PRESS RELEASE
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SECURE TRUST BANK PLC

Preliminary Results for the 12 months to 31 December 2023

Strong progress towards £4 billion loan book

David McCreadie, Chief Executive, said:

"Secure Trust has made significant progress in 2023 against our strategic priorities. We delivered strong lending growth of 13.6% by enhancing our customer experience and leveraging our distribution networks. We continued to manage our growth carefully to generate an appropriate risk adjusted margin. All four specialist lending businesses delivered record levels of new business lending in 2023.

Our strategy to simplify the Group continues at pace, with further cost optimisation savings delivered during the year. We are on track to deliver our upgraded target of £5 million of annualised savings[2] by the end of 2024.

Once again, we have demonstrated our ability to grow in 2023 and the Group is well placed to realise our ambitions. We are well on our way towards our £4 billion net loan book target and delivery of our 14-16% return on average equity target. We remain confident about the future."

Highlights[1]

- **Record new lending delivered 13.6% growth in lending balances to £3.3 billion (2022: £2.9 billion)**
- **Total profit before tax of £33.4 million decreased by 24.1% (2022: £44.0 million)**
- **Adjusted[3] profit before tax pre impairments up 12.4% to £85.5 million (2022: £76.1 million)**
- **Adjusted[3] profit before tax of £42.6 million up 9.2% (2022: £39.0 million)**
- **Adjusted[3] cost income ratio at 54.0% (2022: 55.0%); on track to deliver £5 million in annualised savings[2] by the end of 2024. Statutory cost income ratio at 57.5% (2022: 55.0%)**
- **Cost of risk stable at 1.4% (2022: 1.4%)**
- **Tangible book value per share increased 4.0% to £17.80 per share**

Financial Highlights[1]

The Group achieved record new business lending across all divisions during the period, increasing 11.5% compared to 2022, while maintaining its disciplined approach to risk management.

The net lending book has grown 13.6% in the period. In Consumer Finance, net lending balances grew to £1.7 billion (2022: £1.4 billion) following record new business lending of £1.7 billion (2022: £1.5 billion). In Business Finance, net lending balances increased slightly to £1.6 billion (2022: £1.5 billion) with record new business lending of £0.6 billion (2022: £0.5 billion).

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

In line with our strategy to simplify the Group, the adjusted cost income ratio improved from 55.0% in 2022 to 54.0%, demonstrating our ability to leverage our cost base.

The impairment charge of £43.2 million (2022: £38.2 million) reflects a cost of risk of 1.4% (2022: 1.4%), growth in new business, and one material loss of £7.2 million in Commercial Finance as reported at the half year.

On an adjusted basis the Group achieved a profit before tax of £42.6 million (2022: £39.0 million), an increase of 9.2%. Total profit before tax of £33.4 million (2022: £44.0 million) was impacted by exceptional items (£6.5 million) in 2023. In 2022, there was a £6.1 million gain on sale of the Debt Manager (Services) Limited's ("DMS") loan portfolio.

As highlighted in our pre-close trading update, during H2 2023 we engaged in formal discussions with the FCA about our collections processes, procedures and policies following its Borrowers in Financial Difficulty review across the industry. This activity has resulted in the recognition of a provision for costs including any redress required of £4.7 million. This has been treated as an exceptional item along with corporate activity costs of £1.8 million.

The Group achieved a total return on average equity ('ROAE') of 7.3% (2022: 10.8%) and maintained strong capital ratios. ROAE in 2022 benefitted from the gain recognised on the sale of the DMS loan portfolio. Excluding the gain/(losses) from discontinued operations and exceptional items in 2023, the total continuing ROAE for 2023 would be 9.6% compared to 9.4% for 31 December 2022.

Financial summary[1]

	2023	2022	Change[4] %
Total statutory profit before tax	**£33.4m**	**£44.0m**	**(24.1)**
Adjusted[3] profit before tax	**£42.6m**	**£39.0m**	**9.2**
Adjusted[3] profit before tax and pre impairments	**£85.5m**	**£76.1m**	**12.4**
Total basic earnings per share	129.6 pence	180.5 pence	(28.2)
Continuing basic earnings per share	140.8 pence	158.5 pence	(11.2)
Ordinary dividend per share	**32.2 pence**	**45.1 pence**	**(28.6)**
Total return on average equity[5]	7.3%	10.8%	(3.5)pp
Adjusted[3] return on average equity	9.6%	9.4%	0.2pp
Net interest margin	5.4%	5.7%	(0.3)pp
Cost of risk	1.4%	1.4%	-
Adjusted[3] cost income ratio	54.0%	55.0%	(1.0)pp
Cost income ratio	57.5%	55.0%	2.5pp
Net lending balances	£3,315.3m	£2,919.5m	13.6
Customer deposits	£2,871.8m	£2,514.6m	14.2
Tangible book value per share	£17.80	£17.11	4.0
Common Equity Tier 1 ('CET 1') ratio	**12.7%**	**14.0%**	**(1.3)pp**
Total capital ratio[5]	**15.0%**	**16.1%**	**(1.1)pp**

Optimising for Growth: Further strategic progress

The Group has made good progress against its strategic priorities of **Simplify**, **Enhance Customer Experience** and **Leverage Networks** during the year. This strategic progress has driven our loan book growth and cost efficiency. Key strategic priorities for the year ahead, include:

- Project Fusion is on track to deliver £5 million of annualised cost savings[2] by year-end 2024. Further opportunities have been identified.
- Market share gains for both Retail Finance and Vehicle Finance, maximising the opportunities from their strong networks.
- Vehicle Finance will complete its move to a single technology platform, opening up the potential for new pricing models and cost efficiencies.

Other highlights

- Customer deposits grew to £2,871.8 million (2022: £2,514.6 million) through a combination of growth in fixed term funds, ISAs and access accounts. Savings markets have repriced following the Bank of England Base Rate increases. This combined with the increase cost of Tier 2 funding, resulted in a cost of funds of 4.4% (2022: 1.9%).
- Tier 2 capital of £90.0 million issued to refinance the £50 million of existing 2018 Tier 2 capital, with 2023 first call dates and support lending growth.
- Customer satisfaction remains high, as measured by Feefo, 4.6 stars (2022: 4.6 stars)
- Listed as an official UK Best Workplace™ for the fifth year running, ranking 12 out of 87 companies (large organisations category), a significant improvement from 2022 (ranked 29 out of 67).
- We have made strong progress against our ESG strategy that was launched at the start of 2023, especially around Equity, Diversity and Inclusion, Climate Action, Customer Trust and Education and Skills.

Dividend

The Directors are proposing a final dividend of 16.2 pence per share for 2023, which will be payable on 23 May 2024 to shareholders on the register at the close of business on 26 April 2024. The total dividend payable for 2023 is 32.2 pence per share (2022: 45.1 pence per share). This is in line with the Group policy to return 25% of earnings to shareholders. The Board has decided to move to a progressive dividend policy for the 2024 financial year, reflecting feedback from shareholders.

Outlook

With inflation falling, financial markets are predicting that the Bank Base Rate has peaked and that it will begin to fall in 2024. We sincerely hope this begins to ease the 'cost of living' burden on our customers and is the beginning of a period of relative economic stability notwithstanding the impacts of the geopolitical environment. We will continue to make effective credit decisions and provide fair interest rates for our deposit holders ensuring the Group's growth is safe and the business generates sustainable profits.

Our Optimising for Growth strategic priorities will continue to focus on delivering market share gains in our four specialist lending areas through enhancing our customer experience and leveraging our networks. 2024 will see further simplification of the Group, which alongside lending book growth, should further improve cost income ratios. The year has started well, with net lending balances in line with our expectations and we have identified opportunities for further cost efficiencies. We are well positioned to deliver our medium-term targets and face the future with confidence.

Medium-term targets	31 December 2023 Actual	Target
Net lending balance	£3.3bn	£4bn
Net interest margin	5.4%	>5.5%
Adjusted[3] cost income ratio	54.0%	44-46%
Adjusted[1,3] return on average equity	9.6%	14% - 16%
CET 1 ratio	12.7%	>12.0%

Footnotes:

1. Performance metrics relate to continuing operations, unless otherwise stated. Further details of the metrics can be found in the Appendix to the 2023 Annual Report and Accounts.
2. Cost savings relative to operating expenses for the 12 months ended December 2021.
3. Adjusted metrics exclude exceptional items of £6.5 million (2022: £nil). Details can be found in Note 8 to the financial statements.
4. pp represents the percentage point movement
5. Restated to reflect the prior year restatement of land and buildings from fair value to historic cost. Further details are provided Note 1.3 to the Annual Report and Accounts.

