.

How we do it
Financing is typically provided over a term of up to five years with conservative loan-to-value ('LTV') criteria, with a 60% loan to gross development value to residential house builders. More restrictive policies are implemented from time to time as required. Our loan to gross development value/LTV ratios continue to average below 60% across all lending areas. We have no significant exposure to any one property scheme or developer.

The Real Estate Finance team is staffed by experienced bankers with proven property lending expertise. The team provides full support to customers and introducers over the life of the products.

2020 performance
The business showed good momentum in Q1 2020 which then slowed following the impact of COVID-19 restrictions. This limited new business activity, and we focused on supporting customers and maintaining strong risk management over the portfolio.

Existing developments have continued to be funded, whilst the slowdown in the market has limited repayments. Overall balances grew by 9.3% in 2020, exceeding £1 billion and leading to overall revenues being 10.4% higher than 2019.

The impact of changes in macroeconomic factors has seen an increase in impairment charges in 2020. Low LTV ratios and close management focus on our portfolio have helped mitigate these charges. During the year ended 31 December 2020, 29 customers had been provided with a payment holiday, either in relation to capital or interest payments or both. These related to loans with exposures of £191.9 million. By the end of the year, this had reduced to two with exposure of £16.6 million.

Looking forward
The immediate focus of the business will remain on effective risk management, and ensuring that we continue to support our customers.

Our experienced team remains able to manage opportunities and threats in a timely manner, reflecting the necessary caution required by current conditions. We will manage our appetite in respect of new lending opportunities which arise as the economic conditions become clearer going forward.

Commercial Finance
Commercial Finance was formed as a division within the Group in 2014.

What we do
The division specialises in providing a full range of Asset Based Lending solutions to UK businesses. This covers a range of asset classes but our exposure remains predominantly against receivables.

Invoice discounting services provide access to funding and release typically up to 90% of the value of qualifying invoices, in confidence and allowing clients to stay in control of sales ledger management.

Factoring services, where the sales ledger management is passed on to the Group, may also provide access to funding of typically up to 90% of the value of qualifying invoices and often results in the Group managing credit control, cash allocation, statement and reminder letter distribution.

Other assets can also be funded either long- or short-term and for a range of LTV ratios alongside these facilities.

The division has also provided unsecured lending to existing customers since April 2020, through the government's Coronavirus Business Interruption Loan Scheme ('CBILS') and Coronavirus Large Business Interruption Loan Scheme ('CLBILS'). In both cases the UK Government guarantees 80% of the facility.

How we do it
Commercial Finance complements the broader SME lending proposition which has been developed by the Group. The business also provides SME commercial owner-occupiers with finance to buy the property they trade from, in conjunction with other financing facilities. This represents less than 3% of total exposure.

The division has built a strong team of proven business development, credit and operational professionals who have delivered a robust and compliant operating model.

2020 performance
The impact of COVID-19 on Commercial Finance clients resulted in lower utilisation of funds in the immediate aftermath of the first lockdown, whilst collections on the balances held up well. This caused a decrease in total lending balances drawn, over the middle part of the year, with both income and overall returns being lower than expected as a consequence. These balances have since recovered and there have been promising levels of new business, albeit selectively given the economic environment.

We supported businesses through the COVID-19 pandemic by supplementing lending to existing clients with CBILS and CLBILS facilities. This, together with wider balance sheet recovery, resulted in the year-end lending balance recovering to £230.7 million.

The close management and prudent approach to credit risk has ensured that, despite these difficult trading conditions, actual crystallised losses have been minimal.

Looking forward
Focus in 2021 will be on the continued protection of the balance sheet, in particular where clients are impacted by the end of government backed assistance such as HMRC payment forbearance, furlough and business interruption payments.

We expect appetite in the market to return and are well-placed to take advantage of new business opportunities.

Business review – Consumer Finance

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

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

Debt Management
Debt collection for the Group and external clients.

Supporting retailers
COVID-19 has made 2020 a very difficult year for retailers. The financing offered through our V12 Retail Finance business has not only aided consumers, but also our retail partners who have had to adjust their business models.

2020 Performance
Markets were slowed by COVID-19, particularly so for Motor Finance, resulting in balance sheet reduction over the year.

Retail Finance

What we do
The Retail Finance business, branded as 'V12', provides unsecured, prime lending products to the UK customers of its retail partners to facilitate the purchase of a wide range of consumer products across in-store, mail order and online channels. This business is driven by V12 Retail Finance, which was acquired in 2013 and has provided finance in cooperation with its retail partners for more than 20 years. The V12 point of sale system is used by the Group's retail partners and Retail Finance is administered from the V12 offices in Cardiff.

Retail Finance products are unsecured, fixed rate and fixed term loans, to UK residents with a good credit history, of up to 84 months in duration with a standard maximum loan size of £25,000. The average new loan is for £1,200 over a 26 month term.

The finance products are either interest bearing or have promotional credit subsidised by retailers, allowing customers to spread the cost of purchases into more affordable monthly payments.

How we do it
We operate an online e-commerce service to retailers, providing finance to customers of those retailers. The online processing system allows customers to digitally sign their credit agreements, thereby speeding up the pay-out process, and removing the need to handle and copy sensitive personal documents through electronic identity verification.

Retail Finance serves retailers across a broad range of sectors including cycle, music, furniture, outdoor/leisure, electronics, dental, jewellery, home improvements and football season tickets.

We provide finance to customers of a large number of retailers including household names such as Watches of Switzerland, DFS, Sofology, Performance Cycles and Watchfinder.

2020 performance
The Retail Finance business delivered a performance that was broadly in line with 2019, despite it being heavily impacted by COVID-19 in 2020. Social distancing requirements led to its retailer partners making significant changes including store closures, leading to lower sales volumes, and the impact on supply chains reduced the capability to fulfil goods delivered to customers. Online sales performances were less impacted, with sports and leisure sectors showing increased demand, particularly in the early stages of the pandemic.

Consequently, new lending volumes reduced to £614.5 million (a decrease of 14.2% on the prior year). This has led to a 4.4% reduction in lending assets, which reduced to £658.4 million in December 2020 (December 2019: £688.9 million). Lending revenue decreased by 5.4% to £70.7 million (December 2019: £74.7 million) due to this reduction in lending balances and a move to lower risk lending.

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

Impairment charges decreased to £14.5 million (December 2019: £19.8 million) linked to lower new business volumes and improved credit quality, partially offset by increased provisioning under IFRS 9 for forward looking macroeconomic factors. During the year, we granted payment holidays to approximately 2.1% of our customers, with only 0.5% remaining on a payment holiday at 31 December 2020.

Customer feedback, measured by Feefo, provided the business with a consistent score of 4.8 out of 5 for the year, based on over 1,000 reviews (2019: 4.8 based on 1,000 reviews).

Looking forward

During 2021 we envisage an increase in volumes as the majority of retail sectors expect to see a bounce back in customer footfall as COVID-19 social distancing rules start to relax after the winter lockdowns. Our online e-commerce service to retailers will continue to mitigate the impact of COVID-19 in many sectors, especially cycle, outdoor/leisure and electronics, as customers shop online.

We will continue to invest in initiatives to further enhance systems capabilities, to ensure that quality of service to both retailers and customers is maintained or improved as well as generating operational efficiencies. This includes the rollout of improved telephony systems across customer-facing staff and enhancements to the customer application process. This will provide a slicker customer journey by recognising returning customers of V12 Retail Finance in order to reduce customer time inputting their details.

Motor Finance

What we do

The Group's Motor Finance business began lending in 2008 under the Moneyway brand and provides hire purchase lending products to a wide range of customers, including those who might otherwise be declined by other finance companies. This helps the Group's customers to gain the freedom and flexibility that motoring gives to their lives as well as helping introducers to sell more cars.

In 2019 we launched a new brand, V12 Vehicle Finance, and a new used vehicle stocking product to allow dealers to finance vehicles on their forecourt as part exchanges, from auction partners or from other trade sources. In the last quarter of 2020 we initiated a limited trial of hire purchase lending into the consumer prime credit market under the V12 Vehicle Finance brand.

Both consumer and used vehicle stocking Motor Finance agreements are secured against the vehicle being financed and are predominantly lending to finance the purchase of volume franchise used cars.

How we do it

The Group distributes its Motor Finance products via UK motor dealers, brokers and internet introducers. New dealer relationships are established and managed by the Group's UK-wide Motor Finance sales team with all introducers subject to a strict vetting policy, which is reviewed on a regular basis.

The technology platform used allows the Motor Finance business to: receive applications online from its introducers; provide an automated decision; facilitate document production through to pay-out to dealer; and manage in-life loan accounts.

Motor lending is administered in Solihull, covering UK-wide motor dealers and brokers.

2020 performance

The Motor Finance industry was significantly impacted by COVID-19, with used cars bought on finance by consumers through the point of sale down 14% in the twelve months to October 2020 over the prior year (source: Finance and Leasing Association). We took the decision to temporarily cease writing new business in March 2020 for three months as a result of COVID-19 to focus on supporting existing customers. From July 2020 the Motor Finance business recommenced trading with restricted lending criteria. As a result, new business volumes from consumers dropped from £178.2 million in 2019 to £78.6 million for 2020.

In supporting our customers with the impact of COVID-19, we granted either payment holidays or reduced payments to over 15.6% of Motor Finance customers in 2020. By the end of 2020 this had reduced to 1.2% remaining in such an arrangement.

Impairment charges for the period have increased from £13.8 million for 2019 to £20.7 million in 2020. This reflects the expected future increase in customer defaults as a result of forecast macroeconomic conditions arising from COVID-19 restrictions.

We also took the decision to temporarily cease writing new used vehicle stocking loans in March 2020 and re-entered the market with enhanced credit criteria from June 2020. There were £3.4 million of used vehicle stocking lending balances at the end of 2020, up from £1.5 million in 2019.

Looking forward

We expect to continue to apply restricted lending criteria to near-prime lending over the initial part of 2021, with those criteria being eased as the economic outlook becomes more certain.

We remain committed to expanding into the prime credit market under the V12 Vehicle Finance brand, to drive long-term receivables growth and sustainable return outcomes. The requisite system and business capabilities were delivered in 2019, allowing us to take advantage of the opportunity to deliver prime and near-prime products and services in the motor lending market as an innovative and technology-led funding provider.

The Motor Transformation Programme, which has seen £9.5 million already invested since the programme started in 2018, will now focus on further system enhancement and delivery of a PCP product.

Motor Finance is now well-placed to improve the credit quality of the portfolio, drive business growth and deliver stable earnings.

Debt Management

What we do
Debt Managers (Services) Limited ('DMS') is the Group'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.

How we do it
DMS offers three services across credit management and in order to meet the needs of its clients:

- Business process outsourcing allows DMS to assist in the performance of early arrears accounts on behalf of clients
- Contingent collection allows a client to place accounts for DMS to manage in its own name
- Debt purchase allows DMS to acquire accounts and choose how to liquidate those accounts over a period of 10 years

We aim to provide all customers with the best possible customer service by recognising every customer is different. All customer-facing staff receive training on how to effectively use industry recognised techniques such as TEXAS and IDEA to help identify signs of vulnerability and on how to use tailored signposting relevant to customers' circumstances. Customers that need additional support are managed by a specialist Customer Care Team. We work closely with debt charities such as StepChange, Payplan and Christians Against Poverty and a range of other third parties including the Samaritans, MIND and Marie Curie to ensure that customers receive an appropriate service.

2020 performance
The impact of COVID-19 has reduced collections levels below the previous forecast and, as a result, an impairment charge of £8.9 million (2019: £2.1 million credit) has been recognised against the value of purchased debt portfolios. Of this loss, £2.4 million is due to income being recognised by applying the original credit-adjusted effective interest rate to the loan book. Differences in cash flows are then recognised as an impairment charge or credit.

The reduction is due to the customers' reduced ability to pay and a delay in collections activity, including field reconnection and litigation activity, during 2020. The purchase of new portfolios slowed in the year as sellers paused portfolio sales due to COVID-19. As a result, DMS purchased £20.5 million of debt portfolios in 2020 compared with £61.9 million in 2019.

Looking forward
In the short-term, there is continued uncertainty brought by COVID-19, on both underlying collections levels and the rate of supply of new debt portfolios from UK financial institutions.

The longer-term outlook for the supply of debt portfolios remains positive as we expect that UK financial institutions will continue to sell and will do so at an earlier stage than historically.

We will continue to invest in improving our digital offering to customers to improve the customer experience and reduce our cost to collect.

Non-core lending

Asset Finance

What we do
The Asset Finance business provides funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

How we do it
The Asset Finance business is operated via a joint venture with Haydock, a well-established asset finance company operating across the UK. Following the change in ownership of Haydock in January 2018, we have ceased writing new business through the joint venture, although Haydock continues to provide a full business process outsourcing service to the Group in relation to the portfolio we fund.

The current portfolio reflects hire purchase and finance lease arrangements with terms of up to five years.

2020 performance
The portfolio has continued to reduce during 2020 and remains in run-off. The level of reduction was lower than expected during the first half of 2020, as a result of payment holidays granted to customers, however the rate of portfolio liquidation has increased during the second half of the financial year.

Lending balances have reduced by 62.5% during 2020, to £10.4 million (31 December 2019: £27.7 million) with consequent impact on revenues. Impairments have increased reflecting the heightened risk on parts of the portfolio from the changed economic conditions.

Looking forward
We ceased originating Asset Finance business in 2018. We expect the book to continue to reduce in 2021, and will be monitoring the book carefully to limit where possible the impact of the changed economic conditions.

Consumer Mortgages

What we do
Consumer mortgages represents fixed rate mortgages provided to individuals, to purchase a property or remortgage their current property. We ceased originating new consumer mortgages in the first quarter of 2019.

2019 performance
The book has contracted as expected, with balances at the end of the year of £77.7 million (31 December 2019: £105.9 million). Revenue reduced accordingly, from £3.7 million in 2019 to £3.4 million.

The reduction in the size of the book has resulted in a small release of impairment provision (2019: charge of £0.1million). A significant proportion of customers took advantage of payment holidays over the course of 2020. By the end of the year, the majority of these had returned to payment, with just 3% of customer remaining on a payment holiday as at 31 December 2020.

Looking forward
We will continue to support our mortgage customers, including managing those who are still on a payment holiday returning to making payments. There are no current plans to re-establish new business in this portfolio.

Savings
The Group continues to attract funding primarily via retail savings, offering competitive, simple products available online and serviced through a highly commended internet banking service.

Savings includes personal and business customers depositing in access, notice, fixed term bond and fixed term ISA products with associated balances of around £2 billion.

Maintaining high levels of customer service
As it became clear that 2020 was not going to be a normal year, it was essential that we established working practices and communication lines to support both existing and new customers.

This was particularly the case for our savings operation. Our online banking and supporting customer service team, working both from home and in our offices, ensured that our savings customers received great service and continued to be confident that their money was secure. We also continued to attract new customers to save with Secure Trust Bank.

2020 Performance
Balance levels remained stable in line with lending books, with movement from long-term bonds to ISAs and Access Accounts.

What we do
We offer a range of savings accounts that are purposefully simple in design. These provide customers with a choice of products from same day withdrawal to 180-day notice, and one to seven year fixed terms across both bonds and ISAs.

These products are all available to UK-based individuals saving with a minimum deposit of £1,000. The Bank also has a small historical book of non-personal accounts it is in the process of closing in early 2021, representing less than £72 million (4%) of deposits.

All personal deposits held with the Bank are covered under the UK Financial Services Compensation Scheme in line with the terms of the scheme. Accounts are made available and priced in line with our ongoing funding needs, allowing each individual to hold a maximum balance of £1 million.

In addition to savings, the Bank has historically offered a budgeting account, OneBill. This was closed to new applications in 2009 and existing accounts will close in phases during 2021.

How we do it
The continued approach of not cross-subsidising loss-making products with profitable ones, maintaining a stable funding and customer base and utilising an operational model based on digital application and self-service, enables us to offer competitive rates and attract high volumes of deposits quickly, from a broad range of personal customers.

Our range of savings products covers Access, 14 to 180-day Notice, one to seven year Fixed Bonds and Fixed Rate ISA accounts. This enables us to access the majority of the UK personal savings markets and compete for significant liquidity pools, achieving a lower marginal cost with the volume, mix and the rates offered optimised to the demand of our funding needs.

Product terms and rates broadly match the term and tenor of customer savings to the desired maturity profiles of the Group, which are primarily determined by the interest rates and terms offered on loans and advances to customers. This strategy aims to help mitigate maturity transformation and interest rate risks.

All of the above provides us with a funding profile which gives additional financial security, diversification and flexibility to the Group.

As well as attracting and retaining customers with competitive rates of interest, customers choose us based on our financial standing, high level of independent customer review scores, easy to use digital services and UK-based operation with high standards of cyber and operational security.

2020 performance
Retail savings balances have been stable over the year, with total balances just below £2 billion at the year-end.

During 2020 we have observed an atypical savings market in terms of changes in customer demand, relative interest rates across products and ongoing fluctuations in competition. Our wider range of products has enabled us to maintain the Group's access to liquidity in a changing environment.

Our ability to raise new funds is robust. Over 22,000 accounts were opened across new fund raising and retention during 2020. £868 million of new funds were raised or retained, equivalent to £27 every second across 50,500 transactions, evidencing the extent and scale of operations.

This includes the continued establishment of our ISA product, with new funds of £96 million this year and total balance of over £129 million raised since launch in 2019, up 238% in 2020. Access deposits, including those where customers' original accounts mature onto the product, reached a balance of over £69 million in 2020, up 596% on 2019, evidencing a trend from 2019 of successful ongoing product development.

Reductions in the Bank of England Base Rate to 0.1% in March and further falls in market savings rates in second half of the year have required us to regularly review and reprice our variable rate book during 2020. We have sought to balance offering fair and competitive rates of interest to existing customers, whilst reflecting reductions in market-wide funding costs. This approach has ensured funding continues to be stable and helped to reduce the Group's cost of funds.

During 2020 we have continued to deliver significant change with both short-term tactical advantage and long-term benefit. This includes measures to keep our people safe in the Group's offices and establish working from home practices in line with government guidelines.

People engagement scores indicate high satisfaction with the measures taken and leadership shown.

100% of new savings applications were online, and this year we introduced a shortened application process for existing customers to easily open further savings products with us. All customers register for internet banking as part of the application process and at year-end, nearly 43,500 customers were registered, representing 90% of the customer base. We retained approximately £333 million of maturing balances in 2020, moving quickly to move our maturity process online at the start of the pandemic to enable customers to easily retain their funds with us.

This continues to benefit the Group's resilience with customers self-serving and, when raising queries, utilising secure messaging. Compared to December 2019, use of the service by December 2020 had increased by around 180%. This, plus the introduction of a new telephony platform and remote working practices ensures our operations have adapted accordingly.

We have continued to focus on our customers during 2020 and won numerous independent awards, including being named 'Best Savings Provider for Existing Customers' by Savings Champion. We were highly commended for the 'Best Savings Provider' award by the Savings Champion Awards and have been shortlisted for 'Online Service Provider of the Year' in the Moneyfacts Consumer Awards 2021. Moneyfacts have also awarded a number of 'Excellent' product ratings and positions in the Best Buy Charts for Notice Accounts and Fixed Rate Bonds which we have launched during 2020.

Customer experience continues to be of great importance. We actively refer our customers to Feefo and in the last 12 months have averaged a rating of 4.5 out of 5 stars with a Net Promotor Score of 42. The TrustPilot rating was 4.5 out of 5 stars over the same period. These results compare extremely positively with peers offering Savings accounts and evidence the Bank's focus and unique selling point in customer service and experience, delivered through our Grow, Sustain, Love strategy.

Looking forward
In 2021, we are focused on continuing to improve all aspects of our digital savings experience for both new and existing Savings customers, underpinning our long-term plan to grow balances, customer numbers and transactions through an increasingly diverse deposit book.

Key areas of focus will be enhancing the usability of our services across multiple platforms, devices and browsers, increase the conversion of our online application journey for both new and existing customers, making it easier for customers to stay with us when their product matures and introducing new functionality and tools to make it easier for customers to self-serve online.

This investment, alongside continued digitisation of customer communications, should improve customer experience, enhance straight through processing and support a lower interest expense.

We plan to continue to grow ISAs, Notice and Access balances in 2021, increasingly offering Access products to both existing and new customers, and broadening our product offer to wider customers of Secure Trust Bank Group. This will help support a lower interest expense and increasing product holding to improve the stability of funds through deeper customer relationships.

We look to continue the positive recognition we have generated this year through the ongoing delivery of simple, competitive products and focus on great customer experience throughout 2021.

Impact of COVID-19

Economic and regulatory environment

A new global environment
The macroeconomic environment has been adversely affected by the pandemic and is changing the way banks need to operate.

Macroeconomic

Recent developments
In 2020, the performance of the UK economy has been dominated by the COVID-19 crisis. The initial decision by the UK Government in March to lockdown large sections of society in order to reduce the risk of contagion had a profound impact on businesses and consumers. In April 2020, UK GDP fell by a record 19.5%.

By October 2020 and prior to the second lockdown and the implementation of the more restrictive three-tier system, UK GDP had grown for six successive months. At that point, the UK economy was 23.4% larger than the position in April, although it remained 7.9% smaller than the pre-COVID-19 position in February 2020. Growth was evident across construction, manufacturing and services and there was a 6.8% rise in motor vehicle production in October.

The additional restrictions applied in Q4 2020, followed by the further national lockdown announced at the end of 2020, are expected to have had an adverse impact on economic activity. Overall, the UK economy will have shrunk by a record amount in 2020. The latest forecast from the Monetary Policy Committee in February 2021 anticipated a 10% decline in UK GDP for 2020 as a whole.

The labour market, notwithstanding the very significant government support provided via the furlough schemes, has weakened since the summer. The ONS' Labour Force Survey for the three months to November 2020 highlighted a marked increase in the unemployment rate at 5.0% together with a record number of redundancies. The same report estimated that there were 828,000 fewer people in payrolled employment at the end of 2020, when compared to February 2020.

The weakening jobs environment has impacted demand for borrowing. The Bank of England's latest Money and Credit report highlighted that net consumer credit borrowing remained weak as at end October, with households continuing to make significant net repayments. More positively, however, the mortgage market continues to show resilience, with high levels of mortgage approvals driving continuing growth in net mortgage borrowing.

Outlook
Forecasts for the macroeconomy remain inherently uncertain and depend critically on a range of public health assumptions such as the continuation of restrictions, the availability and impact of vaccines and the effectiveness of test and trace procedures. In addition, the performance of the UK economy will be impacted by UK-EU Brexit negotiations and the trading relationship in place following the end of the transition period.

The UK vaccination programme is progressing well, and statistics are currently showing a consistent decline in the number of cases across the country. A roadmap, setting out the planned phased withdrawal of lockdown restrictions concluding in June 2021, has been announced by the UK Government.

On 3 March 2021, the Chancellor's Budget included a further extension to support schemes, with furlough now continuing until September 2021. This has resulted in the publication of more benign unemployment forecasts. On 15 March 2021, the Governor of the Bank of England stated that the Bank was likely to reduce its peak unemployment forecast from 7.5%.

Government and regulatory response

Recent developments

The UK Government has responded to the COVID-19 crisis with a range of different measures, including the placing of restrictions on businesses and society, fiscal and monetary actions, initiatives which provide direct support to personal borrowers and businesses, as well as a series of regulatory measures, guidance and reliefs.

To provide direct support for personal borrowers, the FCA issued new rules including the offer by financial firms of a temporary payment freeze on mortgages and consumer credit loans. In November, they announced that lenders should extend the provision of mortgage and consumer credit payment deferrals up to a maximum of six months. Under the amendments, customers who have not yet had a payment deferral can request one for up to six months and those who already have a payment deferral for a period of less than six months would be able to extend that deferral.

Additionally the FCA finalised forbearance guidance and repossessions for Motor Finance customers. Under this guidance, firms are not able to terminate an agreement or repossess vehicles for Motor Finance customers who are experiencing payment difficulties as a result of circumstances relating to COVID-19 before 31 January 2021, unless under certain specific, exceptional circumstances.

The government announced the Coronavirus Job Retention Scheme, known as ‘furlough’, which has now been extended to September 2021. The Group has not placed any employees under furlough and has not taken advantage of the Job Retention Scheme.

At the end of April, the government also launched schemes designed to help businesses struggling with the impact of the lockdown restrictions. These include the Coronavirus Business Interruption Loan Scheme (‘CBILS’) and the Coronavirus Large Business Interruption Loan Scheme (‘CLBILS’). In both instances, the government will provide a guarantee of up to 80% of the value of each of the loans.

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

The Bank of England has maintained the Base Rate at 0.1%, the level that has been in place since the outset of the crisis. In addition, in November, the Bank’s Monetary Policy Committee (‘MPC’) increased its government bond-buying programme by a further £150 billion, taking total government bond purchases to £875 billion and total quantitative easing to £895 billion.

In December, the Bank of England announced that the UK’s seven largest banks can resume paying some dividends and bonuses. The BoE made clear that any distributions for 2020 should be “prudent” and fall within temporary “guardrails” published by the Bank of England.

Outlook

On 12 November, in his Mansion House speech, PRA CEO Sam Woods set out the merits of introducing a new “strong and simple” regime of prudential regulation for small banks and building societies in the wake of the UK’s exit from the EU.

Mr Woods indicated that the PRA would produce a discussion paper in early 2021 setting out some initial proposals on this regulatory theme. The PRA has already published policy statement, PS25/20, on simplified obligations for recovery planning for smaller and non-systemic firms.

The government has confirmed that the new statutory Breathing Space scheme will launch in May 2021. The scheme will mean that people in problem debt will be able to access 60 days of protection from interest, charges and creditor action while they seek debt advice.

We continue to prepare for the final Basel III reforms which will now apply from 1 January 2023, which we anticipate will go some way to levelling the playing field between IRB institutions and those on the Standardised Approach.

Financial review

Maintaining our financial integrity

Income statement	**2020 Total £million**	2019 Total £million	Movement %
Interest income and similar income	192.5	191.4	0.6
Interest expense and similar charges	(41.6)	(46.0)	(9.6)
Net interest income	**150.9**	145.4	3.8
Fee and commission income	16.0	20.9	(23.4)
Fee and commission expense	(0.8)	(0.8)	–
Net fee and commission income	**15.2**	20.1	(24.4)
Operating income	**166.1**	165.5	0.4

Net impairment charge on loans and advances to customers	(51.3)	(32.6)	(57.4)
Losses on modification of financial assets	(3.1)	–	–
Operating expenses	(91.6)	(94.2)	2.8
Profit before income tax	**20.1**	38.7	(48.1)
Income tax expense	(3.9)	(7.6)	48.7
Profit for the year	**16.2**	31.1	(47.9)
Basic earnings per share (pence)	87.0	168.3	(48.3)
Selected Key Performance Indicators			
Net interest margin	6.3%	6.5%	(3.1)
Cost of funds	1.7%	2.0%	(15.0)
Cost to income ratio	55.1%	56.9%	(3.2)
Cost of risk	2.3%	1.4%	64.3
Return on average equity	6.1%	12.8%	(52.3)
Return on average assets	0.6%	1.2%	(50.0)
CET1 ratio	14.2%	12.7%	11.8
Total capital ratio	16.4%	15.0%	9.3

Certain KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix. In the narrative of this financial review, KPIs are identified by being in bold font. Further explanation of the non-financial KPIs is provided in the Managing our business responsibility section on page 52 of the Annual Report and Accounts.

The Remuneration Report, starting on page 83 of the Annual Report and Accounts, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

Profit and earnings

Despite the pandemic the Group remained profitable. Preservation of capital and liquidity was the core focus of management and the full year performance reflects both the challenging economic environment and the Group's response to it.

Profit was impacted by elevated impairment charges driven by the future economic outlook as a result of the pandemic. However, with the strong lending balance growth in 2019 continuing into the first quarter of this year, and lending stabilising in the second half of the year, revenues have held up strongly. We have also taken action to hold down costs, which have ended the year lower than for 2019.

Statutory profit before tax fell by 48.1% to £20.1 million (2019: £38.7 million). Consequently, earnings per share fell from 168.3p per share to 87.0p per share. Detailed disclosures of earnings per ordinary share are shown in Note 10.

The components of the Group's profit are analysed in more detail in the sections below.

Impact of payment holidays

Although not included as an option within customer contracts, following regulatory guidance we have offered payment holidays to our Consumer Finance and Asset Finance customers. This is considered under IFRS 9 as a modification to contractual cash flows, which requires the carrying value of these loans to be adjusted to the revised net present value of future cash flows. The initial impact of this adjustment was £3.6 million. New payment holidays since 30 June 2020 and the amortisation of the initial adjustment has reduced this impact to £3.1 million at the year-end. The amortisation of this impact will materially be complete by the end of 2023.

Net interest income

Net interest income of £150.9 million was 3.8% higher than the prior year.

Despite the balance sheet contraction in the year, with **loans and advances to customers** reducing from £2,450.1 million to £2,358.9 million, average lending balances over 2020 were 6.8% higher than the average over 2019. Interest income was impacted by the change in the overall mix of lending brought about by the pandemic, with our highest margin product, Motor Finance, being particularly curtailed. As set out in more detail on page 21 of the Annual Report and Accounts, this was due both to the partial closure of the market during the first lockdown, and to our tightening of risk appetite. These two factors broadly offset each other, resulting in interest income broadly in line with the prior year at £192.5 million (2019: £191.4 million).

The reduction in lending balances facilitated the managing down of relatively high cost fixed rate funding as it matured, and to reprice certain tranches of notice account funding. As a result of this and of Bank of England Base Rate reductions, interest expense was £41.6 million, a reduction of 9.6%. The **cost of funds** reduced to 1.7% (2019: 2.0%).

The Group's **net interest margin** reduced slightly from 6.5% in 2019 to 6.3% in 2020, with the impact of lower levels of higher margin Motor Finance lending being mostly offset by the lower funding costs.

Net fee and commission income

Net fee and commission income fell by 24.4% to £15.2 million (2019: £20.1 million). This was driven particularly by the reduction in Commercial Finance new business in 2020 and in Retail Finance where some fees were waived due to the pandemic, described in more detail on page 20 of the Annual Report and Accounts.

The **gross revenue margin** reduced from 9.4% to 8.7%, due to both interest income and the reduction in Commercial Finance fee income set out above.

Impairment charge

The pandemic has had a significant impact on the levels of impairment provisions required. Following several years of reduction, driven by the improving quality of the balance sheet, in 2020 the **cost of risk** rose from 1.4% in 2019 to 2.3%. The impairment charge for the year was £51.3 million (2019: £32.6 million). This cost of risk includes the impact of the modification losses due to payment holidays; without this charge it is 2.1%. As in previous years, the majority of our impairment charge arises from the Consumer Finance businesses.

The actual levels of defaults experienced over 2020 have been modest, most likely in part due to the take-up of payment holidays and government schemes such as furlough. By 31 December 2020, the majority of STB customers who had taken out such a payment holiday had exited these arrangements, with most of them returning to making full payments.

In total, 15.6% of Motor Finance customers and 2.1% of Retail Finance customers took up the offer of a payment holiday in 2020. By the end of 2020, only 1.2% of Motor Finance customers and 0.5% of Retail Finance customers remained in a payment holiday arrangement.

The increase in the impairment charge is predominantly driven by the IFRS 9 requirement to account for forward-looking factors rather than actual defaults experienced in the year. Our IFRS 9 models use the correlation between macroeconomic variables, such as unemployment and house price indices, and historic credit losses to derive estimated future losses given a range of forecast variables. As described in more detail in Note 2, we expect these variables, particularly unemployment, to worsen significantly in 2021 before a recovery then commences.

A further material element of the impairment charge relates to our debt management activity, managed by DMS. In normal conditions, DMS will earn income by collecting more in respect of the loans it purchases than it pays for them. However, the pandemic has restricted DMS's ability to collect this debt, and it has revalued its portfolios accordingly. The impact of this revaluation contributed to an impairment charge of £8.9 million, to reflect the estimated lower collection levels over the life of the loans. In 2019, the annual revaluation of the DMS portfolios yielded an impairment credit of £2.1 million.

The provision charge includes the impact of applying expert credit judgement, resulting in overlays being added to provision levels estimated using the Group's models. A breakdown of the charge by product is shown in Note 3.

Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 14, 15, 16 and 35.

Operating expenses

Part of our response to COVID-19 was to substantially reduce recruitment. Travel and similar costs also reduced, with the majority of employees working from home for most of 2020. The reduction in lending activity reduced volume related operational and credit costs.

These reductions were partly offset by investments in our IT infrastructure and Motor Transformation programme. These factors have contributed to operating expenses decreasing slightly to £91.6 million (2019: £94.2 million).

The Group's **cost to income** ratio improved from 56.9% in 2019 to 55.1%.

Distributions to shareholders

Given the significant uncertainty arising from COVID-19, the Directors did not recommend a final dividend for 2019 or an interim dividend for 2020. The last dividend payment made by the Group was the 2019 interim dividend, of 20 pence per share, which was paid on 27 September 2019.

The Board recommend the payment of a final dividend for 2020 of 44 pence per share.

Taxation

The effective tax rate fell to 19.4% (2019: 19.6%), which is slightly above the currently enacted rate of 19%.

The tax rate reflects Bank Corporation Tax Surcharge of 8% on any taxable profits of Secure Trust Bank PLC in excess of £25.0 million in an accounting period. The government is proposing to increase the main corporation tax rate to 25% from 1 April

2023, however, also intends to review the bank surcharge in Autumn 2021, to ensure the UK's banking tax regime remains competitive.

Future effective tax rates for the Group will be sensitive to the timing of the legislative change and the approach adopted to revise bank surcharge as well as the quantum of projected profits in the Bank and other Group companies. Forecasts based on enacted legislation had shown that the effective tax rate was expected to increase by up to 5% over the forecast period, compared with the 2020 effective rate, as the effect of the banking surcharge had been expected to become more significant.

Summarised balance sheet

	2020 £million	2019 £million
Assets		
Cash and balances at central banks	**181.5**	105.8
Debt securities	**–**	25.0
Loans and advances to banks	**63.3**	48.4
Loans and advances to customers	**2,358.9**	2,450.1
Derivative financial instruments	**4.8**	0.9
Other assets	**55.6**	52.6
	2,664.1	2,682.8
Liabilities		
Due to banks	**276.4**	308.5
Deposits from customers	**1,992.5**	2,020.3
Tier 2 subordinated liabilities	**50.8**	50.6
Derivative financial instruments	**6.1**	0.6
Other liabilities	**67.8**	48.7
	2,393.6	2,428.7

Balance sheet
The assets of the Group remained steady year-on-year at £2,664.1 million (31 December 2019: £2,682.8 million).

The liabilities of the Group reduced by 1.4% to £2,393.6 million (31 December 2019: £2,428.7 million). Deposits from customers decreased by £27.8 million and other funding reduced by £35.4 million, the latter primarily due to the pay back of ILTR borrowings, further details of which are provided on this page.

Loans and advances to customers
Loans and advances to customers include secured and unsecured loans and finance lease receivables. The impact of the pandemic on consumer lending has shifted the composition of the loan book, with the Consumer Finance book being approximately 45% of total lending (2019: 49%), and the Business Finance book being approximately 55% (2019: 51%).

Loan originations in the year, being the total of new loans and advances to customers entered into during the year, decreased by 27.1% to £1,030.2 million (2019: £1,413.0 million). As in previous years, over half of the new business volume (£614.5 million) was generated by the Retail Finance business, despite that business being impacted by lockdowns that restricted access to physical stores for large parts of the year.

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 14, 15, 16 and 35.

Debt Securities
Debt Securities consist solely of sterling UK Government Treasury Bills ('T-Bills'). The number of T-Bills held reduced to zero over the year, from £25 million at 31 December 2019, with the Group now able to utilise other assets more fully as collateral against Term Funding Scheme drawings with the Bank of England.

Due to banks
At 31 December 2020, the amount due to banks consisted primarily of drawings from the Bank of England Term Funding Scheme ('TFS'), supplemented by £10 million of ILTR. Towards the end of 2019 and at certain times throughout 2020, ILTR has been used as an additional inexpensive funding buffer to fund new business. We are a participant in the Term Funding Scheme with additional incentives for SMEs ('TFSME'), which will provide four-year funding at rates close to the Bank of England Base Rate. The first drawing of TFSME was made in March 2021.

Deposits from customers

Customer deposits include Fixed Term Cash ISA, term, notice and sight deposits, an Access Account and the OneBill product. Customer deposits reduced by 1.4% during the year and closed at £1,992.5 million (2019: £2,020.3 million). This, combined with the reduction in lending balances caused the **total funding ratio** to increase to 109.7% (2019: 107.5%), in part to fund expected Commercial Finance drawdowns in the first quarter of 2021. As set out on page 37 of the Annual Report and Accounts, the mix of the deposit book has changed, with a shift from long-term fixed rate bonds into ISAs and sight/access accounts. This has brought about the improvement in **cost of funds** referred to on page 31 of the Annual Report and Accounts.

Tier 2 subordinated liabilities

Tier 2 subordinated liabilities represent two £25 million tranches of 6.75% Fixed Rate Callable Subordinated Notes, including interest accrued. Further details of the note issuances are provided in Note 29. The Notes qualify as Tier 2 capital.

Management of capital

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

Key factors influencing the management of capital include:

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

All of these factors have been impacted by the pandemic. Our ability to manage down volume growth and the short duration of lending assets brought about a reduction in risk weighted assets, and hence capital requirements, over 2020. The range of risk weightings applied to the Group's key lending assets provides flexibility in our management of capital. We have closely monitored the product mix and adjusted it over 2020, and will continue to do so as the balance sheet returns to growth, to provide the requisite balance between profitability and capital conservation.

Changes made to the PRA buffer levels and to Pillar 2A requirements, and to the IFRS 9 transitional rules, have also reduced capital requirements over 2020. At the same time, we have continued to be profitable, and have conserved capital by withholding the final dividend for 2019 and interim dividend for 2020. As a result, as shown in the tables on the following page, all of the Group's key capital ratios improved over the year. This capital position will help us achieve our post-COVID-19 growth ambitions. Further detail is provided in the following sections.

Capital resources

Capital resources increased over 2020, from £318.0 million to £337.0 million. The proposed 2020 dividend would reduce capital resources to £328.8 million. The increase was wholly due to CET1 capital and was driven by retained earnings growth, plus the impact of changes to the IFRS 9 adjustment as set out below.

The Basel Committee proposed a number of mitigation measures for the capital regime in response to the pandemic. These were enacted by the EU on 24 June 2020 as Directive EU/2020/873, and were ratified by the PRA and became applicable later in June 2020. The measure with the most significant impact on these results is the increase in transitional capital relief in respect of impairment provisions raised in 2020 and 2021, excluding those provisions relating to defaulted accounts. For these provisions, 100% relief is allowed in 2020 and 2021, with the relief then phased out over the following three years on a straight-line basis (2022: 75%, 2023: 50%, 2024: 25%, 2025: 0%). This is in addition to the original transitional relief outlined on page 36 of the Annual Report and Accounts.

Capital requirements

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

The reduction in lending balances brought about by the pandemic caused a reduction in risk weighted assets over 2020, bringing the Total Risk Exposure down from £2,118.1 million to £2,001.5 million.

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

Capital

	2020 £million	2019 £million
Capital		
CET1 capital	**291.9**	268.0

	2020	2019
Total Tier 2 capital	**45.1**	50.0
Total capital	**337.0**	318.0
Proposed dividend	**8.2**	–
Total capital after proposed dividend	**328.8**	318.0
Total Risk Exposure	**2,001.5**	2,118.1
	2020 %	2019 %
CRD IV ratios – excluding proposed dividend		
CET1 capital ratio	**14.6**	12.7
Total capital ratio	**16.8**	15.0
CRR Leverage ratio	**10.7**	9.8
CRD IV ratios – after proposed dividend		
CET1 capital ratio	**14.2**	12.7
Total capital ratio	**16.4**	15.0
CRR Leverage ratio	**10.4**	9.8

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

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

The Group has elected to adopt the IFRS 9 transitional rules. For 2020, this allows 70% (2019: 85%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible capital. The same relief is allowed in respect of increases in provisions since 1 January 2018, except where these provisions relate to defaulted accounts. Further information is provided in Note 38.

The Group's regulatory capital is divided into:

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

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

In addition, in October 2020 the PRA confirmed that, effective from 16 December 2020, the Group's total capital requirement would be reduced by 1%. This is in line with the PRA approach set out in its policy statement PS15/20 'Pillar 2A: Reconciling capital requirements and macroprudential buffers'. At the same time, a temporary PRA buffer was added to requirements, to be retained while the countercyclical buffer remains at 0%.

Although these two factors have increased the Group's capital surplus, in our capital planning we take into account the potential for the countercyclical buffer to return to its normal level (2%) over time and the fact that the PRA's triennial review of our total capital requirement is due in 2021.

Capital requirements

	2020 £million	2019 £million
Total Capital Requirement	**191.5**	212.0
Capital conservation buffer	**50.0**	52.9
Countercyclical capital buffer	**–**	21.1
Total	**241.5**	286.0

Liquidity
We continued to hold significant surplus liquidity over the minimum requirements throughout 2020, managing liquidity by holding High Quality Liquid Assets ('HQLA') and utilising predominantly retail funding from customer deposits. Total liquid assets increased from £170.0 million at 31 December 2019 to £232.1 million, despite the decrease in our lending balances over 2020. Some of the additional liquidity will be used to fund planned Commercial Finance drawdowns in 2021.

We continued to attract customer deposits as required over 2020, though our demand for this funding was lower given the reducing lending book. This allowed us to focus on attracting ISA and notice account funding, with less emphasis on retaining more expensive fixed term bonds. The composition of customer deposits at the year-end was as shown in the table to the right.

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

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

Liquid assets

	2020 £million	2019 £million
Aaa – Aa3	**180.5**	130.8
A1 – A3	**46.5**	34.1
Unrated	**5.1**	5.1
Liquidity exposures	**232.1**	170.0

Customer deposits

	2020	2019
Notice	**35%**	33%
Fixed term	**54%**	64%
Sight/instant access	**4%**	1%
ISA	**7%**	2%

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

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

High Quality Liquid Assets ('HQLA') are held in the Bank of England Reserve Account and UK Treasury Bills. For LCR purposes the HQLA excludes UK Treasury Bills which are encumbered to provide collateral as part of the Group's Term Funding Scheme with the Bank of England. On this basis, the HQLA at 31 December 2020 was £172.8 million (31 December 2019: £96.4 million).

Principal risks and uncertainties

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

Group for all of its customers and stakeholders through prudent balance sheet management, investment for growth and robust risk and operational control.

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

Risk Appetite

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

Governance

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

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

The Group operates a 'Three Lines of Defence' model for the management of its risks in which each risk has a defined risk appetite which is controlled and managed through documented policies and frequent reporting, and is overseen by one or more committees as part of the Group's governance process.

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

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

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

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

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

Summary of changes to risk profile

The COVID-19 pandemic has increased the inherent risk across a number of risk categories, for financial services firms including the Group. We have taken actions to mitigate these risks, and other risk mitigation activity which is not related to the pandemic has continued throughout the year. We have presented our movements in risk status based on the net risk, after these mitigation activities have been considered.

As a consequence, while some risks have worsened, we consider others to have been held stable or, in the case of liquidity, improved. This is shown in the table on this page and in the sections that follow. Given the significant impact of credit risk on the Group, in aggregate the risk position is considered to be worse for the Group in 2020 than it was for 2019.

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:

Principal Risk	Movement in 2020

Credit Risk The risk that a counterparty will be unable to pay amounts in full when due.	↑
Liquidity and Funding Risk The risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost.	↓
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.	←→

Notes 34 to 38 provide further analysis of certain financial risks.

Further details of the principal risks, the changes in risk profile during the 2020 financial year and the Group's risk management framework are set out in the following section. This section includes more information on how the Group has responded to and mitigated the effects of the current COVID-19 pandemic. There is also analysis of the key strategic and emerging risks which impact the Group. These include the UK's withdrawal from the European Union, the direct impacts of which are considered to be limited given the Group's UK operation and focus, and how the Group is managing Climate Change Risk.

Key to symbols

↓ Improved

←→ Stable

↑ Worsened

Credit Risk – WORSENED ↑

Description

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

Mitigation

The Group manages credit risk through internal controls and through a 'three lines of defence' model. The first line is the business operation team with the Credit Risk team being second line and Internal Audit being the third line. The Consumer Credit Risk Committee and SME Credit Committees, which are the monitoring committees for credit risk, report to the Board Risk Committee. The Board Risk Committee also approves lending authorities in respect of SME lending. Each consumer lending product has a monthly portfolio review which reviews business performance from new application metrics through to loss performance by business type and introducer. Policy and scorecard changes are approved at the Consumer Credit Risk Committee.

For Real Estate Finance and Commercial Finance, lending decisions are made by their respective Credit Committees, using expert judgement and assessment against criteria set out in the lending policies. Asset Finance lending is managed via a joint venture with Haydock, who operate in line with the Group's credit policies and risk appetite. Since the change in ownership of Haydock in January 2018, the Group has allowed the Asset Finance portfolio to reduce in line with contractual repayments from customers.

Exposure to credit risk is also managed in part by obtaining security. Motor Finance loans are secured against motor vehicles. Mortgages are secured against land/property and Real Estate Finance and Asset Finance loans are secured against property and tangible assets respectively. Commercial Finance advances are secured against a debtor book, inventory or property if a commercial mortgage is provided.

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

Forbearance
The Group does not routinely reschedule contractual arrangements where customers default on their repayments. It may offer the customer the option to reduce or defer payments for a short period, in which cases the loan will retain the normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes. In line with government guidelines, payment holiday deferrals were offered to customers that requested one following the COVID-19 outbreak.

Change

Consumer Finance Credit Risk
Application trends, arrears and loss trends for the Retail Finance portfolio are monitored monthly by the Credit Risk Team. Ahead of the COVID-19 lockdown, the Retail Finance business tightened credit criteria to protect against the bad debt that could result from the expected economic downturn, particularly from unemployment as a result of business failures during the pandemic. This has reduced the growth in the portfolio but ensured that the loans written have improved the overall quality of the business. Arrears cases are at historically low levels, however some of this is expected to be due to payment holiday deferrals offered to those customers impacted by the pandemic.

The Motor Finance business was temporarily closed to new business between March and July due to motor dealerships being closed during the COVID-19 lockdown. When the business re-opened, the Group implemented significant tightening of credit policy, and consequently the motor portfolio has contracted. The business that has been written since July has been of a very high quality with 85% of business being written in the top three tiers of quality. Early arrears are also looking low, however, as with the Retail Finance business, some of the arrears are likely to be hidden by payment holiday deferrals.

With arrears levels lower than expected, impairment provisions are driven by the input of forward-looking macroeconomic inputs to our IFRS 9 provision models. The expectation of higher unemployment in 2021 has particularly driven up the level of expected credit losses, and the Group has added further overlays to ensure that provision cover is sufficient. Further detail is provided in Note 2.

Business Finance Credit Risk
As a result of the COVID-19 pandemic, new business origination activities in the Business Finance portfolios were suppressed during the year, as the group initially focused on maintaining existing client relationships with a highly selective approach taken on new business acquisition. As a result, aggregate balances at year-end were moderately higher against the prior comparable period, with no write-offs realised during the year in the continuing businesses. Impairment provisions saw an increase predominantly as a result of updates to the Group's macroeconomic scenarios under IFRS 9.

In Real Estate Finance, a limited number of customers were directly impacted by the COVID-19 pandemic, through reduced rental income in the investment portfolio, or disruption to supply chains and construction timescales in the development portfolio. Where required, the group provided assistance to clients largely through short-term forbearance measures, including payment holidays and maturity extensions. At the year-end, a substantial proportion of these measures had expired without any further assistance being sought.