Results presentation

This 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, 21 March 2024 at 10.00am, which can be accessed by registering at: https://brrmedia.news/STB_FY23

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

Dial +44 (0)330 551 0200

UK Toll Free: 0808 109 0700

Confirmation code (if prompted): Secure Trust Bank

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This announcement contains inside information.

The person responsible for the release of this information on behalf of STB is Lisa Daniels, Company Secretary.

Forward looking statements

This announcement contains forward looking statements about the business, strategy and plans of STB and its current objectives, targets and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about STB'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. STB'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 STB's control, the COVID-19 pandemic, expected credit losses in certain scenarios involving forward looking data, any adverse experience in inherent operational risks, any unexpected developments in regulation, or regulatory and other factors. The forward looking statements contained in this announcement are made as of the date of this announcement, and (except as required by law or regulation) STB undertakes no obligation to update any of its forward looking statements.

Our strategic progress

Simplify	• Office space reduced by 51% • Project Fusion on track for £5 million annualised cost savings[1] by end 2024 • Making progress to deliver 50% reduction in Scope 1 and Scope 2 CO_2 emissions by 2025 • Completed closure of Debt Management Services operations
Enhance customer experience	• Savings mobile app launched, 15% eligible users registered • Over 80% self-service adoption in Retail Finance • Enhanced collections and forbearance options in Vehicle Finance • Customer Feefo score of 4.6 stars and 10 Year Excellence Award
Leverage networks	• Supporting > 1,200 retailers • Partnering > 750 Vehicle Finance brokers, dealers and internet introducers • Business Finance repeat business from established relationships increasing
Enabled by technology	• Upgraded technological capabilities • Automated credit decisions • Ease of partner integration • Platforms proven to be scalable

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

Chairman’s statement

I am pleased to present our Annual Report and Accounts for 2023. It has been a difficult year for the country, and for so many of our customers, employees and fellow citizens. Despite the challenges the Group has once again delivered a robust set of results with an adjusted profit before tax[1] at £42.6 million (2022: £39.0 million), and a statutory profit before tax of £36.1 million (2022: £39.0 million).

For the fifth year running we have received the UK’s Best Workplaces™ accolade from Great Place to Work® and are ranked 44 amongst the top large companies in Europe. This reflects the relentless effort by Anne McKenning and her team in HR to promote a positive work culture. The business continues to collect prestigious awards, with Vehicle Finance nominated for

'Finance provider of the Year' for the third year in a row, and Commercial Finance winning 'Asset-based lender of the year' at the Real Deal Private Equity awards in Europe. The Group met the bracing Consumer Duty implementation deadlines set by the FCA and we remain completely committed to ensuring the highest standards of service and support to our customers.

We are making good progress despite some headwinds in achieving our medium-term targets, with lending growing by £0.4 billion to £3.3 billion, and savings book growth of £357 million to £2.9 billion. At our Capital Markets Day we explained how reaching a £4 billion net lending book was the cornerstone to delivering them. The Board are proposing a final dividend of 16.2 pence for the year and are now committed to a progressive policy going forward.

It was a real pleasure to welcome Vicky Mitchell to the Board in November. She brings extensive experience in banking most notably from Capital One (Europe) plc. There was also sadness with the intended retirement of Nick Davis after so many years of brilliantly building our V12 Retail Finance business. I am also grateful to our departing Company Secretary, Mark Stevens who has been quite simply outstanding and will be much missed.

Whilst on the issue of retirement, I announced in March 2023 that I would be stepping down at the next Annual General Meeting. The search for my successor was skilfully led by our Senior Independent Director, Ann Berresford, and we have as a result in Jim Brown, an experienced banker with all the necessary skills and experience to take the Group forward.

As I reflect on a decade on the Board of Secure Trust Bank, with over seven years as Chairman, I am immensely proud of its achievements in the worst of times and the best of times. The business is resilient and has shown great agility and consistent delivery, despite the challenges of Brexit, COVID-19, regulation and inflation. I have tremendous confidence in David and his Executive team and in the progress made in cutting costs and focusing the business on segments where we have proven strength and expertise.

Looking ahead, inflation is falling and the markets predict that interest rates have peaked. Nonetheless geopolitics has created the most fragile and unpredictable times in my lifetime. We hope for better times, but plan to maintain our record of resilience and are well placed to achieve our growth targets and deliver value for our shareholders. In meeting that challenge, I am extremely grateful to the Board, past and present, and to all of our employees whose dedication and hard work gives me every confidence for the future.

1. Adjusted profit before tax refers to profit before income tax from continuing operations before exceptional items.

Chief Executive's statement

The Group has made continued progress in 2023 and we are moving closer to achieving our £4 billion net lending ambition. We delivered robust loan book growth, improved adjusted profits[1] and maintained credit disciplines against a challenging economic backdrop. The year began with high levels of inflation and the Bank of England tackling this by continuing to increase the Bank Base Rate to levels not experienced since 2008, which in turn increased financial pressure on consumers and businesses.

The Group has actively managed its balance sheet, while maintaining effective credit discipline. We have grown lending balances by £0.4 billion during the period, with further market share gains in our Retail Finance and Vehicle Finance businesses. We delivered record new business levels in each of our specialist lending businesses. We have delivered lending growth while carefully managing our new business pricing. We continued to manage pricing carefully against the backdrop of rising rates and we have maintained tight cost control. As a result, we have improved our adjusted cost income ratio[2] by 100 basis points.

I am pleased to report a good set of results against what has been a challenging backdrop. We achieved an adjusted profit before tax[1] of £42.6 million (2022: £39.0 million), and made progress towards our medium-term targets, with a year-end lending portfolio of £3.3 billion, an increase of 13.6% (2022: £2.9 billion). Net interest margin reduced to 5.4%, (2022: 5.7%), reflecting the interest rate environment we are operating in, the increasing mix of lower risk lending in our consumer businesses and increased levels of Tier 2 debt to support our growth strategy. Our key performance indicators are set out overleaf, which include our medium-term targets, which we refreshed at our recent Capital Markets Day (see our www.securetrustbank.com/cme2023 for details of the presentation).

The Group achieved a statutory profit before tax of £36.1 million (2022: £39.0 million), which includes exceptional items of £6.5 million, which relate to customer remediation activity following the FCA's industry review of Borrowers in Financial Difficulty ('BiFD') and corporate activity. Further information on these items can be found in the Financial Review.

With our four specialist lending segments, the Group operates in large addressable markets. We believe there are opportunities to further deploy our expertise and systems to widen and deepen our market penetration. New business growth was 11.5% during the year (2022: 43.5%) and net lending growth was 13.6% (2022: 19.1%).

In 2023 our market share for Retail Finance new business increased to 13.5%[3] (2022:11.4%). Likewise we have seen market share gains for our Vehicle Finance business, where improved distribution, despite the tightening of our credit criteria over the last 18 months, has increased our market share for new business to 1.2%[4] (2022: 1.1%).

Further information on financial performance for the year is included in the Financial review.

1. Adjusted profits/Adjusted profit before tax refers to profit before income tax from continuing operations before exceptional items.
2. Excludes exceptional items. See Note 8 to the Financial Statements and section (v) in the Appendix to the Annual Report for further details.
3. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2023: 13.5% (2022: 12.8%): FLA total and Retail Finance new business of £8,811 million (2022: £8,775 million) and £1,185.4 million (2022: £1,124.3 million) respectively. As published at 31 December 2023.
4. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2023, FLA total and Vehicle Finance total of £22,083 million (2022: £23,691 million) and £260.0 million (2022: £262.9 million) respectively, as published at 4 March December 2024.

Key performance indicators

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

Certain key performance indicators represent alternative performance measures that are not defined or specified under International Financial Reporting Standards ('IFRS').

Definitions of the financial key performance indicators, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report.

All key performance indicators are presented on a continuing basis, unless otherwise stated. Further information on discontinued operations are included on Note 10 to the Financial Statements.

Further explanation of the financial key performance indicators is discussed in the narrative of the Financial review, where they are identified by being in bold font.

Further explanation of the non-financial key performance indicators is provided in the Managing our business responsibly and Climate-related financial disclosures sections of the Annual Report and Accounts.

The Directors' Remuneration Report in the Annual Report and Accounts sets out how executive pay is linked to the assessment of key financial and non-financial performance indicators.