Our Commercial Finance business became an accredited provider of loans under the Coronavirus Business Interruption Loan Scheme ('CBILS') and the Coronavirus Large Business Interruption Loan Scheme ('CLBILS') during the year, and successfully provided circa £50 million of loans to support clients' cash flow requirements. At year-end, the provision of these loans helped to keep the total portfolio relatively flat year-on-year, as clients exercised a prudent approach to cash management by keeping higher than usual unused headroom in their facilities.

In line with previous reports, the Asset Finance portfolio has continued to run-off over the course of the year, following the change in ownership of Haydock, in January 2018. The Group continues to assess its options with regards to future opportunities within the Asset Finance market.

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

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

Model risk and the impact of IFRS 9
The Group's material or high-risk models are reviewed by the Model Governance Committee on an annual basis. The Group Chief Risk Officer chairs the Model Governance Committee, with the Committee reporting to the Board Risk Committee.

The Group continues to derive the probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD') of the Group's lending portfolios, and therefore impairment provisions, through a suite of IFRS 9 models. The operation of such models has enabled the core components of the Expected Credit Loss ('ECL') to be regularly reviewed and used to allow deeper analysis of credit loss drivers. ECL is a function of the PD x ED x LGD and has enabled the Bank to understand more granularly the elements that contribute to ECL. The Group monitors the average PD by product each month both looking at the back book and new business, as well as analysing any reasons for increases and decreases in PD (such as significant increase in credit risk). The recovery rates from debt sales and repossessions are also validated on a regular basis and presented to the Assumptions Committee.

The IFRS 9 models have been monitored throughout the year and found to be working effectively. Minor enhancements have been made where appropriate. However, the extreme economic conditions brought about by COVID-19 have required particular focus on the macroeconomic variables that drive the forward-looking elements of the IFRS 9 models (the Economic Response Model). Unemployment rate has the largest influence on the Economic Response Model element of IFRS 9, with House Price Index also playing an influence in the Real Estate Finance portfolio. Throughout the year the Group has stressed the IFRS 9 models with a number of unemployment scenarios, both to provide evidence of the Group's viability and going concern status, and to assist with business planning and forecasting. Payment holidays have kept the provision levels produced by the IFRS 9 models artificially low in 2020, so where necessary overlays have been used to maintain provision cover at appropriate levels.

Overall assessment
Despite the low levels of default experienced throughout the pandemic to date, and positive developments in respect of vaccines, difficult economic conditions are expected in 2021. Unemployment is expected to rise as furlough schemes come to an end, and as payment holidays expire it is highly likely that arrears will increase. Our IFRS 9 provisioning has taken account of these forward-looking factors, and as a result, impairment charges have increased significantly from last year.

Despite, the significant credit tightening undertaken by the Group, and the fact that the significant majority of expected impairments are already accounted for in provisions as at 31 December 2020, the overall assessment is that this risk has worsened.

Liquidity and Funding Risk – IMPROVED ↓

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

The Group manages its liquidity in line with internal and regulatory requirements, and at least annually assesses the robustness of the liquidity requirements as part of the Group's ILAAP.

Mitigation

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

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

To meet its liquidity requirements the Group maintains a buffer of unencumbered High Quality Liquid Assets ('HQLA').
The Group's Liquidity Risk Appetite and Funding Risk Appetite is approved by the Board:

- Liquidity Risk Appetite: is to ensure that adequate liquid resources are held to meet its OLAR and to meet the minimum LCR at all times such that there is no significant risk that its liabilities cannot be met as they fall due, whether in business as usual or in a stress.
- Funding Risk Appetite: is to ensure that the Group has access to stable funding markets and is not reliant on any single source of funding. The Group places no material reliance on wholesale funding markets. The Bank's primary source of funding is retail deposits from individuals. In meeting its Funding Risk Appetite the Group maintains a prudent funding profile and access to funding at all times.

The Group assesses and formally demonstrates the adequacy of its liquidity through the ILAAP. As part of the ILAAP, the Group conducts regular and comprehensive liquidity stress-testing to ensure compliance with its internal and regulatory requirements.

Structure and responsibilities for liquidity risk management

The Group has a formal governance structure in place to manage and mitigate Liquidity and Funding risk on a day-to-day basis. The Board sets and approves the Group's liquidity and funding risk. The Assets and Liabilities Committee ('ALCO'), comprising senior management and executives of the Group, meets monthly to review liquidity and funding risk against set thresholds and risk indicators including early warning indicators. These metrics are managed on a day-to-day basis by the Group's Treasury function. The Risk Function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust, so as to ensure that key risks are identified, assessed, monitored and mitigated.

Internal liquidity reporting

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

The Liquidity Working Group, a working group of ALCO, embeds the identification, monitoring, measurement and management of liquidity and funding risks in the day-to-day activities of the Group.

The aim is not to measure liquidity and funding with a single metric but rather a range of principles and metrics which, when taken together, helps ensure that the Group's liquidity and funding risk is maintained at an acceptable level.

The primary measure used by management to assess the adequacy of liquidity is the OLAR, which is the Board's own view of the Group's liquidity needs as set out in the Board-approved ILAAP.

Communication of liquidity risk strategy, policies and practices across business lines and with the Board

The Group's ALCO is responsible for implementing and controlling the liquidity and funding risk appetite established by the Board. ALCO monitors compliance with the Group's policies and oversees the overall strategy, guidelines and limits so that the Group's future plans and strategy can be achieved within risk appetite.

Liquidity and funding risk management framework

The Group maintains a comprehensive internal reporting framework which seeks to mitigate liquidity and funding risk:

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

Stress-testing

A comprehensive stress-testing framework is used to support liquidity and funding risk measurement and takes into account all known sources of liquidity and funding risks as documented within the ILAAP (and as updated upon changes in material risks). The stress-testing covers idiosyncratic, market-wide and combined stress scenarios, with additional stress scenarios including reverse stresses and combinations of sensitivity analysis across individual items, tailored to the Group's business model and operating environment.

Stress-testing is conducted to identify sources of potential liquidity strain and to ensure that the Group's liquidity position remains within the Board Risk Appetite and prudential regulatory requirements and limits. Stress-testing and sensitivity analysis are performed on a regular basis to assess the key business vulnerabilities.

The Group uses various short and medium term forecasts to monitor future liquidity requirements and these include stress-testing assumptions to identify the required levels of liquidity. Stress-testing is performed on a daily basis and levels of liquidity under stress are forecast regularly and monitored by ALCO and management.

Contingency funding plans

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

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

Change

The Group has maintained its liquidity ratios in excess of regulatory requirements throughout the year and continues to hold significant levels of HQLA. The fall in lending balances brought about by COVID-19 has provided the Group with the opportunity to reduce its funding requirements.

A number of enhancements were made to the liquidity and funding risk management in 2020. These included a further review of the quantum of liquidity the Bank holds to support its franchise in business as usual and stressed conditions. A thorough review of the Group’s regulatory liquidity reporting has also been undertaken. The stress tests performed as part of the ILAAP confirmed that the Group has sufficient funds to satisfy the OLAR requirement and there is no significant risk that liabilities cannot be met as they fall due. The Group’s LCR as at 31 December 2020 was significantly higher than the regulatory requirement. The enhanced risk management framework, and reduction in funding requirements brought about by lower levels of lending balances, leads to our assessment that the risk position has improved.

Operational Risk – STABLE ←→

Description

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

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

Mitigation

The Group has adopted an Operational Risk Policy and Framework designed in accordance with the ‘Principles for the Sound Management of Operational Risk’ issued by the Basel Committee on Banking Supervision. The design and effectiveness of the Group’s Operational Risk Framework is regularly audited by the Group’s Internal Audit function. A recent review in 2020 concluded that the Framework was well-designed and proportionate to the Group’s scale and complexity.

The approach ensures appropriate governance is in place to provide adequate and effective oversight of the Group’s operational risk. The governance framework includes the Board Risk Committee and Group Operational Risk Committee.

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

Change

The Group continues to invest in resource, expertise and systems to support the Operational Risk Framework and Policy. This Framework defines and facilitates the following activities:

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

In 2018 the Group successfully transitioned to ‘The Standardised Approach’ for assessing its operational risk capital, in recognition of the enhancements made to its framework and embedding this across the Group. In 2020 the Group has continued to enhance these standards and has introduced a number of improvements to the control frameworks in place across our principal operational risks.

Key risk themes of operational risk focus in 2020 include:

- **COVID-19 (Business disruption)** – The pandemic has materially increased the inherent risks faced by our business across a number of operational risk categories, and our prime focus over 2020 has been managing these potential risks and ensuring the operational effects of the pandemic are minimised. Our Crisis Management Team, with representation from all key areas of the Business and our Risk function, have successfully minimised the operational implications through changes to our operating practices and the introduction of a robust suite of additional controls. This will continue to be a key area of focus whilst the pandemic remains active across the UK.

- **Supplier management** – The Group uses a number of third parties to support its IT and operational processes. The Group recognises that it is important to effectively manage these suppliers and has embedded a suite of standard controls for all its material suppliers to reduce the risk of operational impacts on these critical services. This has been particularly important during the pandemic, so we have remained in regular contact with our key suppliers and gained assurances over their ongoing ability to support our operations. Further tools have been developed, and are being rolled out, to help understand the quality of the resilience controls in operation at our critical suppliers. We have also enhanced our assurance capability with the recruitment of a dedicate resource in this area. This will continue to be an area of focus for 2021.
- **Operational and IT resilience** – Many elements of the Operational Risk Framework support the ongoing resilience of the Group's operational and IT services, including business continuity management, disaster recovery, incident management, process management and the cyber strategy. The Group has defined a plan to be able to respond to proposals put forward by the PRA and FCA in their Operational Resilience consultation, and this remains a key priority in 2021.
- **Information security and cyber risk** –The Group has paid considerable attention to risks arising from a failure or breach of its IT systems that could result in customer exposure, business disruption, financial losses, or reputational damage.
- **Employment practices and workplace safety** – Given the enhanced risks associated, this has been of paramount importance during the pandemic. The Group quickly introduced all the required new working practices and protocols to protect our people and ensure the continued effective operations of our businesses. This will continue to be a key priority whilst we manage the implications of the pandemic.
- **Change management** – The effective delivery of change management programmes plays an important role in meeting the Group's regulatory requirements, improving services and implementing strategic decisions. Ineffective change management processes could lead to poor customer outcomes, business disruption, financial loss and regulatory breaches. Change management processes and governance are defined and embedded within the Group.

Overall assessment
The pandemic has brought a significant increase in inherent operational risk, across a number of key themes. However, as the Group has very successfully adapted to the new working conditions brought about by COVID-19 and demonstrated its operational resilience, the overall assessment is that the level of risk has remained stable.

Capital Risk – STABLE ⟷

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

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

In accordance with the EU's Capital Requirements Directive IV ('CRD IV') and the required parameters set out in the EU's Capital Requirement Regulation, the Group maintains an ICAAP which is updated at least annually.

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

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

A complete assessment of the Group's capital requirement is contained in its Pillar 3 disclosures. Pillar 3 disclosures for the Group for the year ended 31 December 2020 are published as a separate document on our website.

Change
As set out in the Financial Review, the Group's capital position improved over 2020 due to continued profitability, a reduction in risk weighted assets and changes to capital requirements prescribed by the regulator. At December 2020, the CET1 ratio was 14.2% (2019: 12.7%), the total capital ratio was 16.4% (2019: 15.0%) and the leverage ratio was 10.4% (2019: 9.8%) on a Group consolidated basis. Capital resources increased over the year to £328.8 million as at 31 December 2020 (31 December 2019: £318.0 million) while the total capital requirement including regulatory buffers reduced from £286.0 million to £241.5 million over the same period.

The 2020 ICAAP showed that the Group continues to be able to meet its minimum capital requirements, even in extreme stress scenarios. In addition to the ICAAP, a number of stressed scenarios were reviewed over the course of 2020, looking over a five-year time horizon and considering a range of growth rates over those years. As well as forming part of the viability and going concern assessments, these scenarios have been used to plan future lending growth at a rate that both increases year-on-year profits and maintains a healthy capital surplus. These scenarios take into account the likely rebuilding of the countercyclical capital buffer once the current crisis eases.

The pandemic has shown the benefit of the relatively short duration of the Group's lending portfolios. As the crisis took hold, the reduction in certain of our markets and our tightening of credit risk appetite led to a swift reduction in our balance sheet, thereby reducing pressure on capital levels. This feature of our balance sheet will allow us to flex growth rates as the pandemic eases and economic conditions become clearer.

We adopted transitional provisions in respect of the implementation of IFRS 9, as set out by the European Banking Authority ('EBA'). These provisions allow the capital impact of the standard to be phases in over a five-year period. As a response to the pandemic, further capital relief was made available and the Group's reported capital position takes account of this relief. Further details are provided in Note 38.

Market Risk – STABLE ←→

Description
For the Group, market risk is primarily limited to interest rate risk. Interest rate risk refers to the exposure of the Bank's financial position to adverse movements in interest rates.

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

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

Mitigation

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

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

The key measure the Group uses to monitor the risk is an Interest Rate Sensitivity Gap analysis which informs the Group of mismatched interest rate risk positions. The Group reports the interest rate mismatch on a monthly basis to ALCO, considering Market Value Sensitivity ('MVS') as a proportion of the overall capital position of the Group and Earnings at Risk as a proportion of forecast net interest income. These are mainly assessed against 200bps and 100bps parallel shifts in rates respectively. The Group also monitors its risk against a potential negative interest rate environment.

The Group also monitors its exposure to the Economic Value of Equity ('EVE') as a proportion of own funds and CET1 against a 200bps parallel shift in rates, as well as the six standardised shocks prescribed by the Basel Committee on Banking Supervision ('BCBS').

The Group also measures exposure to basis risk and optionality.

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

Interest rate risk management framework
The Group maintains a comprehensive internal reporting framework which seeks to mitigate interest rate risk:

- Risk identification: activities are embedded through integration with key business processes to ensure the Group:

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

Change

The Group's exposure to market risk continues to be limited primarily to interest rate risk, with only modest exposures to foreign exchange risk. The Group remained within risk appetite in respect of market risk throughout the year.

The Group further embedded BSCS and EBA guidelines on interest rate risk in the banking book ('IRRBB') in 2020. This included further detailed analysis and stress-testing of additional types of interest rate risk not directly captured within the risk appetite metrics. This improvement in control is considered to mitigate the increase in inherent market risk brought about by the pandemic, resulting in a stable risk profile.

Conduct Risk – STABLE ←→

Description

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

Mitigation

The Group takes a principles-based approach and includes retail and commercial customers in its definition of 'customer', which covers all for business units and both regulated and unregulated activities.

Monthly review and challenge of key risk indicators ('KRIs') takes place in the business unit ExCo meetings. The KRIs vary across the business units to reflect the relevant conduct risks.

Aggregated reporting measuring against risk appetite is provided to the Group ExCo. This is also reported to the Risk Committee and the Board.

Change

Conduct Risk and control assessments are reviewed by the business units for attestations by first line risk owners. In addition, conduct risks are assessed as part of the risk assessment protocols for proposed changes and projects.

Group ExCo has oversight of the first line activities providing assurance to senior management that the first line are identifying conduct risks and taking appropriate steps to manage them in line with risk management principles.

Training on conduct risk continues to be delivered to new starters, with an e-Learning module completed by all staff during the year.

During the year, the Group has had to implement the regulatory changes for payment holidays and other protections for customers impacted by COVID-19.

Regulatory Risk – STABLE ←→

Description

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

Mitigation

The Group seeks to manage regulatory risks through the Enterprise-wide risk management framework. The Group Compliance and Regulatory Risk Committee and Group Financial Crime Committee are responsible for reviewing and monitoring regulatory changes and operational incidents with a regulatory impact, and ensuring that appropriate actions are taken, and also reviewing and approving the relevant risk management framework.

Change

In the year ended 31 December 2020, we have delivered changes to address new and revised regulations and legislation that have come into force including additional support and measures to assist customers who may be suffering financial difficulties due to COVID-19 in Mortgages, Retail Finance, Motor Finance, and general insurance via our OneBill product. The FCA Directory has been implemented with Secure Trust Bank providing information on key individuals working in financial services. This information will be provided for the other entities in the Group before March 2021.

Projects and initiatives are in place for changes required in 2021 including the Breathing Space Scheme, regulatory returns, operational resilience, the ongoing regulatory focus on vulnerable customers and the impact of the mortgage market study on STB's closed mortgage book. It is not anticipated that the FCA's ban on discretionary commission models will require actions by the Group, however, the additional disclosure requirements are being worked through with Retail Finance and Motor Finance.

Strategic and emerging risks

In addition to the principal risks disclosed above, the Board considers strategic and emerging risks, including key factors, trends and uncertainties which can influence the results of the Group. These risks include the following:

Macroeconomic environment and market conditions

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

Political and economic uncertainty continued throughout 2020 due to combination of the global ramifications of COVID-19 and a lack of clarity regarding the UK's trading relationship with the EU when the Brexit transition period ends. The imposition of a national lockdown to curb the spread of COVID-19 during the spring and early summer created the biggest recession in the UK in the last 300 years. Asset prices and the number of hours worked by employees fell sharply before recovering as a wide range of government measures and action by the Bank of England were implemented which greatly reduced the economic impact of the recession, albeit at the taxpayers' expense.

UK economic fundamentals improved strongly during the summer months with GDP recovering sharply and asset prices rising. Later in the year, boosted by a stamp duty holiday, house prices also rose on average.

The autumn and early winter months saw a resurgence of the COVID-19 virus in many parts of the UK culminating in various lockdowns in the UK nations in October and November. A rise in cases and new variant of the virus necessitated a significant tightening of lockdown conditions across the UK, particularly after the Christmas period. These lockdowns severely dampened UK economic activity during the period. Unemployment levels across a range of sectors, including hospitality, leisure and retail rose.

Despite the negative impacts, business and consumer confidence levels were maintained, buoyed by the commencement of a national COVID-19 vaccination programme.

It is clear that COVID-19 will continue to dampen economic activity across the UK and the globe. It will take much of 2021 for the UK population to be vaccinated and therefore risk levels will remain elevated. The Group will continue to monitor developments closely and will continue to be selective in respect of new lending pending the economic recovery gaining traction as the vaccination programme progresses.

UK withdrawal from European Union

Following the passing of the UK Withdrawal Agreement and the withdrawal itself on 31 January 2020, the UK entered a transitional arrangement with the European Union which ended on 31 December 2020. Throughout 2020 the EU and UK sought to negotiate a free trade deal to avoid the default scenario of both sides moving to trading on World Trade Organisation terms. The period of uncertainty while negotiations were underway added further pressure, beyond COVID-19, on the UK economy during the year.

On 24 December 2020 the EU and UK announced they had reached a comprehensive free trade deal to take effect from 1 January 2021. This has since been approved by the respective parliaments and is now law. Inevitably there will be more process and bureaucracy involved under the new arrangements compared to the old but these are not expected to have the same adverse impact on the economy as an exit without a deal would have had.

The Bank of England is no longer bound by the directions of the EBA and could, if it wished, take a more proportionate approach to the regulation of non-systemic firms which are not internationally active. It is encouraging that the Bank of England is already consulting with the industry in this respect.

The Group's core business planning assumption was that the exit would be on an orderly basis and that the direct impact of a no deal scenario was limited.

Therefore the actual outcome will drive no changes in the Group's strategy or its risk appetite.

Climate change

Climate change, and society's response to it, presents financial risks to the UK financial services sector. While these risks will crystallise in full over the coming decades, they are already becoming apparent. The Group is assessing its risk exposure in relation to both the potential 'physical' effects of climate change and the 'transitional' risks from the UK's adjustment towards a carbon neutral economy.

In accordance with the requirements of the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Group has allocated responsibility for identifying and managing the risks from climate change to the relevant Senior Management Function, the Chief Risk Officer. The Group is developing its risk management frameworks and practises in order to meet all of the PRA's associated regulatory requirements, and to meet the disclosure requirements defined within the Task Force on Climate related Financial Disclosures ('TCFD'), by the end of 2021.

The risk assessment processes have been integrated into existing risk frameworks and is governed through existing risk governance structures, including reporting to Group ExCo and the Board Risk Committee.

The Group has identified and assessed four associated key risks that are being actively managed. Whilst we don't consider any of these risks to be material, associated mitigating actions are being taken and embedded within our strategic planning, operating model, and management reporting and associated operational processes. The four risks and more detail on the Group's responses are detailed on the following page:

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

The Group has undertaken a review of the risks associated with the location of each of its internal operations sites. Similarly we have consulted with our key suppliers in relation to their contingency plans in the event of the increased risk of flooding and severe weather. In both respects we do not consider there to be any material risks currently.

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

The Group is undertaking a review, using external expertise, to assess a range of scenarios in relation to the potential implications of an accelerated transition to the use of 'non fossil fuelled vehicles' on the residual values of our security of petrol or diesel fuelled vehicles. This review will help model any additional risk to the Group, evaluate whether these are material and inform the development of our future strategy for this business. It should be noted that the average behavioural term of our Motor Finance lending is three to four years and therefore the Group will be able to mitigate some of the modelled potential impacts through adjustments to our lending strategy as the longer term trend evolves.

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

The Group is reviewing the geographic distribution and the corresponding levels of flood risk to property assets across the portfolio. Whilst this focused review will provide useful insight, the level of risk is not currently considered to be material, as our existing due diligence processes include a full valuation from a RICS qualified surveyor, which includes an assessment of the flood risk. Furthermore, following this assessment, appropriate insurances will have been required and any impacts on the valuations of the assets will have also been reflected in the lending decisions.

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

To mitigate this, the Group will assess the climate risks associated with each Commercial Finance client's business model to understand any associated risks.

Whilst portfolio reviews provide useful insight, the level of risk is not currently considered to be material, since the Commercial Finance portfolio is primarily composed of revolving credit facilities secured upon short-term debtor receivables and inventory, and should there be any material concerns or risks relating to the impact of climate change on the viability of the client, these facilities can be reviewed or additional collateral can be taken.

The Group will continue to develop and monitor our approach to these associated risks over 2021 and beyond and enhance our understanding and management of these risks. We are on track to meet regulatory deadlines to embed the requirements of the PRA's supervisory statement on 'Enhancing banks' and insurers' approach to managing the financial risks from climate change'.

Risk Appetite

The Group has formally approved a Risk Appetite Statement in relation to climate change risk and is the process of defining a suite of risk appetite metrics that cover each of the key risk areas above.

Strategic response to climate change risk

The Board and Executive management will be considering the risks associated with climate change as part of its annual strategic planning cycle in 2021 and these considerations will be included within next year's report.

Viability and going concern

Going concern

In assessing the Group as a going concern, the Directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the Strategic Report. The Group uses various short- and medium-term forecasts to monitor future capital and liquidity requirements and these include stress-testing assumptions to identify the headroom on regulatory compliance measures. As set out in the assessment of business viability and as in the prior year, for the 2020 Annual Report and Accounts the Group has undertaken additional stress-testing in consideration of the COVID-19 outbreak.

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future as going concerns. For this reason they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Business viability

In accordance with provision 31 of the UK Corporate Governance Code, the Directors confirm that there is a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due, for the period up to 31 December 2023. The assessment of ongoing viability covers this period as it falls within the Group's planning horizon and the period covered by the Group's stress-testing.

The Group continues to exhibit long-term growth potential, and delivered continued profitability in 2020 despite the pandemic and demonstrated the benefit of its flexible business model through a period of significant stress. Given this, and the tightening of credit risk appetite in the year leading to further improvements in loan book quality, the directors are confident of the Group's viability over the longer term. However, the continuing uncertainties regarding the economic, regulatory and market environment that the Group operates in, while the pandemic and the impacts of the UK exit from the European Union run their course, may compromise the reliability of longer range forecasts. The Board has therefore decided to continue to use a three-year period for its assessment of viability rather than extending this over a longer planning horizon.

The Directors have based the assessment on the following:

- The latest annual budget, which contains information on the expected financial position and performance of the Group. The budget focuses on the period to 31 December 2022, with certain key metrics such as capital ratios considered over a five-year period, and takes account of the expected impact of COVID-19 on future earnings, capital and liquidity requirements.
- The analysis of key sensitivities, undertaken as part of the budget process and through forecasting activity undertaken over the course of 2020, which could impact on profitability over the planning horizon. Assumptions made to calculate risk weighted assets and capital requirements were clearly stated and additional scenarios modelled to demonstrate the potential impact of risks and uncertainties on capital. This included consideration of the potential restoration of the countercyclical capital buffer to its expected normal level, which would increase the Group's capital requirements.
- The Group's ILAAP, which uses stress scenarios to assess the adequacy of liquidity resources. The results of this scenario analysis are used to set the Group's OLAR and are also the basis of the liquidity requirements set by the PRA. The Group has maintained liquidity levels in excess of regulatory requirements throughout the year and is forecast to continue to do so over the ILAAP planning horizon.
- The Group's ICAAP, which considers macroeconomic stress and severe shock scenarios in order to assess the adequacy of capital resources. The results of the scenario analysis are used to set the Group's internal and regulatory capital requirements. The Group has maintained capital levels in excess of regulatory requirements throughout the year and is forecast to continue to do so. As set out further on this page, the macroeconomic stress scenarios used in the ICAAP were based on the scenario analysis used for the 2019 going concern assessment.
- Consideration of the other principal risks as set out on pages 38 to 49 of the Annual Report and Accounts, to identify any other severe but plausible scenarios that could threaten the Group's business model, future performance, solvency or liquidity. This includes consideration of specific risks in relation to climate change.
- Analysis of the operational impact of the COVID-19 outbreak on the Group. Further details are provided on page 48 of the Annual Report and Accounts.

Stress-testing

As the nature of the economic impact of COVID-19 is likely to be different to the types of recession generally considered in stress-testing scenarios, in early 2020 the Group undertook bespoke stress-testing, covering capital and liquidity, to consider such scenarios. A range of market and idiosyncratic variables were used as scenario inputs, with unemployment levels being the variable to which the Group's impairment charges are most sensitive. These scenarios were used to inform the going concern and business viability assessments set out in the 2019 Annual Report and Accounts, and full details can be found on page 50 of those Accounts.

The Group's annual budget for 2020 was prepared and approved prior to the first global news coverage of the COVID-19 outbreak. To remedy this, in the first half of the year, forecasts were prepared which included a range of scenarios, based upon those used for the 2019 going concern assessment. These forecasts were adjusted over the course of the year, taking account of emerging information and external forecasts regarding the economic impacts of the pandemic, including those published by the Office of Budgetary Responsibility and the Monetary Policy Committee. This allowed the Group to keep a constant focus on the likely future economic conditions and their impact on the Group's future financial, capital and liquidity positions.

A number of factors have evolved since the 2019 going concern and business viability assessments were made, many of which improve the picture from the previous assessments:

- The Group has delivered a profitable result for 2020, and having made no dividend distributions in 2020, has increased retained profits
- The reduction in the Group's balance sheet has reduced capital requirements, as have the regulatory interventions set out on page 34 of the Annual Report and Accounts
- The impact of lockdowns on the Group's markets is more clearly understood, allowing planning of expected business volumes to be undertaken in the context of more predictable conditions
- The Group has successfully adapted its operations in response to the pandemic, again making it easier to adopt more reliable planning assumptions
- The emergence of effective vaccines and the commencement of their rollout makes the easing of the pandemic in 2021 more likely
- The UK has agreed a trade deal with the EU
- The Group's provision models have been enhanced, allowing the impact of more extreme economic scenarios to be modelled without the need for significant manual overlays. As explained further in Note 2, the use of forward-looking macroeconomic scenarios in these models is expected to result in the majority of impairment charge in respect of loans on the year-end balance sheet being already included in the Group's 2020 results.

To confirm that the improvement in the Group's position since the 2019 assessments and the activity set out on the previous page were sufficient to satisfy those assessments for 2020, a further stress test was undertaken as at 31 December 2020. This involved running a plausible but extreme scenario, with UK unemployment peaking at 12% in mid-2022. This scenario was input to the Group's current growth forecasts with no assumed management actions and the recommended 2020 final dividend of 44 pence.

At no point in this scenario, which was run to the end of 2025, were capital requirements breached and there was only very limited use of buffers required.

The Group also undertook a further stress test in order to ascertain the point at which capital requirements would be breached. In this scenario, the peak of UK unemployment was raised to 15%, again with no assumed management actions and the recommended 2020 final dividend of 44 pence.

In this scenario, the Group would need either to utilise buffers or to initiate management actions, such as reducing levels of new business. Even in this scenario, significant headroom exists over the minimum capital requirement.

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

In undertaking this stress-testing analysis the Group has made use of models. Models are imperfect representations of reality, reliant on historical data, model inputs and assumptions. These model risks are exacerbated when dealing with unprecedented scenarios, such as the COVID-19 pandemic, due to the lack of credible, reliable historical data to use as a reference point. The Group has sought to reduce this risk by comparing different model methodologies, applying expert judgement and senior management review.

In making this statement, the Board has sought input from the Audit Committee and the Risk Committee.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and parent company's financial position and financial performance;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility to safeguard the assets of the Group and parent company and for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 24 March 2021 and is signed on their behalf by:

Consolidated statement of comprehensive income

	Note	**2020 £million**	2019 £million
Income statement			
Interest income and similar income	4.1	192.5	191.4
Interest expense and similar charges	4.1	(41.6)	(46.0)
Net interest income	4.1	**150.9**	**145.4**
Fee and commission income	4.2	16.0	20.9
Fee and commission expense	4.2	(0.8)	(0.8)
Net fee and commission income	4.2	**15.2**	**20.1**
Operating income		**166.1**	**165.5**
Net impairment charge on loans and advances to customers	14	(51.3)	(32.6)
Losses on modification of financial assets	6	(3.1)	–
Operating expenses	7	(91.6)	(94.2)
Profit before income tax		**20.1**	**38.7**
Income tax expense	9	(3.9)	(7.6)
Profit for the year		**16.2**	**31.1**
Other comprehensive income			

Items that will not be reclassified to the income statement			
Revaluation reserve		(0.2)	0.2
Taxation		–	(0.2)
Other comprehensive income for the year, net of income tax		**(0.2)**	**–**
Total comprehensive income for the year		**16.0**	**31.1**

Profit attributable to:			
Equity holders of the Company		**16.2**	**31.1**
Total comprehensive income attributable to:			
Equity holders of the Company		**16.0**	**31.1**

Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per share	10	**87.0**	**168.3**
Diluted earnings per share	10	**85.2**	**166.4**

All comprehensive income relates to continuing operations.

Consolidated statement of financial position

	Note	**2020 £million**	2019 £million
ASSETS			
Cash and balances at central banks		181.5	105.8
Loans and advances to banks	12	63.3	48.4
Debt securities	13	–	25.0
Loans and advances to customers	14	2,358.9	2,450.1
Fair value adjustment for portfolio hedged risk	5	5.7	(0.9)
Derivative financial instruments	5	4.8	0.9
Investment property	17	4.3	4.8
Property, plant and equipment	18	9.9	11.3
Right-of-use assets	19	2.9	3.6
Intangible assets	20	7.7	9.0
Deferred tax assets	22	5.9	7.5
Other assets	23	19.2	17.3
Total assets		**2,664.1**	**2,682.8**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	24	276.4	308.5
Deposits from customers	25	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	5	4.7	(0.7)
Derivative financial instruments	5	6.1	0.6
Current tax liabilities		1.0	3.3
Lease liabilities	26	3.9	4.5
Other liabilities	27	56.3	40.9
Provisions for liabilities and charges	28	1.9	0.7
Subordinated liabilities	29	50.8	50.6
Total liabilities		**2,393.6**	**2,428.7**
Equity attributable to owners of the parent			

Share capital	31	7.5	7.4
Share premium		82.2	81.2
Revaluation reserve		0.9	1.1
Retained earnings		179.9	164.4
Total equity		**270.5**	**254.1**
Total liabilities and equity		**2,664.1**	**2,682.8**

Company statement of financial position

	Note	**2020 £million**	2019 £million
ASSETS			
Cash and balances at central banks		181.5	105.8
Loans and advances to banks	12	61.7	45.2
Debt securities	13	–	25.0
Loans and advances to customers	14	2,269.8	2,353.6
Fair value adjustment for portfolio hedged risk	5	5.7	(0.9)
Derivative financial instruments	5	4.8	0.9
Investment property	17	5.3	4.8
Property, plant and equipment	18	4.5	6.5
Right-of-use assets	19	2.0	2.5
Intangible assets	20	6.2	7.4
Investments in group undertakings	21	4.1	4.1
Deferred tax assets	22	6.4	8.1
Other assets	23	108.0	103.8
Total assets		**2,660.0**	**2,666.8**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	24	276.4	308.5
Deposits from customers	25	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	5	4.7	(0.7)
Derivative financial instruments	5	6.1	0.6
Current tax liabilities		0.4	2.2
Lease liabilities	26	2.9	3.3
Other liabilities	27	61.8	42.0
Provisions for liabilities and charges	28	1.9	0.7
Subordinated liabilities	29	50.8	50.6
Total liabilities		**2,397.5**	**2,427.5**
Equity attributable to owners of the parent			
Share capital	31	7.5	7.4
Share premium		82.2	81.2
Revaluation reserve		0.7	0.7
Retained earnings		172.1	150.0
Total equity		**262.5**	**239.3**
Total liabilities and equity		**2,660.0**	**2,666.8**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement. The profit for the parent company for the year of £22.8 million is presented in the Company statement of changes in equity.

Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2019	**7.4**	**81.2**	**1.1**	**147.3**	**237.0**
Total comprehensive income for the period					
Profit for 2019	–	–	–	31.1	31.1
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	0.2	–	0.2
Tax on revaluation reserve	–	–	(0.2)	–	(0.2)
Total other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**31.1**	**31.1**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(15.5)	(15.5)
Share-based payments	–	–	–	1.2	1.2
Tax on share-based payments	–	–	–	0.3	0.3
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.0)**	**(14.0)**
Balance at 1 January 2020	**7.4**	**81.2**	**1.1**	**164.4**	**254.1**
Total comprehensive income for the period					
Profit for 2020	–	–	–	16.2	16.2
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	(0.4)	–	(0.4)
Tax on revaluation reserve	–	–	0.2	–	0.2
Total other comprehensive income	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**(0.2)**	**16.2**	**16.0**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares	0.1	1.0	–	–	1.1
Share-based payments	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**(0.7)**	**0.4**
Balance at 31 December 2020	**7.5**	**82.2**	**0.9**	**179.9**	**270.5**

Company statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2019	**7.4**	**81.2**	**0.6**	**128.1**	**217.3**
Total comprehensive income for the period					
Profit for 2019	–	–	–	35.9	35.9

Other comprehensive income, net of income tax					
Revaluation reserve	–	–	0.1	–	0.1
Total other comprehensive income	**–**	**–**	**0.1**	**–**	**0.1**
Total comprehensive income for the period	**–**	**–**	**0.1**	**35.9**	**36.0**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(15.5)	(15.5)
Share-based payments	–	–	–	1.2	1.2
Tax on share-based payments	–	–	–	0.3	0.3
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.0)**	**(14.0)**
Balance at 1 January 2020	**7.4**	**81.2**	**0.7**	**150.0**	**239.3**
Total comprehensive income for the period					
Profit for 2020	–	–	–	22.8	22.8
Other comprehensive income, net of income tax					
Tax on revaluation reserve	–	–	–	–	–
Total other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**22.8**	**22.8**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares	0.1	1.0	–	–	1.1
Share-based payments	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**(0.7)**	0.4
Balance at 31 December 2020	**7.5**	**82.2**	**0.7**	**172.1**	**262.5**

Consolidated statement of cash flows

	Note	**2020 £million**	2019 Restated £million
Cash flows from operating activities			
Profit for the year		16.2	31.1
Adjustments for:			
Income tax expense	9	3.9	7.6
Depreciation of property, plant and equipment	18	1.4	1.2
Depreciation of right-of-use assets	19	0.7	0.9
Loss on disposal of intangible assets		0.5	–
Amortisation of intangible assets	20	2.0	1.9
Impairment charge on loans and advances to customers		51.3	32.6
Losses on modification of financial assets	6	3.1	–
Share-based compensation		(0.3)	1.2
Revaluation loss and impairment		1.1	1.1
Lease interest charged	26	0.1	0.1

Amortisation of subordinated liabilities issue costs	29	0.2	0.2
Provisions for liabilities and charges	28	1.2	–
Cash flows from operating profits before changes in operating assets and liabilities		81.4	77.9
Changes in operating assets and liabilities:			
– loans and advances to customers		37.5	(453.8)
– loans and advances to banks and balances at central banks		(3.5)	(9.2)
– other assets		(1.9)	4.6
– deposits from customers		(27.8)	172.6
– provisions for liabilities and charges		(0.7)	–
– other liabilities		15.4	1.3
Income tax paid		(4.8)	(7.8)
Net cash outflow from operating activities		**95.6**	**(214.4)**
Cash flows from investing activities			
Redemption of debt securities		130.0	320.1
Purchase of debt securities		(105.0)	(195.4)
Purchase of investment property	17	–	(1.6)
Purchase of property, plant and equipment	18	(0.8)	(5.5)
Purchase of intangible assets	20	(1.1)	(1.1)
Net cash inflow from investing activities		**23.1**	**116.5**
Cash flows from financing activities			
Repayment/(drawdown) of amounts due to banks		(31.7)	45.0
Issue of ordinary shares		1.1	–
Dividends paid	11	–	(15.5)
Repayment of lease liabilities	26	(1.0)	(1.1)
Net cash (outflow)/inflow from financing activities		**(31.6)**	**28.4**
Net increase/(decrease) in cash and cash equivalents		**87.1**	**(69.5)**
Cash and cash equivalents at 1 January		145.0	214.5
Cash and cash equivalents at 31 December	33	**232.1**	**145.0**

Company statement of cash flows

	Note	**2020 £million**	2019 Restated £million
Cash flows from operating activities			
Profit for the year		22.8	35.9
Adjustments for:			
Income tax expense	9	3.0	5.3
Depreciation of property, plant and equipment	18	1.0	0.7
Depreciation of right-of-use assets	19	0.5	0.5
Loss on disposal of intangible assets		0.5	–
Amortisation of intangible assets	20	1.6	1.6
Impairment charge on loans and advances to customers		41.0	37.5
Losses on modification of financial assets	6	3.1	–
Share-based compensation	32	(0.3)	1.0
Revaluation loss and impairment		1.0	1.1
Lease interest charged	26	0.1	0.1

Amortisation of subordinated liabilities issue costs	29	0.2	0.2
Provisions for liabilities and charges	28	1.2	–
Cash flows from operating profits before changes in operating assets and liabilities		75.7	83.9
Changes in operating assets and liabilities:			
– loans and advances to customers		40.4	(410.8)
– loans and advances to banks and balances at central banks		(3.5)	(9.2)
– other assets		(4.2)	(38.7)
– deposits from customers		(27.8)	172.6
– liabilities and charges		(0.7)	–
– other liabilities		19.8	(6.6)
Income tax paid		(3.5)	(6.5)
Net cash inflow/(outflow) from operating activities		**96.2**	**(215.3)**
Cash flows from investing activities			
Redemption of debt securities		130.0	320.1
Purchase of debt securities		(105.0)	(195.4)
Purchase of investment property	17	–	(1.6)
Purchase of property, plant and equipment	18	(0.3)	(5.3)
Purchase of intangible assets	20	(0.9)	(1.0)
Net cash inflow from investing activities		**23.8**	**116.8**
Cash flows from financing activities			
Repayment/(drawdown) of amounts due to banks		(31.7)	45.0
Issue of ordinary shares		1.1	–
Dividends paid	11	–	(15.5)
Repayment of lease liabilities	26	(0.7)	(0.8)
Net cash (outflow)/inflow from financing activities		**(31.3)**	**28.7**
Net increase/(decrease) in cash and cash equivalents		**88.7**	**(69.8)**
Cash and cash equivalents at 1 January		141.8	211.6
Cash and cash equivalents at 31 December	33	**230.5**	**141.8**

Notes to the annual report and accounts

1. Accounting policies

The principal accounting policies applied in the preparation of the consolidated Annual Report and Accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1. Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as ‘the Company’) and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Shirley, Solihull, West Midlands, B90 4LH. The consolidated financial statements of the Company as at and for the year ended 31 December 2020 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as ‘the Group’ and individually as ‘subsidiaries’). The Group is primarily involved in banking and financial services.

1.2. Basis of presentation

The figures shown for the year ended 31 December 2020 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2020 on which the auditors have given an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006 will be delivered to the Registrar of Companies after the Annual General Meeting. The figures shown for the year ended 31 December 2019 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company's auditors for release.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 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 Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts, as set out in the going concern and viability section of the Strategic Report starting on page 50 of the Annual Report and Accounts.

The consolidated financial statements were authorised for issue by the Board of Directors on 24 March 2021.

1.3. Consolidation

Subsidiaries

Subsidiaries are all investees controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition, excluding directly attributable costs, over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The parent company's investments in subsidiaries are recorded at cost less, where appropriate, provision for impairment. At the year-end, impairment indicators, including COVID-19 were considered. The parent concluded that no impairment had occurred. The fair value of the underlying business of the Company's only material investment was significantly higher than carrying value, and therefore no impairment was required.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

The parent company's expected credit loss on amounts due from related companies, calculated by applying probability of default and loss given default to the amount outstanding at the year-end, was not material at 31 December 2020.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Discontinued operations

Subsidiaries are de-consolidated from the date that control ceases. Discontinued operations are a component of an entity that has been disposed of, and represents a major line of business and is part of a single co-ordinated disposal plan.

1.4. 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), from the next reporting period onwards interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. The credit risk of financial assets that become credit-impaired are not expected to improve such that they are no longer considered credit-impaired, however, if this were to occur the calculation of interest income would revert back to the gross basis. The Group's definition of stage 1, stage 2 and stage 3 assets is set out in Note 1.8.

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

Further details regarding when an asset becomes credit-impaired subsequent to initial recognition is provided within Note 1.8.

1.5. Net fee and commission income

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

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

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

1.6. Financial assets and financial liabilities

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all of the risks and rewards of ownership. There have not been any instances where assets have only been partially derecognised. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire, including in the event of a substantial modification as described in Note 1.8.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market for a financial instrument is not active the Group establishes a fair value by using an appropriate valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

Financial assets (with the exception of derivative financial instruments)

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
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount

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

During the year, the Group introduced two new products supporting the Coronavirus Business Interruption Loan Scheme ('CBILS') and Coronavirus Large Business Interruption Loan Scheme ('CLBILS'). These loans have been recognised at amortised cost.

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

- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount

The Group currently has no financial instruments classified as FVOCI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in 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.

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

Financial liabilities (with the exception of derivative financial instruments)
The Group classifies its financial liabilities as measured at amortised cost. Such financial liabilities are recognised when cash is received from depositors and carried at amortised cost using the effective interest method.

IFRS interest rate benchmark reform
During 2020, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 were published, which require transition away from the London InterBank Offered Rate ('LIBOR') to the Sterling OverNight Index Average ('SONIA'). The Group has no material financial assets or liabilities which have LIBOR as a contractual term, and therefore these amendments had no impact on the Group.

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

1.8. Impairment of financial assets and loan commitments
The Group recognises loss allowances for Expected Credit Losses ('ECL') 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
- 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 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, or have other specific unlikeliness to pay indicators. Evidence that a financial asset is credit-impaired includes the following observable data:

- Initiation of bankruptcy proceedings
- Notification of bereavement
- Identification of loan meeting debt sale criteria
- Initiation of repossession proceedings
- A material covenant breach that has remained unremedied for more than 90 days

In addition, a loan that is 90 days or more past due is considered credit-impaired for all portfolios. The credit risk of financial assets that become credit-impaired are not expected to improve 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
- unpaid debtor balances that are dated at least six 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.

During 2020, Consumer Finance customers were offered payment holidays to manage the impact of COVID-19. The majority of customers have recommenced regular payments, however those remaining on a payment holiday as at 31 December 2020 were classified as stage 2, due to the potential of the payment holiday suppressing the worsening of the credit risk.

Cure policy

The credit risk of a financial asset may improve such that it is no longer considered to have experienced a significant increase in credit risk if it meets the Group's cure policy. The Group's cure policy for all portfolios requires sufficient payments to be made to bring an account back within less than 30 days past due and for such payments to be maintained for six consecutive months.

The Group has determined stage 3 to be an absorbing state. Once a loan is in default it is not therefore expected to cure back to stage 1 or 2.

Calculation of expected credit loss

ECL are probability weighted estimates of credit losses which are measured as the present value of all cash shortfalls. Specifically, this is the difference between the contractual cash flows due and the cash flows expected to be received, discounted at the original effective interest rate or, for portfolios purchased outside of the Group by Debt Managers (Services) Limited, the credit adjusted effective interest rate. For undrawn loan commitments ECL is measured as the difference between the contractual cash flows due if the commitment is drawn and the cash flows expected to be received.

Lifetime ECL is the ECL that results from all possible default events over the expected life of a financial asset.

12-month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within 12 months after the reporting date.

ECL are calculated by multiplying three main components: the probability of default ('PD'), exposure at default ('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.

Probability of default ('PD') and credit risk grades

Credit risk grades are a primary input into the determination of the PD for exposures. The Group allocates each exposure to a credit risk grade at origination and at each reporting period to predict the risk of default. Credit risk grades are determined using qualitative and quantitative factors that are indicative of the risk of default e.g. arrears status and loan applications scores. These factors vary for each loan portfolio. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. In monitoring exposures information such as payment records, request for forbearance strategies and forecast changes in economic conditions are considered for Consumer Finance. Additionally, for Business Finance portfolios information obtained during periodic client reviews, for example audited financial statements, management accounts, budgets and projections are considered, with particular focus on key ratios, compliance with covenants and changes in senior management teams.

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

Exposure at default ('EAD')

EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure and potential changes to the current amount allowed under the terms of the contract, including amortisation overpayments and early terminations. The EAD of a financial asset is its gross carrying amount. For loan commitments the EAD includes the amount drawn as well as potential future amounts that may be drawn under the terms of the contract, estimated based on historical observations and forward-looking forecasts.

For Commercial Finance facilities that have no specific term, an assumption is made that accounts close 36 months after the reporting date for the purposes of measuring lifetime ECL. This assumption is based on industry experience of average client life. These facilities do not have a fixed term or repayment structure but are revolving and increase or decrease to reflect the value of the collateral i.e. receivables or inventory. The Group can cancel the facilities with immediate effect, although this contractual right is not enforced in the normal day-to-day management of the facility. Typically, demand would only be made on the failure of a client business or in the event of a material event of default, such as a fraud. In the normal course of events, the Group's exposure is recovered through receipt of remittances from the client's debtors rather than from the client itself.

The ECL for such facilities is estimated taking into account the credit risk management actions that the Group expects to take to mitigate against losses. These include a reduction in advance rate and facility limits or application of reserves against a facility to improve the likelihood of full recovery of exposure from the debtors. Alternative recovery routes mitigating ECL would include refinancing by another funding provider, taking security over other asset classes or secured personal guarantees from the client's principals.

Loss given default ('LGD')

LGD is the magnitude of the likely loss in the event of default. This takes into account recoveries either through curing or, where applicable, through auction sale of repossessed collateral and debt sale of the residual shortfall amount. For loans secured by retail property, loan-to-value ratios are key parameters in determining LGD. LGDs are calculated on a discounted cash flow basis using the financial instrument's origination effective interest rate as the discount factor.

Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss. This is achieved by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. To ensure material non-linear relationships between economic factors and credit losses are reflected in the calculation of ECL, a deeper stress scenario is used as one of these scenarios. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. The four scenarios adopted and probability weighting applied are approved by the Assumptions Committee, and ultimately the Audit Committee, and are set out in Note 2.