	2023	2022	2021	2020	2019
Grow					
Loans and advances to customers (£bn)	3.3	2.9	2.5	2.2	2.2
Why we measure this - Shows the growth in the Group's lending balances, which generate income					
Total return on average equity (%)	7.3	10.8	15.9	5.9	12.8
Why we measure this - Measures the Group's ability to generate profit from the equity available to it					
Net interest margin	5.4	5.7	6.1	6.1	6.5
Why we measure this - Shows the interest margin earned on the Group's lending balances, net of funding costs					
Sustain					
Common Equity Tier 1 ('CET 1') ratio (%)	12.7	14.0	14.5	14.0	12.6
Why we measure this - The CET 1 ratio demonstrates the Group's capital strength					
Cost to income ratio (%)	57.5	55.0	60.0	56.6	56.3
Cost to income ratio (excluding exceptional items) (%)	54.0	55.0	60.0	56.6	56.3
Why we measure this - Measures how efficiently the Group uses its cost base to produce income					
Cost of risk (%)	1.4	1.4	0.2	2.0	1.7
Why we measure this - Measures how effectively the Group manages the credit risk of its lending portfolios					
Care					
Customer Feefo ratings (Stars)	4.6	4.6	4.6	4.7	4.7
Why we measure this - Indicator of customer satisfaction with the Group's products and services					
(Mark out of 5 based on star rating from 1,989 reviews (2022: 990, 2021: 937, 2020: 1,466, 2019:1,754))					
Employee survey trust index score (%)	83	85	80	82	79
Why we measure this - Indicator of employee engagement and satisfaction					
Environmental intensity indicator	2.2	2.8	3.0	3.1	4.7
Why we measure this - Indicator of the Group's impact on the environment					

(Total Scope 1, 2 and certain Scope 3 emissions per £m Group operating income)

Strategic priorities

At half year we launched our Optimising for Growth strategic priorities which support our strategic pillars of Grow, Sustain and Care. A clear focus on simplifying the Group, enhancing customer experience and leveraging our networks will enable us to progress towards delivering all of our medium-term targets.

Simplify

Our cost optimisation programme, Project Fusion, remained a key focus and we have successfully delivered annualised cost savings of £4 million and are on track for £5 million annualised cost savings by the end of 2024. This has primarily been achieved through streamlining legacy operational processes across a number of areas, simplifying the Group and reducing the number of business lines we operate in. We have also taken the opportunity to review leadership structures, roles and spans of control and undertaken an extensive review of our supplier contracts which has delivered significant savings, as well as reducing our property footprint by exiting two properties in Solihull and Cardiff.

Enhance customer experiences

Ensuring we provide high customer satisfaction remains a priority for us. We continue to score highly with Feefo, scoring 4.6 stars out of 5 (2022: 4.6 out of 5 stars), and won Feefo's very exclusive accolade for customer service - the Feefo 10 Years of Excellence Award, recognising businesses who have won a Feefo Trusted Service Award for 10 years running. Feefo also recognised our Vehicle Finance and Retail Finance teams and we were awarded 'Platinum Trusted Service Award'. Our Savings team secured Feefo's 'Gold Trusted Service Award'.

The Group was recognised externally for its Vehicle Finance and Commercial Finance businesses. Vehicle Finance was nominated for the Finance Provider of the Year Award at the Motor Trader Independent Dealer Awards 2023 for the third year in a row, and our Commercial Finance team received the Asset-Based Lender of the Year Award at the Real Deals Private Equity Awards, the longest running and most prestigious Private Equity awards in Europe.

Our customer experience is increasingly digital, with the launch of our Savings app, with 15% of customers registered since the launch. Also, over 80% of our Retail Finance customers are registered for online account management. Internal net promoter scores remain high for our Consumer Finance businesses and benchmark well against our industry.

As part of the new Consumer Duty, which came in at the end of July 2023, we undertook a comprehensive review of our Consumer Finance and Savings products and services, including consumer testing. A number of enhancements were made to our communications to improve our customer experience.

The market for acquiring deposits continues to be competitive due to the high interest rate environment. During the year, we raised record levels of deposits and retained significant funds on maturing products. As Bank Base Rate rose, we supported customers by continuing to increase rates across our managed rate products. We have introduced a Standard Savings Rate, setting the minimum rate of interest for variable rate accounts. Our deposits are entirely from retail customers and 96% of deposits are fully covered by the Financial Services Compensation Scheme.

Leverage networks

Strong relationships are critical to our business model. Maintaining a network of introducers from which we receive repeat lending is a key focus. Our businesses have established relationships with partners, retailers, car dealerships, intermediaries and professional advisers. The Group looks to further deepen these existing relationships to originate new business; to expand and tailor our product offering; and take market share opportunities.

We have over 1,200 retailer partners within Retail Finance, which has supported lending growth of 16.0% during the year, and a year-end lending balance of £1.2 billion. We successfully increased our volumes in large furniture retailers and entered a new sector for financing electric vehicle chargers. Our AppToPay product has been seamlessly integrated into our established technology and is operational with some of our retailer partners. In Vehicle Finance we now have a network of over 750 car dealerships. This has supported net lending growth of 25.2%, and a year-end lending balance of £0.5 billion.

Our Business Finance businesses offer bespoke products and personalised account management. In Commercial Finance, private equity groups, professional advisory firms and accountants are important relationships for new deal flow. Nearly two-thirds of our private equity partners have made more than one client introduction, valuing our service proposition to our clients and their investors. In 2023, 80% of Real Estate Finance's new lending came through existing customer relationships, demonstrating the attractiveness of our service and product proposition.

Enabled by technology

We have successfully launched a number of technology enhancements, which have allowed customers to interact with us more easily and to streamline the end-to-end process. In addition to the launch of our Savings app, we launched AppToPay in Retail Finance, a workflow management tool for Commercial Finance and confirmation of payee within our Savings platform.

Regulatory Initiatives

During H2 2023 we engaged in formal discussions with the FCA about our collections processes, procedures and policies. This follows the FCA's review of Borrowers in Financial Difficulty ('BiFD') across the industry. We have engaged external support to assist us with this review and have delivered enhancements to our collections activities, which includes offering a wider range of forbearance options to our customers. We expect the review to be completed in H2 2024.

In January 2024, the FCA announced it was to undertake a review of discretionary commission arrangements in the motor finance market. We sometimes operated these arrangements until June 2017, ahead of the FCA banning their use in January 2021. We believe that the overall proportion of loans where we used discretionary commission arrangements was small and for a shorter period, relative to the industry in general. The FCA plans to set out its next steps in Q3 2024, when the implications for the industry should become clearer.

Environmental, Social and Governance ('ESG')

I would like to thank all of our employees, who yet again show their commitment and passion for the organisation. We have been acknowledged five times this year by Great Places to Work® (see page 9 of the 2023 Annual Report and Accounts), and received a Trust Index score of 83%, which was a great outcome. Alongside this we also won the ENEI 2023 award for 'Innovative Approach to Diversity, Equality, and Inclusion' in relation to our podcast, which is aimed at creating a voice for colleagues, helping dispel stereotypes, increasing understanding and celebrating our diversity.

We recently installed solar panels at our head office, which will contribute to our objective of reducing our Scope 1 and 2 CO_2e emissions. This will provide about a quarter of our electricity and reduce greenhouse gas emissions by 15 tonnes CO_2e per year. We have seen our environmental intensity indicator reduce 21.4% year-on-year. We have also made strong progress against our other ESG targets. Further details of our achievements can be found on pages 41 to 43 of the 2023 Annual Report and Accounts.

Retirement of Chairman

On behalf of all my colleagues, I would like to thank Michael for his exemplary service to the Group over the years. He has been an exceptional Chairman, and I thank him personally for the guidance and support he has given me since I took on the role of Chief Executive Officer. His counsel has been invaluable. I wish him the very best for the future.

Outlook

With inflation falling ahead of Bank of England expectations, financial markets are predicting the Bank Base Rate has peaked and will begin to fall in 2024. While macro conditions remain uncertain, the Board is very confident in the Group's ability to make further strategic progress in the year ahead, improve market share in our Consumer businesses and manage credit risk effectively. We sincerely hope this starts to ease the 'cost of living' burden and financial pressure on our customers and is the beginning of a period of relative economic stability. We are well positioned to deliver our medium-term targets and face the future with renewed confidence.