The Group has considered which economic variables impact credit risk and credit losses. The key drivers of credit risk and credit losses included in the macroeconomic scenarios for all portfolios, with the exception of Real Estate Finance, have been identified as annual unemployment rate growth and annual house price index growth. In addition, for Asset Finance and Commercial Finance, changes to the consumer price index are also included in the macroeconomic scenarios. For the Real Estate Finance portfolio the key drivers have been identified as unemployment rate growth, the annual house price index growth and Bank of England Base Rates. Base case assumptions applied for each of these variables have been sourced from external consensus or Bank of England forecasts. Further details of the assumptions applied to other scenarios are presented in Note 2.

Presentation of loss allowance

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets
- Other loan commitments: generally, as a provision

For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision.

When a loan is uncollectible, it is written off against the related ECL allowance. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined.

Motor voluntary termination provision

In addition to recognising allowances for ECLs, the Group holds a provision for voluntary terminations ('VT') for all Motor Finance financial assets. VT is a legal right provided to customers who take out hire purchase agreements. The provision is calculated by multiplying the probability of VT of an asset by the expected shortfall on VT discounted back at the original effective interest rate of the asset. VT allowances are not held against loans in default (stage 3 loans).

The VT provision is presented in the statement of financial position as a deduction from the gross carrying amount of Motor Finance assets with the loss recognised in the income statement.

Write off

Loans and advances to customers are written off partially or in full when the Group has exhausted all viable recovery options. The majority of write-offs arise from Debt Relief Orders, insolvencies, IVAs, deceased customers where there is no estate and vulnerable customers in certain circumstances. Amounts subsequently recovered on assets previously written off are recognised in the impairment charge in the income statement.

Modification of loans

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

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

1.9. Derivative financial instruments

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

The Group does not hold contracts containing embedded derivatives.

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

Hedge accounting

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

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

The Group does not have hedges of net investments.

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

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

Fair value hedge accounting

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the hedged risk, thereby offsetting the effect of the related movement in the fair value of the derivative. Changes in the fair value of derivatives and hedged items that are designated and qualify as fair value hedges are recorded in the income statement.

In a one-to-one hedging relationship in which a single derivative hedges a single hedged item, the carrying value of the underlying asset or liability (the hedged item) is adjusted for the hedged risk to offset the fair value movement of the related derivative. In the case of a portfolio hedge, an adjustment is included in the fair value adjustments for portfolio hedged risk line in the statement of financial position to offset the fair value movements in the related derivative. The Group currently only designates portfolio hedges.

If the hedge no longer meets the criteria for hedge accounting, expires or is terminated, the cumulative fair value adjustment to the carrying amount of a hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship and recorded as net interest income. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the cash flow hedge reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement. Amounts recognised in the cash flow hedge reserve are subsequently reclassified to the income statement when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised, and are recorded in the same income statement line in which the income or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects the income statement. When a forecast transaction is no longer expected to occur (for example, the recognised hedged item is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment). As at 31 December 2020, the reserve balance was insignificant, and therefore is not disclosed in the statement of financial position.

1.10. Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill is held at cost less accumulated impairment charge and is deemed to have an infinite life.

The Group reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. An impairment charge is recognised in the income statement if the carrying amount exceeds the recoverable amounts.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred unless the technical feasibility of the development has been demonstrated, and it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance, in which case they are capitalised.

These costs are amortised on a straight-line basis over their expected useful lives, which are between three to ten years.

(c) Other intangibles

The acquisition of subsidiaries was accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it was necessary to recognise certain intangible assets which are separately identifiable and which are not included on the acquiree's balance sheet, which are amortised over their expected useful lives, as set out in Note 20.

The Group applies IAS 36 to determine whether an intangible asset is impaired.

1.11. Investment property

Investment property, which is property held to earn rentals and for capital appreciation, is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the property is derecognised.

1.12. Property, plant and equipment

Property is held at its revalued amount, being its fair value at the date of valuation less any subsequent accumulated depreciation. Revaluations are carried out annually at the reporting date, and movements are recognised in Other Comprehensive Income, net of any applicable deferred tax.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Pre-installed computer software licences are capitalised as part of the computer hardware it is installed on. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which are subject to regular review:

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or seven years
Computer equipment	three to five years
Other equipment	five to ten years

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

The Group applies IAS 36 to determine whether property, plant and equipment is impaired.

1.13. Leases

(a) As a lessee

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the future lease payments, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. It is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made, and is presented as a separate line in the consolidated statement of financial position.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment charges and are depreciated over the shorter of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy.

Rentals made under operating leases for less than 12 months in duration, and operating leases on low value items, are recognised in the income statement on a straight-line basis over the term of the lease.

(b) As a lessor

The present value of the lease payments on assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

1.14. Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand and demand deposits, and cash equivalents, being highly liquid investments which are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and short-term highly liquid debt securities.

1.15. Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs. Any amounts received over nominal value are recorded in the share premium account, net of direct issuance costs. Costs associated with the listing of shares are expensed immediately.

1.16. Employee benefits

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

(b) Share-based compensation
The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). The amount is recognised as personnel expenses in the income statement, with a corresponding increase in equity. Further details of the valuation methodology is set out in Note 32.

The fair value of cash settled share-based payments is recognised as personnel expenses in the income statement with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options granted, with a corresponding adjustment to personnel expenses.

1.17. Taxation
Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.18. Dividends
Final dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Interim dividends on ordinary shares are recognised in equity in the period in which they are paid.

2. Critical accounting judgements and key sources of estimation uncertainty

2.1. Judgements
No critical judgements have been identified.

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

2.2.1. Impairment charge on loans and advances to customers
As discussed in Note 1.8 ECLs are calculated by multiplying three main components: the PD, EAD and LGD. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information. The determination of both the PD and LGD require estimation which is discussed further below.

2.2.2. Probability of default (‘PD’)

As set out in Note 1.8 Exogenous, Maturity, Vintage (‘EMV’) modelling is used in the production of forward-looking lifetime PDs in the calculation of ECLs. As the Group’s performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model (‘ERM’) to incorporate the effects of recession.

With the exception of the Motor Finance and Retail Finance portfolios, sensitivity to reasonably possible changes in PD is not considered to result in material changes in the ECL allowance. A 10% change in the PD for Motor Finance would immediately impact the ECL allowance by £2.2 million (2019: £2.0 million) and a 20% change in the PD for Retail Finance would immediately impact the ECL allowance by £5.0 million (2019: a 10% change would immediately impact the ECL allowance by £2.3 million). During the year, there was a 3% change in PD for Motor Finance, and a 20% change in PD for Retail Finance.

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

2.2.3. Loss given default (‘LGD’)

The Group’s policy for the determination of LGD is outlined in Note 1.8.

With the exception of the Motor Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. For the Motor Finance portfolio a 20% change in the LGD is considered reasonably possible due to potential difficulties in the vehicle collection process and reduced asset values brought about by COVID-19. A 20% change in the vehicle recovery rate assumption element of the LGD for Motor Finance would impact the ECL allowance by £1.9 million (2019: £2.6 million). During the year, there was a 16% change in the vehicle recovery rate assumption.

2.2.4. Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. Further detail on this process is provided in Note 1.8.

The macroeconomic scenarios used at 31 December 2020 were internally developed, having regard to externally published scenarios. The scenarios and weightings applied are summarised below:

		UK Unemployment Rate – Annual Average				UK HPI – movement from Q420			
Scenario	Weightings	2021 %	2022 %	2023 %	5 Yr Average %	2021 %	2022 %	2023 %	5 Yr Average %
Low	20%	5.9	5.9	5.2	5.1	(2.2)	(2.9)	1.9	3.7
Medium	45%	7.5	8.2	7.0	6.6	(4.1)	(7.4)	(2.8)	(0.3)
Hard	25%	7.7	8.4	7.2	6.7	(4.4)	(7.0)	(2.2)	(0.0)
Severe	10%	8.4	10.1	8.3	7.5	(16.4)	(24.4)	(20.4)	(16.3)

Scenario	Derivation	2019
Benign case	Assumes macroeconomic variables will move with a more positive trajectory than the base case.	10%
Base case	Derived from external consensus forecasts and used in the Group’s strategic planning and budgeting processes.	65%
Stressed case	Management’s assessment, based on historic data, of an adverse scenario that could occur once every seven to eight years.	20%
Deeper stress	Based on the scenario used by the PRA for the H1 2019 ICAAP. This can be found on the Bank of England’s website: www.bankofengland.co.uk	5%

Weightings applied to the macroeconomic scenarios were confirmed at the January 2021 Assumptions Committee and subsequently at the Audit Committee.

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

	Increase in hard case (2019: stressed case) weighting by 10% (2019: 5%) and reduction in low case (2019: base case)		Increase in severe stress case (2019: deeper stress case) weighting by 5% and reduction in medium case (2019: base case)	
	2020 £million	2019 £million	**2020 £million**	2019 £million

Motor Finance	0.4	0.1	0.2	0.4
Retail Finance	0.5	0.2	0.2	0.7

The sensitivity is immaterial for other lending products.

The Group recognised an ECL charge of £51.3 million (2019: £32.6 million). Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the impact on ECL for 2020 would be as follows:

Scenario	Motor Finance 2020 £million	Retail Finance 2020 £million	Business Finance 2020 £million	Total Group 2020 £million
Low case	(3.0)	(3.8)	(2.1)	(8.9)
Medium case	0.1	0.1	0.4	0.6
Hard case	1.0	1.2	–	2.2
Severe stress	3.2	4.1	8.4	15.7

For 2019, if the Base case or Deeper Stress case was applied at 100%, the impact on ECL would be a decrease of £2.3 million and an increase of £18.6 million respectively.

2.2.5. Debt Management forecast collections on POCI debt

A +/-8.0% change in Debt Management forecast collections, which the Directors consider to be a reasonable possible change, would increase or decrease loans and advances to customers by £6.5 million (2019: 5%, £4.0 million) respectively, resulting in a corresponding £6.5 million (2019: 5%, £4.0 million) increase or decrease in profit or loss. During 2020, the Group experienced an 8% change in forecast cashflows.

3. Operating segments

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

Business Finance

1) Real Estate Finance: 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, invoice factoring and Coronavirus Business Interruption Loan Scheme finance, for existing Commercial Finance customers.

Consumer Finance

4) Motor Finance: hire purchase agreements secured against the vehicle being financed
5) Retail Finance: point of sale unsecured finance for in-store and online retailers
6) Debt Management: debt collection
7) Residential mortgages for the self-employed, contract workers, those with complex income and those with a recently restored credit history, sold via select mortgage intermediaries

Other

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

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

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

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

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment charge on loans and advances to	Loans and advances to customers £million

				customers £million	
31 December 2020					
Real Estate Finance	54.0	–	54.0	5.2	1,051.9
Asset Finance	1.5	–	1.5	0.9	10.4
Commercial Finance	7.3	7.9	15.2	1.1	230.7
Business Finance	62.8	7.9	70.7	7.2	1,293.0
Retail Finance	68.5	2.2	70.7	14.5	658.4
Motor Finance	44.6	0.9	45.5	20.7	243.9
Debt Management	14.2	0.6	14.8	8.9	81.8
Consumer Mortgages	3.3	0.1	3.4	(0.1)	77.7
Consumer Finance	130.6	3.8	134.4	44.0	1,061.8
Other	(0.9)	4.3	3.4	0.1	4.1
	192.5	**16.0**	**208.5**	**51.3**	**2,358.9**

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

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. Operating income

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

4.1 Net interest income

	2020 £million	2019 £million
Loans and advances to customers	193.8	189.6
Cash and balances at central banks	0.4	1.0
Debt securities	0.1	0.7
	194.3	191.3
Expense on financial instruments hedging assets	(1.8)	0.1
Interest income and similar income	**192.5**	**191.4**

Deposits from customers	(39.4)	(40.4)
Due to banks	(0.7)	(2.1)
Subordinated liabilities	(3.4)	(3.4)
	(43.5)	(45.9)
Income on financial instruments hedging liabilities	1.9	(0.1)
Interest expense and similar charges	**(41.6)**	**(46.0)**

Net interest income	**150.9**	**145.4**

4.2 Net fee and commission income

	2020 £million	2019 £million
Fee and disbursement income	14.1	17.5
Commission income	1.3	1.9
Other income	0.6	1.5
Fee and commission income	**16.0**	**20.9**

Other expenses	(0.8)	(0.8)
Fee and commission expense	**(0.8)**	**(0.8)**

Net fee and commission income	**15.2**	**20.1**

Fees and commissions income consists principally of the following:

- weekly and monthly fees from the OneBill product
- associated insurance commissions and commissions earned on debt collection activities in DMS
- discounting, service and arrangement fees in Commercial Finance
- account management and administration fees from retailers in Retail Finance

Fee and commission expenses consist primarily of recovery fees payable recognised as incurred in respect of Motor Finance and collection activities in respect of Debt Management.

5. Derivatives and hedge accounting

Group and Company
The Group holds interest rate swaps for risk mitigation purposes. For further information on the Group's risk management strategy for market risk refer to the Principal risks and uncertainties section of the Group's Strategic Report on page 38 of the Annual Report and Accounts. Interest rate swaps are designated on initial recognition as measured at fair value through profit and loss. The tables below provide an analysis of the notional amount and fair value of derivatives held:

	Notional £million	Assets £million	Liabilities £million	Changes in fair value used for calculating hedge ineffectiveness in the period £million
31 December 2020				
Interest rate swaps designated as fair value hedges	1,093.5	4.8	(5.7)	–
Interest rate swaps designated as cash flow hedges	4.7	–	–	–
Interest accruals on interest rate swaps	–	–	(0.4)	–
	1,098.2	**4.8**	**(6.1)**	–

	Notional £million	Assets £million	Liabilities £million
31 December 2020			
Interest rate swaps designated as fair value hedges			
In not more than one year	228.4	0.4	(0.6)
In more than one year	865.1	4.4	(5.5)
	1,093.5	4.8	(6.1)
Interest rate swaps designated as cash flow hedges			
In more than one year	4.7	–	–
	1,098.2	**4.8**	**(6.1)**

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

	Notional £million	Assets £million	Liabilities £million
31 December 2019			
Interest rate swaps designated as fair value hedges			
In not more than one year	214.5	–	(0.1)
In more than one year	773.2	0.9	(0.5)
	987.7	**0.9**	**(0.6)**

At December 2020, the Group also held foreign exchange swaps with a notional value of £13.0 million and a fair value of £nil, having a duration of not more than one year.

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

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

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

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item			
	Assets £million	Liabilities £million	Assets £million	Liabilities £million	Balance Sheet line item	Change in fair value of hedged item for ineffectiveness assessment in the period £million
31 December 2020						
Interest rate fair value hedges						
Fixed rate Real Estate Finance loans	300.0	–	4.3	–	Loans and advances to customers	–
Fixed rate Motor Finance loans	97.2	–	0.7	–	Loans and advances to customers	–

Fixed rate Retail Finance loans	116.2	–	0.5	–	Loans and advances to customers	–
Fixed rate Consumer Mortgage loans	9.9	–	0.2	–	Loans and advances to customers	–
Fixed rate customer deposits	–	(570.2)	–	(4.7)	Deposits from customers	–
Interest rate fair value hedges	**523.3**	**(570.2)**	**5.7**	**(4.7)**		–
Interest rate cash flow hedge – Bank of England deposits	4.7	–	–	–	Cash and balances at Central banks	–
Total	**528.0**	**(570.2)**	**5.7**	**(4.7)**		–

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item			
	Assets £million	Liabilities £million	Assets £million	Liabilities £million	Balance Sheet line item	Change in fair value of hedged item for ineffectiveness assessment in the period £million
31 December 2019						
Interest rate fair value hedges						
Fixed rate Real Estate Finance loans	296.8	–	(0.6)	–	Loans and advances to customers	–
Fixed rate Motor Finance loans	100.1	–	(0.2)	–	Loans and advances to customers	–
Fixed rate Retail Finance loans	66.0	–	(0.1)	–	Loans and advances to customers	–
Fixed rate Consumer Mortgage loans	9.2	–	–	–	Loans and advances to customers	–
Fixed rate customer deposits	–	(515.6)	–	0.7	Deposits from customers	–
Total	**472.1**	**(515.6)**	**(0.9)**	**0.7**		–

The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is £nil (2019: £nil).

Fair value gains and losses arising from derivatives and hedge accounting recognised in the Group income statement was £nil (2019: £nil).

Although the Group uses derivatives exclusively to hedge interest rate risk exposures, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. Where such volatility arises it will trend back to zero over time.

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

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

The following table shows the impact of financial assets and financial liabilities relating to transactions where:

- there is an enforceable master netting agreement in place but the offset criteria are not otherwise satisfied, and
- financial collateral is paid and received

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million

31 December 2020				
Derivative financial assets	4.8	(4.8)	–	–
Derivative financial liabilities	(6.1)	4.8	1.3	–

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

Master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because the arrangement creates an agreement for a right of set-off of recognised amounts which is enforceable only following an event of default, insolvency or bankruptcy of the Group or counterparties. Furthermore, the Group and its counterparties do not intend to settle on a net basis or realise the assets and settle the liabilities simultaneously.

Financial collateral consists of cash settled, typically daily or weekly, to mitigate the credit risk on the fair value of derivatives.

6. Losses on modification of financial assets

Although not included as an option within customer contracts, following regulatory guidance the Group offered payment holidays to its Consumer Finance and Asset Finance customers during the year. This is considered under IFRS 9 as a modification to contractual cash flows, which requires the carrying value of these loans to be adjusted to the net present value of future cash flows. The impact of this at 31 December 2020 was a £2.5 million reduction in the net present value of Motor Finance loans and a further £0.6 million reduction in the net present value of Retail Finance loans (2019: £nil).

Of the overall £3.1 million loan modification loss, £1.1 million relates to financial assets with a loss allowance based on lifetime ECL.

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

7. Operating expenses

	2020 £million	2019 £million
Staff costs, including those of Directors:		
Wages and salaries	44.9	43.1
Social security costs	5.0	5.1
Pension costs	1.9	1.7
Share-based payment transactions	–	1.2
Depreciation of property, plant and equipment (Note 18)	1.4	1.2
Depreciation of lease right-of-use assets (Note 19)	0.7	0.9
Amortisation of intangible assets (Note 20)	2.0	1.9
Operating lease rentals	0.5	0.8
Other administrative expenses	35.2	38.3
Total operating expenses	**91.6**	**94.2**

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

Remuneration of the auditor and its associates, excluding VAT, was as follows:

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	443	325
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	40	30
Other assurance services	58	57
All other non-audit services	–	12
	541	**424**

Other assurance services related to the half-year review and profit certification.

In 2019, all other non-audit services related to the Financial Services Compensation Scheme reporting health check.

8. Average number of employees

	2020 Number	2019 Number
Directors	8	8
Management	254	157
Other	759	814
	1,021	**979**

The basis of preparation of the average employee numbers has changed during the year, hence the analysis of employees by grade is not directly comparable with the prior year.

9. Income tax expense

	2020 £million	2019 £million
Current taxation		
Corporation tax charge – current year	3.0	7.0
Corporation tax charge – adjustments in respect of prior years	(0.5)	(0.1)
	2.5	6.9
Deferred taxation		
Deferred tax charge – current year	0.9	0.7
Deferred tax charge – adjustments in respect of prior years	0.5	–
	1.4	0.7
Income tax expense	**3.9**	**7.6**
Tax reconciliation		
Profit before tax	20.1	38.7
Tax at 19.00% (2019: 19.00%)	3.8	7.4
Banking surcharge	–	0.1
Rate change on deferred tax assets	(0.1)	0.2
Prior period adjustments	–	(0.1)
Other	0.2	–
Income tax expense for the year	**3.9**	**7.6**

The tax charge for 2020 has been calculated at the current effective corporation tax rate, which is 19%.

The 2019 accounts had assumed a reduction in the main rate of UK corporation tax from 19% to 17% (effective 1 April 2020). However, on 17 March 2020, the government legislated to retain the rate at 19%. The Group is also subject to an 8% surcharge on the profits of banking companies in excess of £25 million. The government is proposing to increase the main corporation tax rate to 25% from 1 April 2023. This was not substantively enacted at the balance sheet date and therefore this change has not been reflected in these financial statements. The government intends to review the bank surcharge in Autumn 2021, to ensure the UK's banking tax regime remains competitive. Deferred tax is based on the combined effect of corporation tax and banking surcharge as enacted at the balance sheet date, so we expect changes legislated in Finance Bill 2021-22 to partially offset the impact on corporation tax rate changes. The impact of these changes is not expected to be material.

10. Earnings per ordinary share

10.1 Basic

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

	2020	2019
Profit attributable to equity holders of the parent (£million)	16.2	31.1
Weighted average number of ordinary shares (number)	18,615,480	18,476,280
Earnings per share (pence)	**87.0**	**168.3**

10.2 Diluted

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

	2020	2019
Weighted average number of ordinary shares	18,615,480	18,476,280
Number of dilutive shares in issue at the year-end	399,713	216,943
Fully diluted weighted average number of ordinary shares	**19,015,193**	**18,693,223**
Dilutive shares being based on:		
Number of options outstanding at the year-end	789,854	598,065
Weighted average exercise price (pence)	477	528
Average share price during the period (pence)	1,238	1,390
Diluted earnings per share (pence)	**85.2**	**166.4**

11. Dividends

	2020 £'000	2019 £'000
2018 final dividend – 64 pence per share (paid May 2019)	–	11.8
2019 interim dividend – 20 pence per share (paid September 2019)	–	3.7
	–	**15.5**

The Directors recommend the payment of a final dividend of 44 pence per share. The final dividend, if approved by members at the Annual General Meeting, will be paid on 21 May 2021 to shareholders on the register at the close of business on 23 April 2021.

No dividends were paid during 2020, in line with the guidance given by the Prudential Regulation Authority.

12. Loans and advances to banks

Moody's long-term ratings are as follows:

	Group 2020 £million	Group 2019 Restated £million	**Company 2020 £million**	Company 2019 Restated £million
A1	12.2	3.6	12.2	3.6
A1*/A2	44.7	39.7	43.1	36.5

A3	1.3	–	1.3	–
Arbuthnot Latham & Co., Limited – No rating	5.1	5.1	5.1	5.1
	63.3	**48.4**	**61.7**	**45.2**

None of the loans and advances to banks are either past due or impaired.

Loans and advances to banks includes £12.7 million (2019: £9.2 million) in relation to collateral held under credit support and similar agreements, with a corresponding payable included within other liabilities. See Note 33 for a reconciliation to cash and cash equivalents.

The comparatives as at December 2019 have been restated in order to correctly reflect the credit rating for 2019.

13. Debt securities

Group and Company
Debt securities of £nil (2019: £25.0 million) represented UK Treasury Bills. The Group's intention was to hold the asset to collect its contractual cash flows of principal and interest and, therefore, they were stated in the statement of financial position at amortised cost. The decrease over the year is due to Bills maturing.

All of the debt securities had a rating agency designation at 31 December 2019, based on Moody's long-term ratings of Aa2. None of the debt securities were either past due or impaired.

14. Loans and advances to customers

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Gross loans and advances	2,441.6	2,510.7	2,349.7	2,422.3
Less: allowances for impairment on loans and advances (Note 16)	(82.7)	(60.6)	(79.9)	(68.7)
	2,358.9	**2,450.1**	**2,269.8**	**2,353.6**

The fair value of loans and advances to customers is shown in Note 39.

Group and Company
At 31 December 2020 loans and advances to customers of £498.4 million (2019: £433.4 million) were pre-positioned under the Bank of England's liquidity support operations and Term Funding Scheme, and were available for use as collateral within the schemes.

The following loans are secured upon real estate:

	2020 Loan balance £million	**2020 Loan-to-value %**	2019 Loan balance £million	2019 Loan-to-value %
Real Estate Finance	1,051.9	56%	962.2	59%
Consumer Mortgages	77.7	51%	105.9	56%
	1,129.6		**1,068.1**	

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

All property valuations at loan inception, and the majority of development stage valuations, are performed by independent Chartered Surveyors, who perform their work in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards.