Financial review

Income statement

Continuing operations	**2023 £million**	2022 £million	Movement %
Interest income and similar income	304.0	203.0	49.8
Interest expense and similar charges	(136.5)	(50.4)	170.8
Net interest income	**167.5**	**152.6**	**9.8**
Fee and commission income	17.3	17.4	(0.6)
Fee and commission expense	(0.1)	(0.4)	(75.0)
Net fee and commission income	**17.2**	**17.0**	**1.2**
Operating income	**184.7**	**169.6**	**8.9**
Net impairment charge on loans and advances to customers	(43.2)	(38.2)	13.1
Gains on modification of financial assets	0.3	1.1	(72.7)
Fair value and other gains/(losses) on financial instruments	0.5	(0.3)	(266.7)
Operating expenses	(99.7)	(93.2)	7.0
Profit before income tax from continuing operations before exceptional items	**42.6**	**39.0**	**9.2**
Exceptional items	(6.5)	–	–
Profit before income tax from continuing operations	**36.1**	**39.0**	**(7.4)**
Income tax expense	(9.7)	(9.4)	3.2

Profit for the year from continuing operations	**26.4**	**29.6**	**(10.8)**
Discontinued operations			
(Loss)/profit before income tax from discontinued operations	**(2.7)**	**5.0**	**(154.0)**
Income tax credit/(expense)	0.6	(0.9)	(166.7)
(Loss)/profit for the year from discontinued operations	**(2.1)**	**4.1**	**(151.2)**
Profit for the year	**24.3**	**33.7**	**(27.9)**
Basic earnings per share (pence) – Total	129.6	180.5	(28.2)
Basic earnings per share (pence) – Continuing	140.8	158.5	(11.2)

Selected key performance indicators and performance metrics	**2023 £million**	2022 £million	Movement %
Total profit before tax	33.4	44.0	(24.1)
	%	%	Percentage point movement
Net interest margin	5.4	5.7	(0.3)
Yield	9.8	7.5	2.3
Cost of funds	4.4	1.9	2.5
Adjusted cost to income ratio	54.0	55.0	(1.0)
Statutory cost to income ratio	57.5	55.0	2.5
Cost of risk	1.4	1.4	–
Adjusted return on average equity	9.6	9.4	0.2
Total return on average equity	7.3	10.8	(3.5)
Common Equity Tier 1 ('CET 1') ratio	12.7	14.0	(1.3)
Total capital ratio	15.0	16.1	(1.1)

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

All key performance indicators are presented on a continuing basis, unless otherwise stated. Adjusted profit before tax refers to profit before income tax from continuing operations before exceptional items. Further information on exceptional items are included below and discontinued operations are included on Note 10 to the Financial Statements.

The Directors' Remuneration Report in the Annual Report and Accounts sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

2023 saw a continued focus on net lending growth whilst maintaining strong credit discipline and cost management. Growth has been focused on higher credit quality prime lending, particularly within our Consumer Finance businesses. Net lending growth of 13.6% has generated an 8.9% increase in operating income, and this has been achieved with a 7.0% increase in costs. The Group achieved an adjusted profit before tax of £42.6 million (2022: £39.0 million), with the CET 1 ratio remaining strong at 12.7%.

Total Earnings Per Share ('EPS') fell from 180.5 pence per share (2022) to 129.6 pence per share. However, on an adjusted basis EPS increased to 172.3 pence per share (2022: 158.5 pence per share). Total return **on average equity** decreased from 10.8% (2022) to 7.3%. On an adjusted basis return on average equity increased to 9.6% (2022: 9.4%). Total return **on average equity** performance in 2022 was impacted by the one-off £6.1 million gain recognised on the sale of the Debt Managers (Services) Limited's loan portfolio.

Detailed disclosures of EPS are shown in Note 11 to the Financial Statements. The components of the Group's profit are analysed in more detail in the sections below.

Operating income

The Group's operating income increased by 8.9% to £184.7 million (2022: £169.6 million). Net interest income on the Group's lending assets continues to be the largest component of operating income. This increased by 9.8% to £167.5 million (2022:

£152.6 million), driven by growth in net lending assets, with average balances increasing by 14.8% to £3,099.4 million (2022: £2,699.3 million).

The Group's **net interest margin** decreased to 5.4% (2022: 5.7%), reflecting new Tier 2 capital required to support our growth ambitions, which reduced NIM by 19 bps in the year and the strategic shift towards lower yielding, lower risk lending in both our Business Finance and Consumer Finance divisions. The last two years have been challenging given the steep rise in interest rates, and we have actively managed the repricing of new lending and retail deposits to maintain product margins.

The Group's other income, which relates to net fee and commission income, increased slightly by 1.2% to £17.2 million (2022: £17.0 million).

Impairment charge

Impairment charges increased to £43.2 million (2022: £38.2 million). The charge was impacted by one material loss of £7.2 million, relating to a long-running problem debt case within the Commercial Finance business, which was highlighted in the 2022 Annual Report and Accounts (Note 47.2 Non-adjusting post balance sheet events). Circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the portfolio. Whilst it is disappointing to record a loss of this magnitude, the cost of risk since inception of the Commercial Finance business in 2014, excluding this specific impairment charge, has been 0.04% of average lending balances, and would be 0.6%, inclusive of this case. This loss in the year resulted in a Group **cost of risk** of 1.4% in line with the prior year (2022: 1.4%). Cost of risk also reflects the benefit of an improving cost of risk within the Consumer Finance businesses, due to an increased mix of higher quality lending, offset by increased impairment charges on two defaulted loans in the Real Estate Finance business.

Cost of risk for the year, excluding the material loss highlighted above, is 1.2%. Overall impairment provisions remain robust at £88.1 million (2022: £78.0 million) with a total coverage level of 2.6% (2022: 2.6%).

During the financial year, the Group refreshed macroeconomic inputs to its IFRS 9 Expected Credit Loss ('ECL') models, incorporating its external economic advisor's latest UK economic outlook. The forecast economic assumptions within each IFRS 9 scenario, and the weighting applied, are set out in more detail in Note 16 to the Financial Statements.

The Group has applied Expert Credit Judgements ('ECJ's') underlays totalling £1.2 million (2022: £2.9 million overlay), where management believes the IFRS 9 modelled output is not fully reflecting current risks in the loan portfolios. Further details of these ECJs are included in Note 16 to the Financial Statements. During the year, the Group implemented a new IFRS 9 Probability of Default model for Vehicle Finance near prime lending, which now better reflects the underlying credit quality of business written, and has reduced the need for ECJ's.

Fair value and other gains/(losses) on financial instruments

During the year, the Group realised a gain of £1.2 million (2022: £nil) in relation to the buy-back of the 2018 Tier 2 debt. The Group also recognised a loss of £0.8 million (2022: £nil) relating to interest rate swaps being entered into ahead of hedge accounting becoming available, which will reverse to the income statement over the remaining life of the swaps. The Group has highly effective hedge accounting relationships, and as a result, recognised a small hedging ineffectiveness gain of £0.1 million (2022: £0.3 million loss).

Operating expenses

The Group's cost base increased in the period by 7.0% to £99.7 million (2022: £93.2 million), with the adjusted **cost income ratio** improving to 54.0% (2022: 55.0%), despite the impact of inflation on operating expenses. The ratio reflects both the increase in operating income and the ongoing programme of initiatives that seek to achieve more efficient and effective operational processes, including digitalisation of processes, supplier and procurement reviews, organisational design and property management. We are on track to deliver £5 million of annualised costs savings by the end of 2024 as part of Project Fusion. Statutory cost **income ratio** inclusive of exceptional items was 57.5% (2022: 55.0%).

Taxation

The effective tax rate on continuing activities of 26.9%, increased compared with 2022 (24.1%) following the change in Corporation Tax rate to 25% from 19% with effect from 1 April 2023. The effective rate is above the 2023 Corporation Tax rate of 23.5% mainly as a result of non-deductible expenses in exceptional items. The total effective tax rate is 27.2% (2022: 23.4%).

Exceptional items

The Group recognised charges for exceptional items of £6.5 million during the year (2022: £nil). Costs of £1.8 million were incurred in relation to non-recurring corporate activity that took place during H1 2023. Following the FCA's review of Borrowers in Financial Difficulty ('BiFD') across the industry, and in response to the specific feedback we received on our own collection activities, costs of £4.7 million (comprising £2.7 million costs and £2.0 million potential redress/goodwill) have been incurred, or provided for, relating to processes, procedures and policies in our Vehicle Finance collections operations. We have engaged external support to assist us with this work and, where necessary, are taking the necessary actions to enhance our approach. Further details are included in Note 8 to the Financial Statements.

Discontinued business

In May 2022, the Group disposed of the loan portfolio of Debt Managers (Services) Limited, realising an overall initial profit on disposal of £6.1 million in the first half of 2022. A further £2.7 million of wind-down costs have been incurred during the year, with no significant further costs expected.

Distributions to shareholders

The Board recommended the payment of a final dividend for 2023 of 16.2 pence per share, which together with the interim dividend of 16.0 pence per share, represents a total dividend for the year of 32.2 pence per share (2022: 45.1 pence per share). This is in line with the Group's policy to pay total annual dividends representing 25% of annual earnings.

Summarised balance sheet

Assets	**2023 £million**	2022 £million
Cash and Bank of England reserve account	351.6	370.1
Loans and advances to banks	53.7	50.5
Loans and advances to customers	3,315.3	2,919.5
Fair value adjustment for portfolio hedged risk	(3.9)	(32.0)
Derivative financial instruments	25.5	34.9
Other assets	35.8	36.8
	3,778.0	3,379.8
Liabilities		
Due to banks	402.0	400.5
Deposits from customers	2,871.8	2,514.6
Fair value adjustment for portfolio hedged risk	(1.4)	(23.0)
Derivative financial instruments	22.0	26.7
Tier 2 subordinated liabilities	93.1	51.1
Other liabilities	46.0	83.5
	3,433.5	3,053.4

New business

Loan originations in the year, being the total of new loans and advances to customers entered into during the period, increased by 11.5% to £2,305.4 million (2022: £2,067.8 million). Further details on the divisional split of this new business can be found in the Business review.

Customer lending and deposits

Group lending assets increased by 13.6% to £3,315.3 million (2022: £2,919.5 million), surpassing £3.0 billion for the first time, primarily driven by strong growth in our Consumer Finance and Real Estate Finance businesses. This represents a significant step towards our £4.0 billion of net lending ambition, as presented at our recent Capital Markets Day.

Consumer Finance balances grew by £262.8 million or 18.4%, driven by strong demand from strategic partner retailers.

Vehicle Finance arrears and levels of provision have been temporarily impacted by the Group's review of its collections policies and procedures, as part of our programme of work designed to ensure we deliver good outcomes for customers. Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Note 16 to the Financial Statements.

Customer deposits include Fixed term bonds, ISAs, Notice and Access accounts. Customer deposits increased by 14.2% to £2,871.8 million (2022: £2,514.6 million). Total funding ratio of 111.7% decreased slightly from 31 December 2022 (112.5%). The mix of the deposit book has continued to change as the Group has adapted to the Base Rate changes throughout the period, with a focus on meeting customer demand for Access products, and retaining stable funds, which is reflected in the increase in Fixed term bonds and ISAs.

New business volumes	£million
Retail Finance	1,185.4
Vehicle Finance	471.2
Real Estate Finance	434.0

Commercial Finance	214.8
Total	**2,305.4**
2022 Total	2,067.8

Loans and advances to customers	**£million**
Retail Finance	1,223.2
Vehicle Finance	467.2
Real Estate Finance	1,243.8
Commercial Finance	381.1
Total	**3,315.3**
2022 Total	2,919.5

Investments and wholesale funding

As at the end of 2023, the Group held no debt securities (2022: £nil). Amounts due to banks consisted primarily of drawings from the Bank of England Term Funding Scheme with additional incentives for SMEs ('TFSME') facility.

Tier 2 subordinated liabilities

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

Capital

Management of capital

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

Key factors influencing the management of capital include:

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

Capital resources

Capital resources increased over the period from £376.8 million to £397.6 million. This includes the proposed 2023 final dividend of £3.1 million. The increase was primarily in CET 1 capital and was driven by total profit for the year of £24.3 million, offset by the 2023 dividend of £3.1 million, and the reduction in the IFRS 9 transitional adjustment of £9.6 million. In addition, the increase in Tier 2 was driven by the newly-issued £90.0 million subordinated debt, which will have increased utilisation over time as capital eligibility increases as a consequence of risk weighted asset growth.

Capital	**2023 £million**	Restated[1] 2022 £million
CET 1 capital, excluding IFRS 9 transitional adjustment	**335.8**	315.2
IFRS 9 transitional adjustment	2.1	11.7
CET 1 capital	**337.9**	326.9
Tier 2 capital[2]	59.7	49.9
Total capital	**397.6**	376.8
Total risk exposure	**2,653.4**	2,334.6

Capital ratios	**2023 %**	2022 %
CET 1 capital ratio	12.7	14.0

Total capital ratio	15.0	16.1
CET 1 capital ratio (excluding IFRS 9 transitional adjustment)	12.7	13.6
Total capital ratio (excluding IFRS 9 transitional adjustment)	14.9	15.7
Leverage ratio	9.7	10.7

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3 to the Financial Statements.
2. Tier 2 capital, which is solely subordinated debt net of unamortised issue costs, capped at 25% of total Pillar 1 and Pillar 2A requirements.

Capital requirements

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

	2023 **£million**	Restated[1] 2022 £million
Total Capital Requirement	238.8	210.1
Capital conservation buffer	66.3	58.4
Countercyclical buffer	53.1	23.3
Total	**358.2**	291.8

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. Further details are provided in Note 1.3 to the Financial Statements.

The increase in lending balances through the year resulted in an increase in risk weighted assets over the period, bringing the total risk exposure up from £2,334.6 million to £2,653.4 million. The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The countercyclical capital buffer rose from 0% to 1% of relevant risk exposures in December 2022, and remained at this level until 5 July 2023 when it rose again to 2%.

Liquidity

Management of liquidity

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

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

The Group exceeded the LCR minimum threshold (100%) throughout the year, with the Group's average LCR being 208.0% (based on a rolling 12 month-end average).

Liquid assets

We continued to hold significant surplus liquidity over the minimum requirements throughout 2023, managing liquidity by holding HQLA and utilising funding predominantly from retail funding balances from customer deposits. Total liquid assets reduced to £400.2 million (2022: £416.9 million) which amongst other things reflects the levels of liquidity at the end of 2023 to support funding required to fund the pipeline.

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

Liquid assets	**2023** **£million**	2022 £million
Aaa – Aa3	356.4	370.1
A1 – A2	43.8	41.6
Unrated	–	5.2
Total	**400.2**	416.9

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

Customer deposits	2023 %	2022 %
Fixed term bonds	54	56
Notice accounts	6	20
ISA	22	17
Access accounts	18	7
Total	**100**	100

Business review

Consumer Finance

Retail Finance

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

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

Performance history

	2023	2022	2021	2020	2019
New business (£m)	1,185.4	1,124.3	771.5	614.5	726.0
Loans and advances to customers (£m)	1,223.2	1,054.5	764.8	658.4	688.9
Net interest margin (%)	6.4	6.8	8.1	8.7	8.9
Risk adjusted margin (%)	5.3	5.6	7.8	6.7	6.4

What we do

- We operate a market-leading online e-commerce service to retailers, providing unsecured, prime lending products to UK customers to facilitate the purchase of a wide range of consumer products, including bicycles, musical equipment and instruments, furniture, outdoor/leisure items, electronics, dental, jewellery, home improvements products and football season tickets. These retailers include a large number of household names.
- The finance products are either interest-bearing or have promotional interest-free credit subsidised by retailers. For interest-free products, the customer pays the same price for the goods, regardless of whether credit is taken or not. Taking the credit option allows the customer to spread the cost of the main purchase into more manageable monthly payments, and afford ancillary extras and add-ons, which can also be financed. Interest-free borrowing attracts a large proportion of high credit quality customers.
- The online processing system allows customers to sign their credit agreements digitally, thereby speeding up the pay-out process, and removing the need to handle sensitive personal documents. 90% of applications are decisioned in an average of six seconds.
- The business is supported by a highly experienced senior team and workforce.

2023 performance

- Lending and revenue growth has come mainly from interest-free lending into the furniture and jewellery sectors. We achieved record new lending for another year and increased our lending balances by 16% (2022: 37.9%), resulting from an increase in our market share of the retail store and online credit new business market[1].
- Extension of our footprint within key retail partners, as well as the introduction of new retailer relationships leveraging our strong track record of systems integration. As a result of significant new business growth over recent years we are now well established as one of the major lenders in the point of sale credit market.
- We have consciously focused on prime sectors, remaining cautious in response to the economic environment. This is a driver of the net interest margin decrease year-on-year. However, cost of risk (1.4%) has also decreased compared to 2022 (1.6%), and is in line with expectation and reflects a growing lower credit risk lending book.
- At the end of the year, 86.3% (2022: 85.1%) of the lending book related to interest-free lending, and 80.4% (2022: 68.9%) of customers have signed up to online account management allowing self-service of their account.

Outlook

- We anticipate further lending growth from our existing retail partners and our operational plans are focused on digitalising all key processes to improve our customer and retail partners' experience.

1. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2023: 13.5% (2022: 12.8%): FLA total and Retail Finance new business of £8,811 million (2022: £8,775 million) and £1,185.4 million (2022: £1,124.3 million) respectively. As published at 31 December 2023.

Vehicle Finance

We help to drive more business in UK car dealerships:

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

Performance history

	2023	2022	2021	2020	2019
New business (£m)	471.2	401.7	199.8	78.6	183.3
Loans and advances to customers (£m)	467.2	373.1	263.3	243.9	323.7
Net interest margin (%)	10.3	12.0	13.1	12.8	13.5
Risk adjusted margin (%)	7.3	6.1	14.0	5.1	9.1

What we do

- We provide lending products that are secured against the vehicle being financed. The majority of vehicles financed are used cars sold by independent dealers.
- We also provide vehicle stock funding whereby funds are advanced and secured against dealer forecourt used car stock; sourced from auctions, part exchanges or trade sources.
- Finance is provided via technology platforms, allowing us 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.