Group
£6.6 million of cash collateral has been received as at 31 December 2020 in respect of certain loans and advances (2019: £3.7 million).

15. Finance lease receivables

Loans and advances to customers include finance lease receivables as follows:

	Group 2020 £million	Group 2019 £million	Company 2020 £million	Company 2019 £million
Gross investment in finance lease receivables:				
– No later than one year	143.9	176.0	141.5	171.6
– Later than one year and no later than five years	239.0	338.6	237.6	335.7
	382.9	514.6	379.1	507.3
Unearned future finance income on finance leases	(103.3)	(144.6)	(102.6)	(142.9)
Net investment in finance leases	**279.6**	**370.0**	**276.5**	**364.4**
The net investment in finance leases may be analysed as follows:				
– No later than one year	93.2	110.2	91.3	107.0
– Later than one year and no later than five years	186.4	259.8	185.2	257.4
	279.6	**370.0**	**276.5**	**364.4**

16. Allowances for impairment of loans and advances

Group

	Not credit-impaired		**Credit-impaired**			
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total provision £million**	**Gross loans and receivables £million**	**Provision cover %**
31 December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%
Consumer Finance:						
Retail Finance	13.2	7.9	3.5	24.6	683.0	3.6%
Motor Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.2	16.0	15.2	37.4		
	11.0	16.0	15.2	42.2	286.1	14.8%
Debt Management	–	–	7.0	7.0	88.8	7.9%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	4.1	0.0%
	27.1	**27.2**	**28.4**	**82.7**	**2,441.6**	**3.4%**

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2019						
Business Finance:						
Real Estate Finance	0.5	–	0.1	0.6	962.8	0.1%
Asset Finance	–	0.1	1.7	1.8	29.5	6.1%
Commercial Finance	0.3	–	0.6	0.9	252.6	0.4%
Consumer Finance:						

Retail Finance	10.0	11.1	4.4	25.5	714.4	3.6%
Motor Finance:						
Voluntary termination provision	6.8	–	–	6.8		
Other impairment	3.7	12.9	10.2	26.8		
	10.5	12.9	10.2	33.6	357.3	9.4%
Debt Management	–	–	(2.1)	(2.1)	80.3	(2.6%)
Consumer Mortgages	0.3	–	–	0.3	106.2	0.3%
Other	–	–	–	–	7.6	0.0%
	21.6	**24.1**	**14.9**	**60.6**	**2,510.7**	**2.4%**

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

	2020 £million	2019 £million
Incurred loss individual provision: impairment charge	50.3	28.1
Charge in respect of off balance sheet loan commitments	0.7	–
Loans written off, net of amounts utilised	0.6	5.3
Recoveries of loans written off	(0.3)	(0.8)
	51.3	**32.6**

Total provisions above include expert credit judgements as follows:

	2020 £million	2019 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	(3.4)	0.5
Planned enhancements to LGD elements of the IFRS 9 models	–	(0.8)
Management judgement in respect of LGD elements of the IFRS 9 models	0.6	–
Management judgement in respect of PD elements of the IFRS 9 models	2.8	(0.8)
POCI adjustment (see below)	6.7	(2.1)
Other	1.5	(0.1)
Expert credit judgements over the IFRS 9 model results	**8.2**	**(3.3)**

The specific overlays have been estimated on an individual basis by assessing the recoverability and condition of the secured asset, along with any other recoveries that may be made.

POCI adjustment

The Group's debt management business purchases credit-impaired loans from the Company and other unrelated third parties. Under IFRS 9, these are classified as Purchased and Originated Credit-Impaired ('POCI') loans. As a practical expedient, income on POCI loans is initially recognised by applying the original credit-adjusted EIR to the expected future cash flows arising from the POCI assets. The Group's accounting policy is to recognise POCI income by applying the original credit-adjusted EIR to the amortised cost of the assets. Expected changes in cash flows since the date of purchase are recognised as an impairment gain or loss in the income statement. At December 2020, reductions in credit quality resulted in a £6.7 million impairment provision (2019: improvements in credit quality resulted in a £2.1 million impairment credit).

Provisions included in 'Other' are in respect of various legacy products. This segment also includes loans of £3.9 million (2019: £7.2 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans.

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

	Not credit-impaired		**Credit-impaired**	
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total £million**

At 1 January 2020	21.6	24.1	14.9	60.6
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.4)	33.8	–	28.4
– Transfer to stage 3	–	(20.7)	28.3	7.6
– Transfer to stage 1	3.1	(6.6)	–	(3.5)
Passage of time	(10.9)	(10.5)	3.7	(17.7)
New loans originated	11.9	–	–	11.9
Matured and derecognised loans	(2.5)	(2.9)	–	(5.4)
Changes to credit risk parameters	11.4	10.1	7.4	28.9
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.7	3.2	39.4	50.3
Allowance utilised in respect of write-offs	(2.2)	–	(26.0)	(28.2)
31 December 2020	**27.1**	**27.3**	**28.3**	**82.7**

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2019	20.3	23.9	22.9	67.1
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.9)	36.9	–	31.0
– Transfer to stage 3	–	(23.5)	30.3	6.8
– Transfer to stage 1	1.5	(3.5)	–	(2.0)
Passage of time	(10.1)	(6.8)	(6.3)	(23.2)
New loans originated	17.2	–	–	17.2
Matured and derecognised loans	(1.9)	(4.7)	(0.1)	(6.7)
Changes to model methodology	0.7	1.2	(0.2)	1.7
Changes to credit risk parameters	(1.1)	0.6	(0.1)	(0.6)
Other adjustments	3.9	–	–	3.9
Charge to income statement	4.3	0.2	23.6	28.1
Allowance utilised in respect of write-offs	(3.0)	–	(31.6)	(34.6)
31 December 2019	**21.6**	**24.1**	**14.9**	**60.6**

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

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

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

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

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

Stage 1 write-offs arise on Motor Finance accounts where borrowers have exercised their right to voluntarily terminate their agreements.

A breakdown of the gross receivable by internal credit risk rating is shown below:

	Stage 1 £million	**Stage 2 £million**	**Stage 3 £million**	**Total £million**

31 December 2020				
Business Finance:				
Strong	521.8	26.9	10.4	559.1
Good	156.2	138.3	–	294.5
Satisfactory	391.0	14.4	0.1	405.5
Weak	4.5	22.8	15.3	42.6
	1,073.5	**202.4**	**25.8**	**1,301.7**
Consumer Finance:				
Good	288.2	76.8	5.5	370.5
Satisfactory	302.0	55.4	7.4	364.8
Weak	172.6	47.7	13.5	233.8
Consumer mortgages	77.9	–	–	77.9
Debt management	–	–	88.8	88.8
	840.7	**179.9**	**115.2**	**1,135.8**

	Stage 1 £million	**Stage 2 £million**	**Stage 3 £million**	**Total £million**
31 December 2019				
Business Finance:				
Strong	272.1	4.1	–	276.2
Good	770.4	4.7	10.1	785.2
Satisfactory	126.3	23.5	0.3	150.1
Weak	10.2	15.1	8.1	33.4
	1,179.0	**47.4**	**18.5**	**1,244.9**
Consumer Finance:				
Good	317.1	58.3	3.1	378.5
Satisfactory	317.7	54.8	5.9	378.4
Weak	229.8	71.3	13.3	314.4
Consumer mortgages	105.6	0.3	0.3	106.2
Debt management	–	–	80.7	80.7
	970.2	**184.7**	**103.3**	**1,258.2**

Internal credit risk rating is based on the most recent credit risk score of a customer.

Company

	Not credit-impaired		**Credit-impaired**			
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total provision £million**	**Gross loans and receivables £million**	**Provision cover %**
31 December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%

Consumer Finance:						
Retail Finance	13.8	8.2	3.6	25.6	683.0	3.7%
Motor Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.6	17.4	16.6	40.6		
	11.4	17.4	16.6	45.4	286.6	15.8%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	0.5	0.0%
	28.1	**28.9**	**22.9**	**79.9**	**2,349.7**	**3.4%**

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2019						
Business Finance:						
Real Estate Finance	0.5	–	0.1	0.6	962.8	0.1%
Asset Finance	–	0.1	1.7	1.8	29.5	6.1%
Commercial Finance	0.3	–	0.6	0.9	251.6	0.4%
Consumer Finance:						
Retail Finance	10.5	11.6	4.5	26.6	714.4	3.7%
Motor Finance:						
Voluntary termination provision	6.8	–	–	6.8		
Other impairment	4.4	15.2	12.0	31.6		
	11.2	15.2	12.0	38.4	357.3	10.7%
Consumer Mortgages	0.3	–	–	0.3	106.2	0.3%
Other	–	–	0.1	0.1	0.5	20.0%
	22.8	**26.9**	**19.0**	**68.7**	**2,422.3**	**2.8%**

Total provisions above include expert credit judgements as follows:

	2020 £million	2019 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	(3.4)	0.5
Planned enhancements to LGD elements of the IFRS 9 models	–	(0.8)
Management judgement in respect of LGD elements of the IFRS 9 models	0.6	–
Management judgement in respect of PD elements of the IFRS 9 models	2.8	(0.8)
Other	1.2	(0.1)
Expert credit judgements over the IFRS 9 model results	1.2	(1.2)

The specific overlays have been estimated on an individual basis by assessing the recoverability and condition of the secured asset, along with any other recoveries that may be made.

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

	Not credit-impaired		**Credit-impaired**	
	Stage 1: Subject to 12-month	**Stage 2: Subject to**	**Stage 3: Subject to**	**Total £million**

	ECL £million	lifetime ECL £million	lifetime ECL £million	
At 1 January 2020	22.8	26.9	19.0	68.7
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.7)	36.2	–	30.5
– Transfer to stage 3	–	(22.5)	30.5	8.0
– Transfer to stage 1	3.2	(6.5)	–	(3.3)
Passage of time	(11.3)	(12.0)	1.2	(22.1)
New loans originated	12.6	–	–	12.6
Mature and derecognised loans	(2.7)	(3.2)	–	(5.9)
Changes to model methodology	–	–	–	–
Changes to credit risk parameters	11.4	10.1	(1.7)	19.8
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.6	2.1	30.0	39.7
Allowance utilised in respect of write-offs	(2.2)	–	(26.3)	(28.5)
31 December 2020	**28.2**	**29.0**	**22.7**	**79.9**

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2019	20.7	24.3	23.6	68.6
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(6.2)	39.1	–	32.9
– Transfer to stage 3	–	(24.6)	31.7	7.1
– Transfer to stage 1	1.6	(3.6)	–	(2.0)
Passage of time	(10.3)	(5.2)	(4.0)	(19.5)
New loans originated	18.4	–	–	18.4
Matured and derecognised loans	(1.9)	(4.9)	(0.1)	(6.9)
Changes to model methodology	0.7	1.2	(0.2)	1.7
Changes to credit risk parameters	(1.1)	0.6	(0.1)	(0.6)
Other adjustments	3.9	–	–	3.9
Charge to income statement	5.1	2.6	27.3	35.0
Allowance utilised in respect of write-offs	(3.0)	–	(31.9)	(34.9)
31 December 2019	**22.8**	**26.9**	**19.0**	**68.7**

The table above has been prepared based on monthly movements in the ECL. Stage 1 write-offs arise on Motor accounts that have exercised their right to voluntarily terminate their agreements.

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

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

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

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

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

17. Investment property

	Group £million	Company £million
Fair value		
At 1 January 2019	–	–
Additions	1.6	1.6
Transfer from property, plant and equipment	3.2	3.2
At 31 December 2019	**4.8**	**4.8**
Transfer from property, plant and equipment	–	1.1
Revaluation	(0.5)	(0.6)
At 31 December 2020	**4.3**	**5.3**

During the year, the Company transferred 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ from property, plant and equipment to investment properties at its fair value as it was being utilised by a subsidiary of the Company. The Directors assessed the fair value as being the same as the valuation at December 2020.

During 2019, the Group acquired Yorke House, Arleston Way, Shirley, Solihull, B90 4LH, half of which was let to third party occupiers. Accordingly, 50% of this property, excluding land, was classified as an investment property at its fair value. The Directors assessed the fair value as being 50% of the original purchase price excluding land and VAT and stamp duty.

Also during 2019, the Group vacated its portion of Secure Trust House, Boston Drive, Bourne End, SL8 5YS, and let the space to one of its existing third party occupiers. Accordingly, this property was transferred from property, plant and equipment to investment properties at its fair value. The Directors assessed the fair value as being the same as the valuation at December 2018 performed by Knight Frank LLP.

Investment properties are stated at fair value at December 2020. The Directors have assessed the value of the freehold property at the year-end through comparison to current rental yields on similar properties in the same area.

18. Property, plant and equipment

Group

	Freehold land and buildings £million	Leasehold property	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2019	8.2	0.1	10.7	19.0
Additions	3.5	–	2.0	5.5
Disposals	–	–	(4.5)	(4.5)
Revaluation	(1.1)	–	–	(1.1)
Transfer from intangible assets	–	–	0.2	0.2
Transfer to investment property	(3.2)	–	–	(3.2)
At 31 December 2019	**7.4**	**0.1**	**8.4**	**15.9**
Additions	–	–	0.8	0.8
Revaluation	(0.8)	–	–	(0.8)
Transfer to intangible assets	–	–	(0.1)	(0.1)
At 31 December 2020	**6.6**	**0.1**	**9.1**	**15.8**

Accumulated depreciation				
At 1 January 2019	–	–	(8.0)	(8.0)
Depreciation charge	(0.2)	–	(1.0)	(1.2)
Disposals	–	–	4.5	4.5
Revaluation	0.2	–	–	0.2
Transfer from intangible assets	–	–	(0.1)	(0.1)

At 31 December 2019	**–**	–	**(4.6)**	**(4.6)**
Depreciation charge	(0.1)	–	(1.3)	(1.4)
Revaluation	0.1	–	–	0.1
At 31 December 2020	–	–	**(5.9)**	**(5.9)**

Net book amount				
At 31 December 2019	**7.4**	**0.1**	**3.8**	**11.3**
At 31 December 2020	**6.6**	**0.1**	**3.2**	**9.9**

Company

	Freehold property £million	Computer and other equipment £million	Total £million
Cost or valuation			
At 1 January 2019	4.6	8.6	13.2
Additions	3.5	1.8	5.3
Disposals	–	(4.5)	(4.5)
Revaluation	(1.4)	–	(1.4)
Transfer from intangible assets	–	0.2	0.2
Transfer to investment properties	(3.2)	–	(3.2)
At 31 December 2019	**3.5**	**6.1**	**9.6**
Additions	–	0.3	0.3
Transfer to investment property	(1.1)	–	(1.1)
Revaluation	(0.3)	–	(0.3)
At 31 December 2020	**2.1**	**6.4**	**8.5**
Accumulated depreciation			
At 1 January 2019	(0.3)	(6.9)	(7.2)
Depreciation charge	(0.1)	(0.6)	(0.7)
Disposals	–	4.5	4.5
Transfer from intangible assets	–	(0.1)	(0.1)
Revaluation	0.4	–	0.4
At 31 December 2019	–	**(3.1)**	**(3.1)**
Depreciation charge	(0.1)	(0.9)	(1.0)
Revaluation	0.1	–	0.1
At 31 December 2020	–	**(4.0)**	**(4.0)**
Net book amount			
At 31 December 2019	**3.5**	**3.0**	**6.5**
At 31 December 2020	**2.1**	**2.4**	**4.5**

The Company's freehold properties comprise:

- the Registered Office of the Company, which is fully utilised for the Company's and Group's own purposes
- Yorke House, Arleston Way, Shirley B90 4LH, 50% of which is used for the Company's and Group's own purposes

The Group's freehold properties comprise the above properties, and:

- 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ, which is fully utilised for the Group's own purposes

Freehold properties are stated at fair value as at December 2020. The Directors have assessed the value of the freehold property at the year-end through comparison to current rental yields on similar properties in the same area, which resulted in the following revaluation movements:

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Revaluation (deficit)/surpluses recognised in other comprehensive income	**(0.4)**	**0.2**	**–**	**0.1**
Revaluation deficit recognised in the income statement	**(0.3)**	**(1.1)**	**(0.2)**	**–**

The revaluation deficit in 2019 arose from stamp duty and irrecoverable VAT incurred on the acquisition of a freehold property during the year.

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.3 million (2019: £1.5 million).

The historical cost of freehold property included at fair value is as follows:

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Cost	5.4	6.8	1.6	3.0
Depreciation	(1.6)	(1.6)	–	(0.1)
Net book value	**3.8**	**5.2**	**1.6**	**2.9**

The Company historical cost at December 2019 has been restated, in order to correctly reflect the valuation.

19. Leasing right-of-use assets

Group

	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost			
On transition at 1 January 2019	4.2	0.3	4.5
At 31 December 2019	**4.2**	**0.3**	**4.5**
Additions	0.2	0.1	0.3
At 31 December 2020	**4.4**	**0.4**	**4.8**
Accumulated depreciation			
Depreciation charge	(0.7)	(0.2)	(0.9)
At 31 December 2019	**(0.7)**	**(0.2)**	**(0.9)**
Depreciation charge	(0.6)	(0.1)	(0.7)
Impairment	(0.3)	–	(0.3)
At 31 December 2020	**(1.6)**	**(0.3)**	**(1.9)**
Net book amount			
At 31 December 2019	**3.5**	**0.1**	**3.6**
At 31 December 2020	**2.8**	**0.1**	**2.9**

Company

	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost			
On transition at 1 January 2019	2.9	0.2	3.1

At 31 December 2019	**2.9**	**0.2**	**3.1**
Additions	0.2	–	0.2
At 31 December 2020	**3.1**	**0.2**	**3.3**

Accumulated depreciation			
Depreciation charge	(0.5)	(0.1)	(0.6)
At 31 December 2019	**(0.5)**	**(0.1)**	**(0.6)**
Depreciation charge	(0.4)	(0.1)	(0.5)
Impairment	(0.2)	–	(0.2)
At 31 December 2020	**(1.1)**	**(0.2)**	**(1.3)**

Net book amount			
At 31 December 2019	**2.4**	**0.1**	**2.5**
At 31 December 2020	**2.0**	–	**2.0**

20. Intangible assets

Group

	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2019	1.0	17.0	2.2	20.2
Additions	–	1.1	–	1.1
Transfers to property, plant and equipment	–	(0.2)	–	(0.2)
Disposals	–	(1.2)	–	(1.2)
At 31 December 2019	**1.0**	**16.7**	**2.2**	**19.9**
Additions	–	1.1	–	1.1
Transfers from property, plant and equipment	–	0.1	–	0.1
Disposals	–	(1.3)	–	(1.3)
At 31 December 2020	**1.0**	**16.6**	**2.2**	**19.8**
Accumulated amortisation				
At 1 January 2019	–	(8.9)	(1.4)	(10.3)
Amortisation charge	–	(1.7)	(0.2)	(1.9)
Transfers to property, plant and equipment	–	0.1	–	0.1
Disposals	–	1.2	–	1.2
At 31 December 2019	–	**(9.3)**	**(1.6)**	**(10.9)**
Amortisation charge	–	(1.8)	(0.2)	(2.0)
Disposals	–	0.8	–	0.8
At 31 December 2020	–	**(10.3)**	**(1.8)**	**(12.1)**
Net book amount				
At 31 December 2019	**1.0**	**7.4**	**0.6**	**9.0**
At 31 December 2020	**1.0**	**6.3**	**0.4**	**7.7**

Goodwill above relates to the following cash generating units, which are part of the Retail Finance operating segment:

	2020 £million	2019 £million
Music business	0.3	0.3
V12	0.7	0.7
Total	**1.0**	**1.0**

The recoverable amount of these cash generating units are determined on a value in use calculation which uses cash flow projections based on financial forecasts covering a three-year period, and a discount rate of 8% (2019: 8%). Cash flow projections during the forecast period are based on the expected rate of new business. A zero growth based scenario is also considered. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

Other intangible assets were recognised as part of the V12 Finance Group acquisition. These were recorded at fair value, and are being amortised on a straight-line basis as follows:

	Years
Distribution channel	10

Company

	Goodwill £million	Computer software £million	Total £million
Cost or valuation			
At 1 January 2019	0.3	12.9	13.2
Additions	–	1.0	1.0
Transfers to property, plant and equipment	–	(0.2)	(0.2)
Disposals	–	(1.3)	(1.3)
At 31 December 2019	**0.3**	**12.4**	**12.7**
Additions	–	0.9	0.9
Disposals	–	(1.3)	(1.3)
At 31 December 2020	**0.3**	**12.0**	**12.3**
Accumulated amortisation			
At 1 January 2019	–	(5.1)	(5.1)
Amortisation charge	–	(1.6)	(1.6)
Transfer to property, plant and equipment	–	0.1	0.1
Disposals	–	1.3	1.3
At 31 December 2019	–	**(5.3)**	**(5.3)**
Amortisation charge	–	(1.6)	(1.6)
Disposals	–	0.8	0.8
At 31 December 2020	–	**(6.1)**	**(6.1)**
Net book amount			
At 31 December 2019	**0.3**	**7.1**	**7.4**
At 31 December 2020	**0.3**	**5.9**	**6.2**

Goodwill above relates to the music business cash generating unit, which is part of the Retail Finance operating segment. The recoverable amount is determined on the same basis as for the Group.

21. Investments in group undertakings

Company

	£million
Cost and net book value	
At 1 January 2019	3.9
Equity contributions to subsidiaries in respect of share options	0.2
At 31 December 2019 and 31 December 2020	**4.1**

Shares in subsidiary undertakings of Secure Trust Bank PLC are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. All are 100% owned by the Company. The subsidiary undertakings were all incorporated in the UK and wholly owned via ordinary shares. All subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

Details are as follows:

	Principal activity
Owned directly	
Debt Managers (Services) Limited	Debt management
Secure Homes Services Limited	Property rental
STB Leasing Limited	Leasing
V12 Finance Group Limited	Holding company
Owned indirectly via intermediate holding companies	
V12 Personal Finance Limited	Dormant
V12 Retail Finance Limited	Sourcing and servicing of unsecured loans

The registered office of the Company, and all subsidiary undertakings, is One Arleston Way, Shirley, Solihull, West Midlands B90 4LH.

Secure Homes Services Limited, STB Leasing Limited and V12 Personal Finance Limited are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of s479A, and the Company has given guarantees accordingly under s479C in respect of the years ended 31 December 2020 and 31 December 2019.

22. Deferred taxation

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Deferred tax assets:				
Other short-term timing differences	5.9	7.5	6.4	8.1
Deferred tax assets	**5.9**	**7.5**	**6.4**	**8.1**

Deferred tax assets:				
Prior period closing	7.5	7.9	8.1	7.8
Tax on IFRS 16 transition adjustment	–	0.2	–	0.2
At 1 January	7.5	8.1	8.1	8.0
Income statement	(1.4)	(0.7)	(1.3)	(0.2)
Other comprehensive income	(0.2)	0.1	(0.4)	0.3
At 31 December	**5.9**	**7.5**	**6.4**	**8.1**

23. Other assets

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Other receivables	3.3	5.2	2.3	4.5

Amounts due from related companies	–	–	90.9	88.5
Cloud software development prepayment	8.2	6.4	8.2	6.4
Other prepayments and accrued income	7.7	5.7	6.6	4.4
	19.2	**17.3**	**108.0**	**103.8**

Cloud software development costs of £8.2 million (2019: £6.4 million) that do not meet the intangible asset recognition criteria are included within other prepayments and accrued income. The costs principally relate to the Group's Motor Transformation Programme, and once the software comes into use will be expensed to the income statement over the useful economic life of the software.