2023 performance

- Continued lending growth, despite the market for used cars bought on point-of-sale finance shrinking by 6.8%[1] year-on-year by value. Market share increased to 1.2% from 1.1% in 2023[1].
- New business growth exceeded lending growth due to the short-term duration of Stock Funding.
- Our Prime lending products, launched in 2021, delivered £114.8 million of new lending during 2023 and represent 24.4% (2022: 23.4%) of new business.
- 33.4% (2022: (24.2%) of the lending portfolio relates to prime products, this is reflected in our net interest margin and risk-adjusted margin performance. Cost of risk reduced from 6.3% to 3.4% (2022), driven by the mix of higher credit quality business following actions in 2022 and 2023 to tighten credit criteria.
- The Stock Funding product launched in 2019 now has 250 active dealers (2022: 193) with credit lines of £51.5 million (2022: £37.0 million).
- As part of the continuing Motor Transformation Programme ('MTP'), in 2023 we successfully delivered phase two of the new collection platform to incorporate the prime portfolio.
- During H2 2023, we engaged in formal discussions with the FCA about our collections policies and procedures in Vehicle Finance, in relation to Borrowers in Financial Difficulty. Where necessary, we are enhancing our approach to ensure good outcomes are delivered in line with the Group's purpose and values (see Note 8 to the Financial Statements).

Outlook

- The final phase of MTP is to transfer Near Prime originations onto the new platform with the implementation of a new rate for risk module, which will allow us to price lending based on the risk profile of the borrower.
- In January 2024, the FCA announced it was to undertake a review of discretionary commission arrangements in the motor finance market. We sometimes operated these arrangements until June 2017. The FCA plans to set out its next steps in Q3 2024, when the implications for the industry should become clearer. (See Note 31.1.2 to the Financial Statements).

1. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2023, FLA total and Vehicle Finance total of £22,083 million (2022: £23,691 million) and £260.0 million (2022: £262.9 million) respectively, as published at 4 March 2024.

Business Finance

Real Estate Finance

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

- Providing commercial lending facilities to professional landlords to allow them to improve and grow their portfolio.
- Providing development facilities to property developers and SME housebuilders to help build new homes for sale or letting.
- We have an experienced specialist team, with many years of property expertise, which is nimble and responsive within the market.

Performance history

	2023	2022	2021	2020	2019
New business (£m)	434.0	384.5	376.1	189.5	316.3
Loans and advances to customers (£m)	1,243.8	1,115.5	1,109.6	1,051.9	962.2
Net interest margin (%)	2.6	2.7	3.0	3.0	3.2
Risk adjusted margin (%)	2.2	2.6	3.0	2.5	3.2

What we do

- Providing first charge secured lending to professional landlords to allow them to improve and grow their portfolio.
- Providing development facilities to property developers and SME housebuilders to help build new homes for sale or letting.
- We provide lending secured against property assets to a maximum 70% loan-to-value ratio, on fixed or variable rates over a term of up to five years.
- Finance opportunities are sourced and supported on a relationship basis directly and via introducers and brokers.
- We maintain a strong risk management framework for existing and prospective customers.

2023 performance

- We delivered record new business lending for the third year running by working with existing larger customers to take advantage of new investment opportunities and to re-finance their portfolios.
- Lending balances are at an all-time high, despite a difficult economy, with interest rate volatility and SME borrowers less willing or able to risk their capital.
- The portfolio principally comprises lower risk residential investment lending, 83.8% (2022: 85.0%). The remainder of the book relates to development and commercial investment lending.
- Net revenue margin was broadly flat year-on year despite the challenging interest rate environment.
- Impairment charges for the year were £4.5 million (2022: £1.3 million) and this has impacted risk adjusted margin year-on-year. This charge primarily reflects a higher provision on one legacy development loan from within the whole portfolio. Without this charge, risk adjusted margin would be 2.5% (2022: 2.6%).
- Secured loan book with an average loan-to-value of 57.2% (2022: 57.7%), reducing the level of inherent risk to credit losses.

Outlook

- We believe that the long-term outlook is positive for real estate lending. Our specialist and bespoke services stand us in good stead to deliver sustainable growth.

Commercial Finance

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

- Providing a full suite of Asset Based Lending to UK clients who need working capital solutions.
- Providing bespoke lending facilities where Secure Trust Bank is well known for working closely with clients to sustain their businesses.

Performance history

	2023	2022	2021	2020	2019
New business (£m)	214.8	157.3	93.7	126.1	162.2
Loans and advances to customers (£m)	381.1	376.4	313.3	230.7	251.7
Net interest margin (%)	7.0	6.4	5.7	5.5	6.0
Risk adjusted margin (%)	4.7	6.2	5.8	5.0	5.9

What we do

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

2023 performance

- We delivered record new business in 2023.
- There was a modest year-on-year increase in lending balances as the economic headwinds led to higher client attrition.
- The large increase in net revenue margin is driven by fees charged for new facilities, extensions and early terminations. In 2023 and 2022 increases in UK Base Rates were passed through to clients.
- As reported in the 2023 Interim Report, the 2023 impairment charge of £8.0 million incorporates a £7.2 million charge on a one-off, long-running problem debt case. Circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the portfolio.
- The Group continues to administer UK Government CBIL, CLBILS and RLS products. At 31 December 2023, the outstanding lending balances under these schemes totalled £15.5 million (2022: £28.9 million) with 76% of balances now repaid.

Outlook

- Economic and market conditions remain challenging for our clients, but we remain committed to supporting their growth and success and we look forward to partnering with new businesses in 2024.

Savings

We look after our customers' savings and provide a competitive return:

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

Savings Review

	2023	2022	2021	2020	2019
Total deposits (£m)	2,871.8	2,514.6	2,103.2	2,020.3	1,992.5
Total funds raised (£m)	1,719.1	1,210.1	661.3	535.9	560.2

	2023	2022
ISA	629.6	421.8
Notice	174.3	500.7
Access	521.3	178.1
Term	1,546.6	1,414.0

Total	2,871.8	2,514.6

What we do

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

2023 performance

- We successfully raised over £1.7 billion of new deposits and retained over £0.7 billion at maturity during the year, reaching a record deposit holding of £2.9 billion.
- During 2023 the Bank of England continued to increase the Bank Base Rate, which drove up the cost of acquiring and retaining retail deposits. We continue to offer a simple product offering, distributed via the 'best buy' tables and therefore priced competitively.
- We have built on the launch of the Access Account in 2022, with balances surpassing £0.5 billion at year-end. Savers have benefited from higher interest rates and a competitive variable market allowing decent returns without sacrificing immediate access to funds. Similarly, these features of the market have weakened demand for Notice products. We enhanced the Access Account this year, allowing customers to save deposits from £1 to £250,000, expanding from our previous bands of £1,000 to £85,000.
- ISAs have remained important to achieving our growth plans in 2023, as well as for customers, with the higher-rate market environment creating increased demand for tax-free savings. We have improved the ISA application journey by introducing a shorter form process for existing customers.
- Fixed-rate term deposits continue to form a key part of our funding mix, with over £0.6 billion retained into new fixed-term products at maturity.
- During 2023, we continued to prioritise Savings' highest volume correspondence and convert from paper to digital. 42% of correspondence was converted to digital during 2023. The overall total correspondence that is now digital is 59%. For customers, this is timelier, removes reliance on the postal service, and supports our strategic priorities of simplifying and enhancing our customer experience. This initiative provides a cost saving, as well as acting on customer feedback about too much paper being issued. This initiative continues into 2024.

Outlook

- 2024 is likely to be a dynamic market for savings as product pricing adjusts to a falling interest rate environment. Customers will seek to optimise returns and we have a product set to meet these demands.

Market review

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

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

Economic review

Economic growth, measured in quarterly UK Gross Domestic Product ('GDP'), slowed in 2023, with only a 0.1% increase[1] in GDP recorded. This represents a material fall from 2022 where annual GDP growth was 4.3%. Economists' base case forecasts indicate GDP growth will remain low in 2024 at 0.5%, driven by the lagged impacts of tighter monetary policy on both households and the corporate sector.

Inflation remains above the Bank of England 2% target, although it has been falling ahead of expectations during the year, from 10.1% in January 2023 to 4.2%[1] in December 2023. The fall follows the Bank of England's response to tackle inflation

with several Base Rate hikes in the year, taking rates from 3.5% to 5.25% by December 2023. Financial markets have responded to the recent inflation data, pricing in a fall in the Bank Base Rate to 4.25% by the end of 2024. Although the Bank Base Rate has likely peaked, the full impact of the tightening since late 2021 is still to feed through to the real economy and consumers' disposable incomes and capacity for discretionary spending.

Employment levels remain high at 75.0%[1], while unemployment continues to remain at a low level of 3.8%[1], but did increase slightly during the year from 3.7%[1]. Vacancies in the labour market fell to circa 0.9 million[1] as employers hold back on recruitment to control costs in an uncertain economic environment. Given the continued pressures on employers from borrowing and energy costs, unemployment is expected to rise towards a peak of 4.5% by mid-2024. Strong annual wage growth at 6.2%[1] to December 2023 continues to fuel inflation, but has fallen from the in-year peak of 7.9%[1].

As anticipated, the impact of tighter credit and higher interest rates has softened transaction volumes and prices in the housing market. Lenders have reported lower mortgage approvals and negative net lending to October 2023. Given lower rate expectations linked to lower inflation figures, lenders started to cut mortgage rates in the latter part of 2023 and this has continued into early 2024, leading to an uptick in mortgage approvals. However, given the wider economic pressures, economists continue to predict a further correction in house prices of circa 6% in 2024.

Outlook

Interest rates are expected to fall in 2024, with the market expecting the first cut to take place in Q2 2024 and rates ultimately ending the year at 4.25%. The UK economy is expected to grow only modestly through 2024. House prices are expected to continue to fall after a long period of growth, and unemployment is expected to rise to a peak of 4.5% from its current level. The impact of high interest rates will impact consumers as they remortgage away from historic low-rate deals. The full impact, however is yet to flow through with 1.5 million mortgage borrowers having fixed rate deals expiring before the end of 2024. With forecast low GDP and higher interests still to flow through in full to household incomes, the balance of risks therefore to the UK remains skewed to the downside.

1. Source: Office for National Statistics, data as at 31 December 2023, unless otherwise stated.

Government and regulatory

This has been another eventful year for Government and regulatory announcements that impact the Group and/or the markets in which it operates. The key announcements in 2023 are set out below.

Prudential regulation

In November 2022, the PRA issued CP16/22 'The PRA consults on proposals for implementation of the Basel 3.1 standards' setting out its proposed changes to regulatory requirements, which are now expected to become effective from 1 July 2025. The proposals set out changes to the regulatory environment, including significant changes to the capital requirements for credit risk and operational risk. In PS17/23 issued in December 2023, the PRA issued a near final approach for several areas, including operational risk with confirmation for the remaining areas, including credit risk expected by June 2024.

In February 2023, the PRA issued CP4/23 'The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms' setting out their initial proposals for a strong and simple prudential framework, as well as the Phase 1 proposed liquidity and Pillar 3 disclosure-related rules for the new regime. In December 2023, the PRA confirmed the final eligibility criteria for the regime in PS15/23, the renaming of the regime to the Small Domestic Deposit Takers ('SDDT') regime and confirmed the Phase 1 implementation date as 1 July 2024. It also confirmed the associated liquidity and Pillar 3 rules for SDDT firms.

The SDDT capital rules are the subject of a further consultation, expected by June 2024. The PRA has indicated that the Basel 3.1 rules will be the starting point for designing the SDDT regime capital requirements. However, the launch date for the SDDT capital regime is still to be announced.

PS17/23 also confirmed that firms that are eligible for and have applied to join the SDDT regime do not need to adopt Basel 3.1 and can instead remain on the current UK Capital Requirements Regulation regime until the capital rules applicable to the SDDT regime are launched. The Group expects to be eligible to join the SDDT regime.

The Group has undertaken an impact analysis of the CP16/22 proposals to understand the potential impact under the proposed full rules, which is broadly neutral to risk-weighted assets. The Group will decide whether it will adopt the full rules or defer and adopt the SDDT regime in 2024.

During May 2023, the PRA issued PS5/23 'Model risk management principles for banks' setting out stronger governance expectations for model governance to address observed shortcomings within the industry. A new supervisory statement SS1/23, incorporating these revised expectations was also issued, however the final policy applies only to banks adopting the internal ratings model approach to capital. Therefore the Group is not directly impacted by the changes. The PRA is proposing the development of specific requirements for SDDT firms, which are expected to adopt a more proportionate approach.

During June 2023, the PRA issued CP10/23 'Solvent exit planning for non-systemic banks and building societies'. This

proposes a new requirement for non-systemic banks, such as Secure Trust Bank, to develop solvent exit planning documentation as an additional approach that could potentially be used as an alternative to resolution. The proposed implementation date is July 2025.

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

Conduct regulation

The FCA's new Consumer Duty came into force on 31 July 2023. In the run up to the deadline, the regulator published Dear CEO portfolio letters and podcasts, setting out its expectations and approach to supervision, and findings from its reviews of fair value frameworks. The Group's preparations included a comprehensive review of Consumer Finance and Savings products and customer experience.

At the end of July 2023, the FCA set out a 14-point action plan on cash savings to ensure banks are passing on interest rate rises to savers appropriately, communicating with customers much more effectively and offering them better savings rate deals.

During the year, the FCA has continued to focus on supporting consumers, who are struggling with the cost of living. In May 2023, it published a consultation on protections for borrowers in financial difficulty, proposing how they intend to incorporate aspects of the Tailored Support Guidance into the FCA's sourcebooks. In June, the FCA joined other regulators to call on firms to help struggling customers.

The FCA and PRA released proposals in September 2023 to promote diversity and inclusion in regulated financial services firms, aimed at cultivating healthier work environments and tapping into a wider talent pool.

In December 2023, the Payment Services Regulator published its final policy statement and direction on fighting authorised push payment scams, including all accounts capable of receiving faster payments within the scope.

During June 2023, the International Sustainability Standards Board ('ISSB') issued the first two Sustainability Disclosure Standards, S1 and S2 (IFRS S1 and S2). They set requirements for the disclosure of sustainability-related financial information and climate-related disclosures, respectively. The proposals are still to be incorporated into FCA guidance and the current expectation is that the adoption date is likely to be 2025. As a listed entity, the Group already falls within scope of the current Task Force on Climate-related Financial Disclosures ('TCFD') requirements, the proposed new standards build on what has already been developed.

In January 2024, the FCA announced it was to undertake a review of discretionary commission arrangements in the motor finance market. Vehicle Finance sometimes operated these arrangements until June 2017, ahead of the FCA banning their use in January 2021. We believe that the overall proportion of loans where we used discretionary commission arrangements was small and for a shorter period, relative to the industry in general. The FCA plans to set out its next steps in Q3 2024, when the implications for the industry should become clearer.

Government and monetary policy

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

The Bank of England MPC announced five consecutive increases in the UK Bank Base Rate over the course of 2023, taking rates up from 3.5% at the end of December 2022 to 5.25% at 31 December 2023. Rates have been held since August 2023.

Principal risks and uncertainties

Risk management

The effective management of risk is a key part of the Group's strategy and is underpinned by its Risk Aware value. This helps to protect the Group's customers and generate sustainable returns for shareholders. The Group is focused on maintaining sufficient levels of capital, liquidity and operational control, and acting in a responsible way.

The Group's Chief Risk Officer is responsible for leading the Group's Risk function, which is independent from the Group's operational and commercial teams. The Risk function is responsible for designing and overseeing the embedding of appropriate risk management frameworks, processes and controls, to enable key risks to be identified, assessed, monitored and accepted or mitigated in line with the Group's risk appetite. The Group's risk management practices are regularly reviewed and enhanced to reflect changes in its operating environment. The Chief Risk Officer is responsible for reporting to the Board on the Group's principal risks and how they are being managed against agreed risk appetite.

Risk appetite

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

Risk culture

A strong risk-aware culture is integral to the successful delivery of the Group's strategy and the effective management of risk.

The Group's risk culture is shaped by a range of factors including risk appetite, risk frameworks and policies, values and behaviours, as well as a clear tone from the top.

The Group looks to continually enhance its risk culture, and in 2023, performed an assessment of its risk culture against standards based on industry best practice and guidance from the Institute of Risk Management.

Risk governance

The Group's approach to managing risk is defined within its Enterprise-Wide Risk Management Framework. This provides a clear risk taxonomy and provides an overarching framework for risk management supported by frameworks and policies for individual risk disciplines. These frameworks set the standards for risk identification, assessment, mitigation, monitoring and reporting.

The Group's risk management frameworks, policies and procedures are regularly reviewed and updated to reflect the evolving risks that the Group faces in its business activities. They support decision-making across the Group and are designed to ensure that risks are appropriately managed and reported via risk-specific committees.