24. Due to banks

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Amounts due under the Bank of England's liquidity support operations and Term Funding Scheme	273.0	308.0	273.0	308.0
Amounts due to other credit institutions	3.3	–	3.3	–
Accrued interest	0.1	0.5	0.1	0.5
	276.4	**308.5**	**276.4**	**308.5**

25. Deposits from customers

Group and Company

	2020 £million	2019 £million
Instant access accounts	81.4	22.6
Term deposits and notice accounts	1,781.5	1,959.3
Individual Savings Accounts	129.6	38.4
	1,992.5	**2,020.3**

26. Lease liabilities

Group

	2020 £million	2019 £million
At 1 January	4.5	–
On transition	–	5.5
New leases	0.3	–
Payments	(1.0)	(1.1)
Interest expense	0.1	0.1
At 31 December	**3.9**	**4.5**
Lease liabilities – Gross		
– No later than one year	0.9	1.0
– Later than one year and no later than five years	3.0	3.0
– More than five years	0.3	0.9
	4.2	4.9
Less: Future finance expense	(0.3)	(0.4)
	3.9	**4.5**
Lease liabilities – Net		
– No later than one year	0.9	0.9
– Later than one year and no later than five years	2.7	2.8
– More than five years	0.3	0.8

	3.9	**4.5**

Company

	2020 £million	2019 £million
At 1 January	3.3	–
On transition	–	4.0
New leases	0.2	–
Payments	(0.7)	(0.8)
Interest expense	0.1	0.1
At 31 December	**2.9**	**3.3**
Lease liabilities – Gross		
– No later than one year	0.7	0.7
– Later than one year and no later than five years	2.4	2.9
	3.1	3.6
Less: Future finance expense	(0.2)	(0.3)
Lease liabilities – Net	**2.9**	**3.3**
Lease liabilities – Gross		
– No later than one year	0.6	0.7
– Later than one year and no later than five years	2.3	2.6
	2.9	**3.3**

27. Other liabilities

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Other payables	46.2	27.2	41.1	25.5
Amounts due to related companies	–	–	12.6	5.5
Accruals and deferred income	10.1	13.7	8.1	11.0
	56.3	**40.9**	**61.8**	**42.0**

28. Provisions for liabilities and charges

Group and Company

	Customer redress £million	ECL allowance on loan commitments £million	Other £million	Total £million
Balance at 1 January 2019	0.8	0.4	0.1	1.3
Release to income statement	(0.6)	–	–	(0.6)
Balance at 31 December 2019	**0.2**	**0.4**	**0.1**	**0.7**
(Release)/charge to income statement	(0.2)	0.7	1.4	1.9
Utilised	–	–	(0.7)	(0.7)
Balance at 31 December 2020	–	**1.1**	**0.8**	**1.9**

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

The Financial Conduct Authority announced a deadline for making these customer redress claims, which gave consumers until 29 August 2019 to make a claim, so no further claims were accepted after this date. At 31 December 2020, all such claims had been settled and therefore no further customer redress provision was required.

ECL allowance on loan commitments
In accordance with the requirements of IFRS 9 the Group holds an ECL allowance against loans it has committed to lend but have not yet been drawn. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 31 December 2020 no provision was held for losses in excess of drawn amounts.

Other
Other includes provision for fraud, which 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, restructuring provision and s75 Consumer Credit Act 1974 provision.

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

29. Subordinated liabilities

Group and Company

	2020 £million	2019 £million
Notes at par value	50.0	50.0
Unamortised issue costs	(0.4)	(0.6)
Accrued interest	1.2	1.2
	50.8	**50.6**

Subordinated liabilities comprises two tranches of 6.75% Fixed Rate Reset Callable Subordinated Notes due 2028 ('the Notes') issued in 2018. The Notes mature in 2028 but the issuer may at its discretion redeem the Notes in 2023. The Notes are listed on the Global Exchange Market of the Irish Stock Exchange plc trading as Euronext Dublin.

- The Notes are redeemable for cash at their principal amount on a fixed date
- The Company has a call option to redeem the securities early in the event of a 'tax event' or a 'capital disqualification event', which is at the full discretion of the Company
- Interest payments are paid at six monthly intervals and are mandatory
- The Notes give the holders rights to the principal amount on the Notes, plus any unpaid interest, on liquidation. Any such claims are subordinated to senior creditors, but rank pari passu with holders of other subordinated obligations and in priority to holders of share capital

The above features provide the issuer with a contractual obligation to deliver cash or another financial asset to the holders, and therefore the Notes are classified as financial liabilities.

Transaction costs that are directly attributable to the issue of the Notes and are incremental costs that would not have been incurred if the Notes had not been issued are deducted from the financial liability and expensed to the income statement on an effective interest rate basis over the expected life of the notes.

The Notes are treated as Tier 2 regulatory capital which is used to support the continuing growth of the business taking into account increases in regulatory capital buffers. The issue of the Notes is part of an ongoing programme to diversify and expand the capital base of the Group.

30. Contingent liabilities and commitments

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

30.2 Capital commitments
At 31 December 2020, the Group and Company had no capital commitments (2019: £nil).

30.3 Credit commitments

Group and Company
Commitments to extend credit to customers were as follows:

	2020 £million	2019 £million
Business Finance		
Real Estate Finance	63.5	120.9
Commercial Finance	128.5	48.7
Consumer Finance		
Retail Finance	69.3	33.2
Motor Finance	0.2	0.5
	261.5	**203.3**

31. Share capital

	Number	£million
At 1 January 2019 and 31 December 2019	18,477,500	7.4
Issued during 2020	156,162	0.1
At 31 December 2020	**18,633,662**	**7.5**

Share capital comprises ordinary shares with a par value of 40 pence each.

32. Share-based payments

At 31 December 2020 and 31 December 2019, 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 movements in share options during the year is set out below:

	Outstanding at 1 January 2020 Number	Granted during the year Number	Forfeited lapsed and cancelled during the year Number	Exercised during the year Number	Outstanding at 31 December 2020 Number	Vested and exercisable at 31 December 2020 Number	Vesting dates	Weighted average exercise price of options outstanding at 31 December 2019 £	Weighted average exercise price of options outstanding at 31 December 2020 £
Equity settled									
Share option scheme	141,667	–	–	(141,667)	–	–	2016	–	7.20
2017 long term incentive plan	263,094	267,602	(54,951)	(2,649)	473,096	6,128	2021–2023	0.40	0.40
2017 sharesave plan	163,642	486,254	(77,432)	–	572,464	57,724	2021–2023	6.42	12.28
2017 deferred bonus plan	29,662	35,040	-	(13,383)	51,319	–	2021–2023	0.40	0.40
	598,065	**788,896**	**(132,283)**	**(157,699)**	**1,096,879**	**63,852**		**4.22**	**5.26**

Cash settled									
‘Phantom’ share option scheme	**281,667**	–	**–**	–	**281,667**	**281,667**	**2019**	**25.00**	**25.00**

	Group 2020 £million	Group 2019 £million	**Company 2020 £million**	Company 2019 £million
Expense incurred in relation to share-based payments	–	**1.2**	–	**1.0**

32.1. Share option scheme

The remaining 141,667 outstanding share options under this scheme were exercised during the year.

The intrinsic value of the unexercised options at 31 December 2019 was £1.2 million.

32.2. Long term incentive plan

The long term incentive plan was established on 3 May 2017.

2020 awards under this plan granted during the year are subject to four performance conditions, which are based on:

- rank of the total shareholder return (‘TSR’) over the performance period against the TSR of the comparator group of peer group companies
- rank of the TSR over the performance period against the TSR of the FTSE Small Cap Index
- growth of the TSR in absolute terms
- maintaining appropriate risk practices over the performance period reflecting the longer-term strategic risk management of the Group

2019 awards under this plan were subject to three performance conditions, which are based on:

- annual compound growth in earnings per share (‘EPS’) over the performance period
- rank of the TSR over the performance period against the TSR of the comparator group of peer group companies
- maintaining appropriate risk practices over the performance period reflecting the longer-term strategic risk management of the Group

The awards will vest on the date on which the Board determines that these conditions have been met.

The awards have a performance term of three years, and will be released to the participants on the vesting date. In 2019, those awards granted to the Executive Directors were subject to a holding period of two years following the vesting date, and those awards not subject to a holding period will be released to the participants on the vesting date. Vested options are exercisable for a period of 10 years from the date of grant.

The following awards have been granted under the plan, entitling a former Executive Director and certain other key senior employees to purchase shares in the Company:

	Subject to a holding period Number	Subject to no holding period Number	Total Number
At 1 January 2019	63,896	97,701	161,597
Granted	54,312	79,734	134,046
Forfeited, lapsed and cancelled	(32,549)	–	(32,549)
At 31 December 2019	**85,659**	**177,435**	**263,094**
Granted	–	267,602	267,602
Forfeited, lapsed and cancelled	(22,385)	(32,566)	(54,951)
Exercised	–	(2,649)	(2,649)
At 31 December 2020	**63,274**	**409,822**	**473,096**

Of the share options exercised during the year, 1,112 were exercised for shares, and 1,537 were exercised for a cash alternative at a deemed market price of £9.11.

The original grant date valuation was determined using a Black-Scholes model for the EPS and risk management tranches, and a Monte Carlo model for the TSR tranche. Measurement inputs and assumptions used for the grant date valuation were as follows:

	Granted 2020 Subject to no holding period	Granted 2019 Subject to a holding period	Granted 2019 Subject to no holding period
Share price at grant date	£7.32	£15.20	£15.20
Exercise price	£0.40	£0.40	£0.40
Expected dividend yield	4.18%	6.18%	6.18%
Expected stock price volatility	43.87%	25.9%	29.1%
Risk free interest rate	-0.07%	0.86%	0.72%
Average expected life (years)	3.00	5.00	3.00
Discount for lack of marketability during holding period	N/A	10.0%	N/A
Original grant date valuation	**£4.08**	**£9.02**	**£10.48**

32.3. Sharesave plan

The sharesave plan was established on 3 May 2017.

This plan allows all employees to save for three years, subject to a maximum monthly amount of £500, with the option to buy shares in Secure Trust Bank PLC when the plan matures. Participants cannot change the amount that they have agreed to save each month but they can suspend payments for up to six months. Participants can withdraw their savings at any time but, if they do this before the completion date, they lose the option to buy shares at the Option Price, and if participants cease to hold plan-related employment before the third anniversary of the grant date, then the options are also lost. The options ordinarily vest approximately three years after grant date, and are exercisable for a period of six months following vesting.

The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used were as follows:

	Awarded during 2020	Awarded during 2019
Share price at grant date	£6.32	£13.00
Exercise price	£5.31	£10.64
Expected stock price volatility	44.97%	28.34%
Expected dividend yield	13.92%	6.77%
Risk free interest rate	0.00%	0.46%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£0.93**	**£2.10**

32.4. Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

Since 2017, 50% of the bonus earned by the Executive Directors, amounting to £270,000 (2019: £450,000), is deferred into shares under the deferred bonus plan. In 2020, awards were also granted to certain other Senior Managers of the Group. The awards vest in three equal tranches after one, two and three years following deferral. Accordingly, the following awards remain outstanding under the plan, entitling the members of the scheme to purchase shares in the Company:

	Awards granted Vesting after one year Number	Awards granted Vesting after two years Number	Awards granted Vesting after three years Number	Awards granted Total
At 1 January 2019	4,896	4,896	4,898	14,690
Granted	9,591	9,591	9,593	28,775
Exercised	(1,399)	–	–	(1,399)
Cancelled	(3,202)	(4,601)	(4,601)	(12,404)

At 31 December 2019	**9,886**	**9,886**	**9,890**	**29,662**
Granted	11,679	11,679	11,682	35,040
Exercised	(9,886)	(3,497)	–	(13,383)
At 1 December 2020	**11,679**	**18,068**	**21,572**	**51,319**

Vested and exercisable	–	–	–	–

The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used were as follows:

	Granted 2020 Awards vesting after one year	**Granted 2020 Awards vesting after two years**	**Granted 2020 Awards vesting after three years**	Granted 2019 Awards vesting after one year	Granted 2019 Awards vesting after two years	Granted 2019 Awards vesting after three years
Share price at grant date	£7.32	£7.32	£7.32	£11.90	£11.90	£11.90
Exercise price	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40
Expected dividend yield	12.02%	12.02%	12.02%	7.06%	7.06%	7.06%
Expected stock price volatility	66.54%	53.01%	45.76%	27.34%	24.79%	28.82%
Risk free interest rate	0.00%	0.00%	0.00%	0.74%	0.74%	0.76%
Average expected life (years)	1.00	2.00	3.00	1.00	2.00	3.00
Original grant date valuation	**£6.09**	**£5.36**	**£4,70**	**£10.69**	**£9.94**	**£9.59**

32.5. Cash settled share-based payments

On 16 March 2015, a four-year 'phantom' share option scheme was established in order to provide effective long term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by the Company, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an ordinary share in the Company over an initial value set at £25 per ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the share option scheme were sold in November 2014.

As at 31 December 2020, 281,667 (2019: 281,667) share options remained outstanding. The options vested during 2019 and are exercisable for a period of 10 years after grant date.

As at 31 December 2020, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	2020	2019
Share price at reporting date	£8.75	£16.00
Expected stock price volatility	45.89%	30.34%
Expected dividend yield	10.06%	5.5%
Risk free interest rate	0.00%	0.60%
Average expected life (years)	4.92	2.60
Fair value	**£0.30**	**£0.53**

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

	2020 £million	2019 £million
Liability	**0.2**	**0.2**

The fair value at December 2020 and December 2019 was not used to calculate the liability, as management concluded that it was appropriate to hold the accrual at the same level as 2018 because the options can be exercised at any point during the seven years after vesting, and given high levels of share price volatility at that date.

For each award granted during the year, expected volatility was determined by calculating the historical volatility of the Group's share price over the period equivalent to the expected term of the options being granted. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

33. Cash flow statement

33.1. Cash and cash equivalents

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

	Group 2020 £million	Restated Group 2019 £million	**Company 2020 £million**	Restated Company 2019 £million
Cash and balances at central banks	181.5	105.8	181.5	105.8
Loans and advances to banks (Note 12)	63.3	48.4	61.7	45.2
Less restricted cash (Note 12)	(12.7)	(9.2)	(12.7)	(9.2)
	232.1	**145.0**	**230.5**	**141.8**

In 2019, £9.2 million was presented as cash and cash equivalents, which was restricted. The table and the cash flow statements have been restated to reflect this.

33.2. Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £0.1 million (2019: £0.1 million) of lease liabilities interest expense, as shown in Note 26, and £0.2 million (2019: £0.2 million) amortisation of issue costs on subordinated liabilities, as shown in Note 29.

34. Financial risk management strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The Directors and senior management of the Group have formally adopted a Group risk appetite statement which sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

A more detailed description of the risk governance structure is contained in the Strategic Report beginning on page 38 of the Annual Report and Accounts.

The principal financial risks inherent in the Group's business are credit risk (Note 35), market risk (Note 36), liquidity risk (Note 37), and capital risk (Note 38).

35. Credit risk

The Company and Group take 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. Actual exposures are monitored on a daily basis, and the limits on the level of credit risk are approved periodically by the Board of Directors.

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

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 lending limits where appropriate. Exposure to credit risk for these portfolios is also managed in part by obtaining collateral, principally motor vehicles on Motor Finance loans, residential property on Consumer Mortgages and a credit support balance provided by RentSmart. Customers undergo a scoring process to mitigate risk, and policy rules around the assets 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, and is currently closed to new business. The loans are secured against the assets lent against (real estate, trade receivables and commercial plant and equipment. Disclosures relating to collateral on loans and advances to customers are disclosed in Note 14.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. Disclosures of these at the year-end are contained in Note 12. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

Group

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

	Stage 1	**Stage 2**			**Stage 3**			**Total**
	£million	**<= 30 days past due £million**	**> 30 days past due £million**	**Total £million**	**Excl. purchased credit-impaired £million**	**Purchased credit-impaired £million**	**Total £million**	**£million**
31 December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								
Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Motor Finance	173.7	87.2	2.6	89.8	22.6	–	22.6	286.1
Debt Management	–	–	–	–	11.7	77.1	88.8	88.8
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	4.1	–	–	–	–	–	–	4.1
Total drawn exposure	**1,915.3**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,441.6**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,176.8**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,703.1**
Less:								
Impairment allowance	(27.1)	(22.7)	(4.5)	(27.2)	(21.7)	(6.7)	(28.4)	(82.7)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,148.6**	**315.8**	**41.1**	**356.9**	**43.4**	**70.4**	**113.8**	**2,619.3**

£35.4 million of collateral in the form pf property has been pledged as security for Real Estate Finance Stage 3 balances of £24.0 million. £9.9 million of collateral in the form of motor vehicles has been pledged as security for Motor Finance Stage 3 balances of £22.5 million.

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2019								
Business Finance								
Real Estate Finance	910.2	33.7	2.8	36.5	16.1	–	16.1	962.8

Asset Finance	23.8	3.6	0.3	3.9	1.8	–	1.8	29.5
Commercial Finance	245.0	7.0	–	7.0	0.6	–	0.6	252.6
Consumer Finance								
Retail Finance	624.1	80.3	4.5	84.8	5.5	–	5.5	714.4
Motor Finance	240.5	96.9	2.7	99.6	17.2	–	17.2	357.3
Debt Management	–	–	–	–	10.3	70.0	80.3	80.3
Consumer Mortgages	105.6	–	0.3	0.3	0.3	–	0.3	106.2
Other	7.6	–	–	–	–	–	–	7.6
Total drawn exposure	**2,156.8**	**221.5**	**10.6**	**232.1**	**51.8**	**70.0**	**121.8**	**2,510.7**
Off balance sheet								
Loan commitments	203.3	–	–	–	–	–	–	203.3
Total gross exposure	**2,360.1**	**221.5**	**10.6**	**232.1**	**51.8**	**70.0**	**121.8**	**2,714.0**
Less:								
Impairment allowance	(21.6)	(19.8)	(4.3)	(24.1)	(17.0)	2.1	(14.9)	(60.6)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,338.1**	**201.7**	**6.3**	**208.0**	**34.8**	**72.1**	**106.9**	**2,653.0**

A reconciliation of opening to closing allowance for impairment of loans and advances to customers is presented in Note 16.

Company

The Group's maximum exposure to credit risk for loans and advances to customers by portfolio and IFRS 9 stage without taking account of any collateral held or other credit enhancements attached was as follows:

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								
Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Motor Finance	174.0	87.5	2.6	90.1	22.5	–	22.5	286.6
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	0.5	–	–	–	–	–	–	0.5
Total drawn exposure	**1,912.0**	**338.8**	**45.6**	**384.4**	**53.3**	–	**53.3**	**2,349.7**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,173.5**	**338.8**	**45.6**	**384.4**	**53.3**	–	**53.3**	**2,611.2**
Less:								
Impairment allowance	(28.1)	(24.2)	(4.7)	(28.9)	(22.9)	–	(22.9)	(79.9)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)

Total net exposure	**2,144.3**	**314.6**	**40.9**	**355.5**	**30.4**	–	**30.4**	**2,530.2**

	Stage 1			Stage 2			Stage 3	Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2019								
Business Finance								
Real Estate Finance	910.2	33.7	2.8	36.5	16.1	–	16.1	962.8
Asset Finance	23.8	3.6	0.3	3.9	1.8	–	1.8	29.5
Commercial Finance	244.0	7.0	–	7.0	0.6	–	0.6	251.6
Consumer Finance								
Retail Finance	624.1	80.3	4.5	84.8	5.5	–	5.5	714.4
Motor Finance	240.5	96.9	2.7	99.6	17.2	–	17.2	357.3
Consumer Mortgages	105.6	–	0.3	0.3	0.3	–	0.3	106.2
Other	0.5	–	–	–	–	–		0.5
Total drawn exposure	**2,148.7**	**221.5**	**10.6**	**232.1**	**41.5**	**–**	**41.5**	**2,422.3**
Off balance sheet								
Loan commitments	203.3	–	–	–	–	–	–	203.3
Total gross exposure	**2,352.0**	**221.5**	**10.6**	**232.1**	**41.5**	**–**	**41.5**	**2,625.6**
Less:								
Impairment allowance	(22.8)	(22.1)	(4.8)	(26.9)	(19.0)	–	(19.0)	(68.7)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,328.8**	**199.4**	**5.8**	**205.2**	**22.5**	**–**	**22.5**	**2,556.5**

35.1. Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations the Directors consider the lending operations of the Group as a whole to be well diversified. Details of the Group's loans and advances to customers and loan commitments by product is provided in Notes 3 and 30 respectively.

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 customers, by location of the security is as follows:

Group and Company

	Real Estate Finance £million	**Consumer Mortgages £million**
31 December 2020		
Central England	139.7	14.6
Greater London	638.4	10.2
Northern England	65.8	16.2
South East England (excl. Greater London)	171.3	25.6
South West England	18.1	7.3
Scotland, Wales and Northern Ireland	24.0	4.0
Gross loans and receivables	1,057.3	77.9
Allowance for impairment	(5.4)	(0.2)
Total	**1,051.9**	**77.7**

	Real Estate Finance £million	Consumer Mortgages £million
31 December 2019		
Central England	127.1	19.9
Greater London	601.8	13.5
Northern England	48.5	21.2
South East England (excl. Greater London)	160.8	35.3
South West England	12.8	11.0
Scotland, Wales and Northern Ireland	11.8	5.3
Gross loans and receivables	962.8	106.2
Allowance for impairment	(0.6)	(0.3)
Total	**962.2**	**105.9**

35.2. Forbearance

During the year Business Finance and Consumer Finance offered payment holidays to customers to manage the impact of COVID-19.

Business Finance

- Real Estate Finance: Where clients provided evidence of payment difficulties, the business supported clients by providing one, or both of extensions to maturity dates and altered payment profiles to provide short-term payment holidays for all or part of rentals due. In total, 15% of customers by volume had been granted a form of payment holiday during the year. As at 31 December 2020 this fell to 1%, falling to nil shortly after year end.
- Asset Finance: The Group agreed to support its customers with short-term payment reductions and/or payment holidays where requested. During the year, the volume of customers who were granted payment holidays was around 65%, falling to 2% as at 31 December 2020.

Consumer Finance

- Retail Finance: Approximately 2.1% of customers were granted payment holidays, with only 0.5% remaining on a payment holiday as at 31 December 2020
- Motor Finance: Approximately 15.6% of customers were granted payment holidays, with only 1.2% remaining on a payment holiday as at 31 December 2020
- Consumer Mortgages A significant proportion of customers were granted payment holidays during 2020. The majority of these had returned to regular payments, with just 3% of customers remaining on a payment holiday as at 31 December 2020

Where consumer customers have come to the end of their payment holiday, under COVID-19 arrangements, and have been unable to return to regular payments, they have been provided with a reduced payment arrangement. In addition, a limited number of mortgage customers have been provided with a temporary switch to interest only (5 accounts).

Other than Consumer Mortgages, throughout 2020 the Group did not routinely reschedule contractual arrangements where customers default on their repayments. In cases where it offered the customer the option to reduce or defer payments for a short period, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment purposes. Arrears tracking would continue on the account with any impairment charge being based on the original contractual due dates for all products.

For mortgage customers, should they face financial difficulties, the Group may, depending on individual circumstances, offer customers one of a number of forbearance options. The types of forbearance the Group was prepared to offer included the following:

- Temporary interest-only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. Where payments are made, the arrears status will not increase
- Arrangement payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment
- Payment concessions can be agreed on a temporary basis whereby the customer may pay less than the contractual monthly payment, in line with their individual affordability. If a customer is within this type of concession, their arrears position will increase

- In exceptional circumstances, capitalisations of arrears may occur or an interest rate adjustment may be applied. These are used under strict controls, explicitly where the customer circumstances offer no other option

All forbearance arrangements are formally discussed and agreed with the customer. By offering customers in financial difficulty the option of forbearance the Group potentially exposes itself to an increased level of risk through prolonging the period of noncontractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period. All forbearance arrangements are reviewed and monitored regularly to assess the ongoing potential risk, suitability and sustainability to the Group.

Where forbearance measures are not possible or are considered not to be in the customer's best interests, or where such measures have been tried and the customer has not adhered to the forbearance terms that have been agreed, the Group will consider realising its security and taking possession of the property in order to sell it and clear the outstanding debt.

36. Market risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. There are no significant exposures to foreign currencies and therefore there is no significant currency risk. The Group does not operate a trading book.

Interest rate risk

Group and Company

Interest rate risk is the risk of potential loss through unhedged or mismatched asset and liability positions, which are sensitive to changes in interest rates. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Group's assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect the Group's earnings by altering interest sensitive income and expenses, affecting its net interest income.

The Group seeks to 'match' interest rate risk on either side of the statement of financial position. However, this is not a perfect match and interest rate risk is present on the mismatch between fixed rate loans and savings products and variable rate assets and liabilities.

The Group monitors the interest rate mismatch on at least a monthly basis using market value sensitivity and earnings at risk, which were as follows at 31 December:

	2020 £million	2019 £million
Market value sensitivity		
+200bps parallel shift in yield curve	2.2	2.6
-200bps parallel shift in yield curve	0.1	(1.0)
Earnings at risk sensitivity		
+100bps parallel shift in yield curve	1.0	0.6
-100bps parallel shift in yield curve	(0.1)	N/A

The Directors consider that 200bps in the case of Market value sensitivity and 100bps in the case of Earnings at risk are a reasonable approximation of possible changes.

A zero percent interest rate floor is applied to the above metrics. In addition to these floored metrics, the senior management team also monitors the Group's exposure to a possible negative rate environment.

The Group maintained such exposures within the risk appetite set by the Board throughout the year.

Interest rate risks inherent in new products or through changes to the terms and conditions of existing products were assessed over the course of the year.

This potential exposure is managed by the Group Treasury function and overseen by ALCO. The policy is not to take significant unmatched positions.

37. Liquidity risk

Liquidity risk is 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.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The Group has a formal governance structure in place to manage and mitigate liquidity risk on a day-to-day basis. The Board sets and approves the Group's liquidity risk management strategy. The ALCO, comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. government securities in the liquidity asset buffer), and it maintains a conservative funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities as they fall due, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The Group operates a Board approved ILAAP, which requires the Group to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with the risk appetite as established by the Board. The ILAAP seeks to document the Group's approach to liquidity and funding, and demonstrate that it complies with the Overall Liquidity Adequacy Rule ('OLAR'). The PRA's approach to liquidity supervision is based on the principle that a firm must have adequate levels of liquidity resources and a conservative funding profile, and that it comprehensively manages and controls liquidity and funding risks. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The primary measure used by management to assess the adequacy of liquidity is the OLAR, which is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP. The Group maintained liquidity in excess of the OLAR throughout the year ended 31 December 2020.

The LCR regime has applied to the Group from 1 October 2016, requiring management of net 30-day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more conservative internal limit. The actual LCR has significantly exceeded both limits throughout the year.

The Group is subject to daily calls on its available cash resources from maturing deposits and loan draw-downs and maintains significant resources to meet all of these needs as they fall due.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

The tables below analyse the contractual undiscounted cash flows for financial liabilities into relevant maturity groupings:

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2020						
Non-derivative financial liabilities						
Due to banks	276.4	276.7	13.4	113.3	150.0	–
Deposits from customers	1,992.5	2,029.3	919.4	496.5	609.7	3.7
Subordinated liabilities	50.8	59.2	0.8	2.5	55.9	–
Other financial liabilities	46.2	46.2	46.2	–	–	–
	2,365.9	**2,411.4**	**979.8**	**612.3**	**815.6**	**3.7**
Derivative financial liabilities						
Derivative financial instruments	6.1	4.6	0.5	1.5	2.6	–
	2,372.0	**2,416.0**	**980.3**	**613.8**	**818.2**	**3.7**

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2019						

Non-derivative financial liabilities						
Due to banks	308.5	312.1	0.5	46.7	264.9	–
Deposits from customers	2,020.3	2,086.4	292.3	1,055.0	706.8	32.3
Subordinated liabilities	50.6	61.8	0.9	2.5	58.4	–
Other financial liabilities	27.2	27.2	27.2	–	–	–
	2,406.6	**2,487.5**	**320.9**	**1,104.2**	**1,030.1**	**32.3**
Derivative financial liabilities						
Derivative financial instruments	0.6	0.7	0.1	0.2	0.4	–
	2,407.2	**2,488.2**	**321.0**	**1,104.4**	**1,030.5**	**32.3**

Company

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2020						
Non-derivative financial liabilities						
Due to banks	276.4	276.7	13.4	113.3	150.0	–
Deposits from customers	1,992.5	2,029.3	919.4	496.5	609.7	3.7
Subordinated liabilities	50.8	59.2	0.8	2.5	55.9	–
Other financial liabilities	41.1	41.1	41.1	–	–	–
	2,360.8	**2,406.3**	**974.7**	**612.3**	**815.6**	**3.7**
Derivative financial liabilities						
Derivative financial instruments	6.1	4.6	0.5	1.5	2.6	–
	2,366.9	**2,410.9**	**975.2**	**613.8**	**818.2**	**3.7**

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2019						
Non-derivative financial liabilities						
Due to banks	308.5	312.1	0.5	46.7	264.9	–
Deposits from customers	2,020.3	2,086.4	292.3	1,055.0	706.8	32.3
Subordinated liabilities	50.6	61.8	0.9	2.5	58.4	–
Other financial liabilities	31.0	31.0	31.0	–	–	–
	2,410.4	**2,491.3**	**324.7**	**1,104.2**	**1,030.1**	**32.3**
Derivative financial liabilities						
Derivative financial instruments	0.6	0.7	0.1	0.2	0.4	–
	2,411.0	**2,492.0**	**324.8**	**1,104.4**	**1,030.5**	**32.3**

Other financial liabilities, as shown above, do not include non-interest accruals as these are not classed as financial liabilities.

38. Capital risk

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

In accordance with CRD IV and the required parameters set out in the Capital Requirements Regulation, the Group's ICAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, as a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

The PRA sets a Total Capital Requirement (‘TCR’) for each UK bank, consisting of Pillar 1 and Pillar 2. Pillar 1 capital is calculated using standardised risk weights for credit, market and operational risk. Where it is considered that the Pillar 1 calculations do not reflect the risk, an additional capital add-on, Pillar 2, is added.

The Group ICAAP includes a summary of the capital required to mitigate the identified risks and the amount of capital that the Group has available. The ICAAP is a key input into the PRA’s supervisory review which addresses the additional capital requirements of Pillar 2 of the Basel II framework. The PRA’s approach is to monitor the available capital resources in relation to the TCR.

The Group maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to. The PRA reviewed the Group’s ICAAP in 2018 and issued its updated TCR in March 2019.

Further information on capital is included within our Pillar 3 disclosures, which can be found on the Group’s website.

The following table, which is unaudited and therefore not in scope of the independent auditor’s report, shows the regulatory capital resources for the Group. The Group has adopted the IFRS 9 transitional rules. As a response to COVID-19 the Basel Committee proposed a number of mitigation measures for the capital regime in response to the pandemic. These were enacted by the EU on 24 June 2020 as Directive EU/2020/873. This allows for any increase in IFRS 9 provisions recognised in 2020 (net of attributable deferred tax) to be added back to eligible Tier 1 capital, in addition to 70% (2018: 85%) of the initial IFRS 9 transition adjustment, and movements since IFRS 9 adoption and 31 December 2019 (net of attributable deferred tax) to be added back to eligible Tier 1 capital.

Tier 2 capital comprises solely subordinated debt, excluding accrued interest, capped at 25% of the capital requirement.

	2020 £million (unaudited)	2019 £million (unaudited)
Tier 1		
Share capital	7.5	7.4
Share premium	82.2	81.2
Retained earnings	179.9	164.4
Revaluation reserve	0.9	1.1
IFRS 9 transition adjustment	26.9	22.8
Goodwill	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(4.5)	(7.9)
CET1 capital before foreseen dividend	**291.9**	**268.0**
Proposed dividend	(8.2)	–
CET1 capital	**283.7**	**268.0**
Tier 2		
Subordinated liabilities	50.8	50.6
Less ineligible portion	(5.7)	(0.6)
Total Tier 2 capital	**45.1**	**50.0**
Own Funds	**328.8**	**318.0**
Reconciliation to total equity:		
IFRS 9 transition adjustment	(26.9)	(22.8)
Eligible subordinated liabilities	(45.1)	(50.0)
Goodwill and other intangible assets net of attributable deferred tax	5.5	8.9
Proposed dividend	8.2	–
Total equity	**270.5**	**254.1**

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

The Group raised Tier 2 capital in 2018. Further details of the capital issuance are given in Note 29.

39. Classification of financial assets and liabilities

Group

	Total carrying amount £million	**Fair value £million**	**Fair value hierarchy level**
At 31 December 2020			
Cash and balances at central banks	181.5	181.5	Level 1
Loans and advances to banks	63.3	63.3	Level 2
Debt securities	–	–	–
Loans and advances to customers	2,358.9	2,420.6	Level 3
Fair value adjustment for portfolio hedged risk	5.7	5.7	Level 3
Derivative financial instruments	4.8	4.8	Level 2
Other financial assets	3.3	3.3	Level 3
	2,617.5	**2,679.2**	
Due to banks	276.4	276.4	Level 2
Deposits from customers	1,992.5	2,010.2	Level 3
Fair value adjustment for portfolio hedged risk	4.7	4.7	Level 3
Derivative financial instruments	6.1	6.1	Level 2
Other financial liabilities	46.2	46.2	Level 3
Subordinated liabilities	50.8	50.6	Level 2
	2,376.7	**2,394.2**	

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2019			
Cash and balances at central banks	105.8	105.8	Level 1
Loans and advances to banks	48.4	48.4	Level 2
Debt securities	25.0	25.0	Level 1
Loans and advances to customers	2,450.1	2,416.2	Level 3
Fair value adjustment for portfolio hedged risk	(0.9)	(0.9)	Level 3
Derivative financial instruments	0.9	0.9	Level 2
Other financial assets	5.2	5.2	Level 3
	2,634.5	**2,600.6**	
Due to banks	308.5	308.5	Level 2
Deposits from customers	2,020.3	2,016.9	Level 3
Fair value adjustment for portfolio hedged risk	(0.7)	(0.7)	Level 3
Derivative financial instruments	0.6	0.6	Level 2
Other financial liabilities	27.2	27.2	Level 3
Subordinated liabilities	50.6	50.6	Level 2
	2,406.5	**2,403.1**	

All financial assets and liabilities at 31 December 2020 and 31 December 2019 were carried at amortised cost, except for derivative financial instruments which are value at fair value through profit and loss. Therefore, for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

Company

	Total carrying amount £million	**Fair value £million**	**Fair value hierarchy level**
At 31 December 2020			
Cash and balances at central banks	181.5	181.5	Level 1
Loans and advances to banks	61.7	61.7	Level 2
Debt securities	–	–	–
Loans and advances to customers	2,269.8	2,331.3	Level 3
Fair value adjustment for portfolio hedged risk	5.7	5.7	Level 3
Derivative financial instruments	4.8	4.8	Level 2
Other financial assets	2.3	2.3	Level 3
	2,525.8	**2,587.3**	
Due to banks	276.4	276.4	Level 2
Deposits from customers	1,992.5	2,010.2	Level 3
Fair value adjustment for portfolio hedged risk	4.7	4.7	Level 3
Derivative financial instruments	6.1	6.1	Level 2
Other financial liabilities	41.1	41.1	Level 3
Subordinated liabilities	50.8	50.6	Level 2
	2,371.6	**2,389.1**	

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2019			
Cash and balances at central banks	105.8	105.8	Level 1
Loans and advances to banks	45.2	45.2	Level 2
Debt securities	25.0	25.0	Level 1
Loans and advances to customers	2,353.6	2,319.7	Level 3
Fair value adjustment for portfolio hedged risk	(0.9)	(0.9)	Level 3
Derivative financial instruments	0.9	0.9	Level 2
Other financial assets	93.0	93.0	Level 3
	2,622.6	**2,588.7**	
Due to banks	308.5	308.5	Level 2
Deposits from customers	2,020.3	2,016.9	Level 3
Fair value adjustment for portfolio hedged risk	(0.7)	(0.7)	Level 3
Derivative financial instruments	0.6	0.6	Level 2
Other financial liabilities	31.0	31.0	Level 3
Subordinated liabilities	50.6	50.6	Level 2
	2,410.3	**2,406.9**	

All financial assets and liabilities at 31 December 2020 and 31 December 2019 were carried at amortised cost except for derivative financial instruments which are valued at fair value through profit and loss. Therefore, for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Fair value classification
The tables above include the fair values and fair value hierarchies of the Group and Company's financial assets and liabilities. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Loans and advances to customers and Deposits from customers
The fair value of the financial assets and liabilities, is calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date. For loans and advances to customers, the same assumptions regarding the risk of default were applied as those used to derive the carrying value.

Debt securities
The fair value of debt securities is based on the quoted price where available.

Derivative financial instruments
The fair value of derivative financial instruments is calculated based on the present value of the expected future cash flows of the instruments. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

Subordinated liabilities
The fair value subordinated liabilities is calculated based on quoted market prices where available, or where an active market quote is not available, a proxy is used from similar issuances.

For all remaining financial assets and liabilities, the fair value of financial assets and liabilities is calculated to be equivalent to their carrying value, due to their short maturity dates.

40. Related party transactions

Related parties of the Company and Group include subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits as set out below. The tables that follow relate to Key Management Personnel, members of their close family and related entities as described above:

	2020 £million	2019 £million
Loans		
Loans outstanding at 1 January	4.4	4.2
Loans advanced	–	1.3
Loan repayments	–	(1.3)
Interest applied	–	0.2
Change in related parties during the year	**(4.0)**	–
Loans outstanding at 31 December	**0.4**	**4.4**
Deposits		
Deposits outstanding at 1 January	0.2	0.4
Change in related parties during the year	–	(0.2)
Deposits outstanding at 31 December	**0.2**	**0.2**

The loans outstanding above comprise the following:

- A £0.4 million advance (2019: £0.4 million) as part of a refinanced £0.4 million facility agreed with a company in which a member of the Key Management Personnel of the Company holds 50% of the voting shares, which is secured by property and personal guarantees

- In the prior year, a £4.0 million advance as part of a revised £4.1 million facility agreed with a member of the Key Management Personnel of the Company, who left the Group during the current year, which is secured by property and certain other undertakings

Both of these transactions were agreed by the Group's Real Estate Finance business and arose during the normal course of business. Both loans were subject to the usual Board governance and Credit Committee approval procedures and are on substantially the same terms as for comparable transactions with third parties.

The Company undertook the following transactions with other companies in the Secure Trust Bank Group:

	2020 £million	2019 £million
Interest income and similar income	(18.8)	(22.2)
Gain on sale of defaulted debt	0.2	0.2
Operating expenses	(0.8)	(1.0)
Investment income	5.7	15.1
	(13.7)	**(7.9)**

The loans and advances with, and amounts receivable and payable to, related companies are noted below:

	Company 2020 £million	Company 2019 £million
Amounts receivable from subsidiary undertakings	86.7	88.5
Amounts due to subsidiary undertakings	(12.6)	(5.5)
	74.1	**83.0**

All amounts above are repayable on demand and the Company charged interest at a variable rate on amounts outstanding.

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Directors' Remuneration Report beginning on page 83 of the Annual Report and Accounts.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' report beginning on page 98 of the Annual Report and Accounts. Details of the Directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' report.

41. Immediate parent company and ultimate controlling party

The Company has had no immediate parent company or ultimate controlling party.

42. Country-by-Country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of CRD IV. The requirements aim to give increased transparency regarding the activities of institutions.

The Country-by-Country Information is set out below:

Name	**Nature of activity**	**Location**	**Turnover £million**	**Number of FTE employees**	**Profit before tax £million**	**Tax paid on profit £million**
31 December 2020						
Secure Trust Bank PLC	Banking services	UK	208.5	1,021	20.1	4.8

Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
31 December 2019						
Secure Trust Bank PLC	Banking services	UK	212.3	979	38.7	7.6

43. Post balance sheet events

Since 31 December 2020, in response to the COVID-19 pandemic, the government has announced an extension of the furlough scheme until September 2021. This intervention is likely to impact UK unemployment and other economic variables. A further lockdown period was also put into place in 2021. The Group has concluded that neither of these events impacted the Group's results as at 31 December 2020, and both therefore are non-adjusting events.

Further information on expected Corporation Tax changes announced in the Budget in March 2021 are included in Note 9.

Five year summary (unaudited)

	2020 £million	2019 £million	2018 £million	2017 £million	2016 £million
Profit for the year					
Interest and similar income	192.5	191.4	169.2	149.3	141.1
Interest expense and similar charges	(41.6)	(46.0)	(35.5)	(26.7)	(26.3)
Net interest income	**150.9**	**145.4**	**133.7**	**122.6**	**114.8**
Net fee and commission income	15.2	20.1	17.9	14.9	14.5
Operating income	**166.1**	**165.5**	**151.6**	**137.5**	**129.3**
Impairment charge on loans and advances to customers	(51.3)	(32.6)	(32.4)	(36.9)	(30.3)
Losses on modification of financial assets	(3.1)	–	–	–	–
Operating expenses	(91.6)	(94.2)	(84.5)	(71.6)	(71.5)
Profit on sale of equity instruments available-for-sale	–	–	–	0.3	–
Profit before income tax	**20.1**	**38.7**	**34.7**	**29.3**	**27.5**

	2020 £million	2019 £million	2018 £million	2017 £million	2016 £million
Earnings per share for profit attributable to the equity holders of the Group during the year					
(expressed in pence per share) – basic	87.0	168.3	153.2	128.8	754.1

	2020 £million	2019 £million	2018 £million	2017 £million	2016 £million
Financial position					
Cash and balances at central banks	181.5	105.8	169.7	226.1	112.0
Loans and advances to banks	63.3	48.4	44.8	34.3	18.2
Debt securities	–	25.0	149.7	5.0	20.0
Loans and advances to customers	2,358.9	2,450.1	2,028.9	1,598.3	1,321.0
Fair value adjustment for portfolio hedged risk	5.7	(0.9)	–	–	–
Derivative financial instruments	4.8	0.9	–	–	–
Other assets	49.9	53.5	51.2	27.9	38.8
Total assets	**2,664.1**	**2,682.8**	**2,444.3**	**1,891.6**	**1,510.0**
Due to banks	276.4	308.5	263.5	113.0	70.0
Deposits from customers	1,992.5	2,020.3	1,847.7	1,483.2	1,151.8
Fair value adjustment for portfolio hedged risk	4.7	(0.7)	–	–	–
Derivative financial instruments	6.1	0.6	–	–	–
Subordinated liabilities	50.8	50.6	50.4	–	–
Other liabilities	63.1	49.4	45.6	46.3	52.2
Total shareholders' equity	270.5	254.1	237.1	249.1	236.0
Total liabilities and shareholders' equity	**2,664.1**	**2,682.8**	**2,444.3**	**1,891.6**	**1,510.0**

Appendix to the Annual Report (unaudited)

Key performance indicators

(i) Margin ratios

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book; net revenue margin is calculated as operating income for the financial period as a percentage of the average loan book and gross revenue margin is calculated as interest income and similar income plus fee and commission income for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over 13 months:

	2020 £million	2019 £million
Net interest margin		
Interest income and similar income	192.5	191.4
Interest expense and similar charges	(41.6)	(46.0)
Net interest income	150.9	145.4
Net revenue margin		
Net interest income	150.9	145.4
Net fee and commission income	15.2	20.1
Operating income	166.1	165.5
Gross revenue margin		
Interest income and similar income	192.5	191.4
Fee and commission income	16.0	20.9
Gross revenue	208.5	212.3
Opening loan book	2,450.1	2,028.9
Closing loan book	2,358.9	2,450.1
Average loan book	2,406.0	2,252.4
Net interest margin	**6.3%**	**6.5%**
Net revenue margin	**6.9%**	**7.3%**
Gross revenue margin	**8.7%**	**9.4%**

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

(ii) Cost ratios

Cost of risk is calculated as the impairment charge 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:

	2020 £million	2019 £million
Net impairment charge on loans and advances to customers	51.3	32.6
Losses on modification of financial assets	3.1	–
Total loan impairment charges	54.4	32.6
Average loan book	2,406.0	2,252.4
Cost of risk	**2.3%**	**1.4%**
Interest expense	41.6	46.0
Average loan book	2,406.0	2,252.4
Cost of funds	**1.7%**	**2.0%**

Operating expenses	91.6	94.2
Operating income	166.1	165.5
Cost to income ratio	**55.1%**	**56.9%**

The cost of risk measures how effective the Group has been in managing its impairment charge. 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

Adjustments to profit have been removed for 2020. Return metrics for both 2020 and 2019 are now stated on a statutory rather than adjusted basis.

Annualised return on average assets is calculated as the profit after tax for the previous 12 months as a percentage of average assets, annualised return on average equity is calculated as the profit after tax for the previous 12 months as a percentage of average equity and annualised return on required equity is calculated as the profit after tax for the previous 12 months as a percentage of average required equity.

Average assets is calculated as the average of the monthly assets balances, average equity is calculated as the average of the monthly equity balances and average required equity is calculated as the average of the monthly balances of total required equity. Total required equity is calculated as the equity required to achieve a CET1 ratio of 12%.

	2020 £million	2019 £million
Profit after tax	16.2	33.0
Opening assets	2,682.8	2,448.6
Closing assets	2,664.1	2,682.8
Average assets	2,692.5	2,554.9
Opening equity	254.1	237.0
Closing equity	270.5	254.1
Average equity	263.6	243.6
Opening required equity	251.8	217.8
Closing required equity	240.2	251.8
Average required equity	250.2	234.5
Return on average assets	**0.6%**	**1.3%**
Return on average equity	**6.1%**	**13.5%**
Return on required equity	**6.5%**	**14.1%**

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

(iv) Funding ratios

The loan to deposit ratio is calculated as the loan book at the year-end, divided by deposits from customers at the year-end, and the total funding ratio is calculated as the total funding at the year-end, being the sum of deposits from customers, borrowings under liquidity support operations and the Term Funding Scheme, and equity, divided by the loan book at the year-end:

	2020 £million	2019 £million
Loan book	2,358.9	2,450.1
Deposits from customers	1,992.5	2,020.3
Borrowings under liquidity support operations and the Term Funding Scheme	273.1	308.5
Tier 2 capital (including accrued interest)	50.8	50.6
Equity	270.5	254.1
Total funding	2,586.9	2,633.5
Loan to deposit ratio	**118.4%**	**121.3%**

Total funding ratio	**109.7%**	**107.5%**

The funding ratios measure the Group's liquidity.

(v) Adjusted earnings per share

Adjustments to profit have been removed for 2020, however information on the 2019 adjusted earnings per share has been provided below for the purposes of Director's Remuneration.

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

	2020	2019
Adjusted profit attributable to equity holders of the parent (£million)	16.2	33.0
Weighted average number of ordinary shares (number)	18,615,480	18,476,280
Adjusted earnings per share (pence)	**87.0**	**178.6**

(vi) Adjusted profit and effective adjusted tax rate

Adjustments to profit have been removed for 2020, however information on the 2019 adjusted earnings per share has been provided below for the purposes of Director's Remuneration.

Adjusted profit before tax was £20.1 million (2019: £41.1 million). Adjusted profit after tax was £16.2 million (2019: £33.0 million).

	2020 £million	2019 £million
Statutory profit before tax	20.1	38.7
Adjustments to profit before tax		
Fair value amortisation	–	0.2
Transformation costs	–	1.0
Bonus payments	–	0.1
Revaluation deficit	–	1.1
Adjustments to profit before tax	–	2.4
Adjusted profit before tax	20.1	41.1
Statutory income tax expense	(3.9)	(7.6)
Income tax expense on adjustments to profit	–	(0.5)
Adjusted income tax expense	(3.9)	(8.1)
Adjusted profit after tax	16.2	33.0
Statutory profit after tax	16.2	31.1

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

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

Transformation costs comprised principally costs of the Motor Transformation Programme and treasury development.

Bonus payments related to a long-term incentive plan that was set up for a small number of employees on the creation of the Commercial Finance business. The scheme is based on profits earned by that business up to the end of 2019, and was payable in 2020.

The revaluation deficit related to stamp duty and irrecoverable VAT incurred on the acquisition of a freehold property during the year.