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

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

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

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

Board and Board Committees

- See Corporate Governance section in the Annual Report and Accounts

Group Executive Committee

Chair: Chief Executive Officer

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

Executive Risk Committee	**Assets and Liabilities Committee ('ALCO')**
Chair: Chief Risk Officer	Chair: Chief Financial Officer

• Responsible for overseeing the Group's risk profile, its adherence to regulatory compliance and monitoring these against the risk appetite set by the Board. • Monitors the effective implementation of the risk management framework across the Group.	• Responsible for implementing and controlling the liquidity, and asset and liability management risk appetite of the Group, providing high level control over the Group's balance sheet and associated risks. • Sets and controls capital deployment, treasury strategy guidelines and limits, and focuses on the effects of future plans and strategy on the Group's assets and liabilities.

Credit Committees	**Model Governance Committee**	**Other Committees**
Responsible for making decisions about lending, inclusive of oversight of credit scorecards and modelling.	Responsible for understanding, challenging and assessing risk and appropriateness of statistical and financial models and to challenge model assumptions and suitable model validation.	The activities of the Executive Risk Committee and ALCO are also supported by various specialist sub-committees and working groups, covering: Liquidity, Financial Crime, Compliance and Regulation, Operational Risk, Assumptions and Climate Change.

Principal risks

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

Further details of the principal risks and the changes to risk profile seen during the 2023 financial year are set out below.

The Group also regularly reviews strategic and emerging risks and analysis has been included to detail output of these reviews for 2023. Notes 37 to 40 to the Financial Statements provide further analysis of credit, liquidity, market and capital risks. Emerging risks are identified in line with the Group's Enterprise-Wide Risk Management Framework, utilising a 'top-down' approach with Group Executive workshops and a 'bottom-up' approach through the business unit risk and control self assessment process.

Further details of the Group's risk management framework, including risk appetite, can be found on the Group's website: www.securetrustbank.com/riskmanagement.

Credit risk

Description

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

Mitigation

- The Group has a defined Credit risk framework, which sets out how Credit risk is managed and mitigated across the Group.
- Risk appetite is cautious with the Group focusing on sectors and products where it has deep experience.
- Specialist Credit teams are in place within each business area to enable new lending to be originated in line with the Group's risk appetite.
- For Business Finance, lending is secured against assets, with Real Estate Finance lending, the majority of which is at fixed rates, secured by property at conservative loan-to-value ratios. Short dated Commercial Finance lending is secured across a range of assets, including debtors, stock and plant and machinery.
- For Consumer Finance, security is taken for Vehicle Finance lending and Retail Finance is unsecured, however positioned towards lower risk sectors. The vast majority of Retail Finance lending is interest free for consumers, with remaining consumer lending at fixed rates, which mitigates the direct impact of rising interest rates on affordability. Consumer Credit risk is assessed through a combination of risk scorecards, credit and affordability policy rules.
- Portfolio performance is tracked closely and reported via specialist management review meetings into the Executive and Board Risk Committees, with the ability to make changes to policy, affordability assessments or scorecards on a dynamic

basis.

- Management monitors and assesses concentration risk for all lending against control limits. The diversification of lending activities and secured nature of larger exposures mitigates the exposure of the Group to concentration risk.

Change during the year	**Heightened**

During 2023, economic conditions continued to be challenging in the UK, with high levels of inflation and cost of living pressures for consumers. In addition, both consumers and businesses were impacted by rising interest rates throughout the period.

The Group's lending portfolios performed satisfactorily in 2023. Retail Finance arrears continue to be low by historical comparison following a move into lower risk sectors over the last few years. Vehicle Finance has witnessed good quality new business acquisition as the Group tightened its criteria in light of the increased cost of living. However, Vehicle Finance collections performance in the year was impacted as the Group undertook a review of its collections policies, procedures and forbearance options to ensure they deliver good outcomes for customers.

The Real Estate Finance and Commercial Finance businesses performed satisfactorily at a portfolio level, with key risk metrics remaining within appetite. Some customers have been impacted by the rising interest rate environment; however, they have been managed closely with low levels of customer defaults leading to increased provisions.

One material loss was recorded in the first half of the year, within Commercial Finance, in relation to a long-running problem debt case. The circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the portfolio. In addition, within Real Estate Finance, impairment charges increased, which were primarily attributable to a higher provision on one development loan.

The overall rating for the year is driven by the continuing uncertainty in the external economic environment.

Liquidity and Funding risk

Description

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

Mitigation

Liquidity and Funding risk is managed in line with the Group's Prudential Risk Management Framework. The Group has a defined set of liquidity and funding risk appetite measures that are monitored and reported, as appropriate.

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

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

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

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

Contingency funding plans

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

Change during the year	**Stable**

The Group has maintained all liquidity and funding ratios in excess of Board and regulatory requirements throughout the

year. A significant level of high quality liquid assets, predominately held as cash at the Bank of England, continue to be maintained to ensure that obligations are met as they fall due. The Group's funding base has a very high proportion of retail depositors covered by the Financial Services Compensation Scheme protection.

Capital risk

Description

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

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

Mitigation

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

The Group manages its capital requirements on a forward-looking basis against minimum regulatory requirements and the Board's risk appetite to ensure capital resources are sufficient to support planned levels of growth. The Group will take opportunities to increase overall levels of capital and to optimise its capital stack as and when appropriate. In addition to the ICAAP, the Group performs regular budgeting and reforecasting exercises that consider a five-year time horizon. These forecasts are used to plan for future lending growth at a rate that both increases year-on-year profits and maintains a healthy capital surplus, taking into consideration the impact of known and anticipated future regulatory changes. The Group also models various stressed scenarios looking over a five-year time horizon, which consider a range of growth rates over those years as part of the viability and going concern assessments.

Further information on the Group's capital requirement is contained within the Pillar 3 disclosures, which are published as a separate document on our website (www.securetrustbank.com/pillar3).

Change during the year **Stable**

The Group continues to meet its capital ratio measures, taking into consideration the increased requirements driven by planned growth and any change in regulatory requirements, and continues to operate within its risk appetite. In February 2023, the Group issued £90.0 million of 10.5 year, 13.0% Fixed Rate Callable Subordinated Notes, which also qualify as Tier 2 regulatory capital (subject to a cap of 25% of Pillar 1 and 2A requirements). The Group is actively considering regulatory changes proposed through Basel 3.1 and the Interim Capital Regime as part of the Small Domestic Deposit Takers Regime. Details of the common equity tier 1 ratio, total capital ratio and leverage ratio are included in the Financial review.

The 2023 ICAAP showed that the Group can continue to meet its minimum regulatory capital requirements, even under extreme stress scenarios.

Market risk

Description

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

The Group's balance sheet is predominantly denominated in GBP, although a small number of transactions are completed in US Dollars, Euros and other currencies in support of Commercial Finance customers.

Mitigation

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

- the mismatch, or duration, between repricing dates of assets and liabilities; and

- customer optionality, for example, early repayment of loans in advance of contractual maturity dates.

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

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

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

The Group has no significant exposures to foreign currencies and hedges any residual currency risks to Sterling.

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

Change during the year	**Stable**

Despite continued increases in the Bank of England Base Rate during 2023, the Group remained within risk appetite in relation to interest rate risk and market risk throughout the year.

Operational risk

Description

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

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

Mitigation

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

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

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

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

In addition to the delivery of framework requirements, the Group has focused on various thematic areas of operational risk in 2023, including supplier management, operational resilience, business processes and data management.

Change during the year	**Stable**

The Group uses the 'The Standardised Approach' for assessing its operational risk capital, in recognition of the enhancements made to its framework and embedding it across the Group. The Group continues to invest in resource, expertise and systems to support the effective management of operational risk. In 2023, the Group has continued to enhance these standards and has introduced several improvements to the control frameworks in place across its operational risks. Overall, the assessment is that the level of risk has remained stable.

Model risk

Description

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

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

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

Mitigation

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

- model risk appetite;
- model and model risk definitions; and
- roles and responsibilities for model risk management.

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

Change during the year **Stable**

The Group has delivered significant improvements to its Model Governance Framework in 2023. Whilst the Group is not within the scope of the PRA's Supervisory Statement 1/23, it has aligned its model risk management practices to this standard. Working with a third party expert in the field of model governance, the model risk management framework including policies, procedures, model development standards and model validation requirements have all been rewritten and trained out to senior management and model users. A team has been created to oversee model risk management and to undertake independent validations of the Group's high risk models.

Compliance and Conduct risk

Description

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

Mitigation

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

Risk management activities follow the Enterprise-Wide Risk Management Framework, through identifying, assessing and managing risks, governance arrangements and reporting risks against Group risk appetite. Arrangements include horizon-scanning of regulatory changes, oversight of regulatory incidents and assurance activities conducted by the three lines of defence, including the second line Compliance Monitoring programme.

The Group's horizon-scanning activities track industry and regulatory developments, including the implementation of the Basel 3.1 standard and the Small Domestic Deposit Takers proposal, and the PRA and FCA's diversity and inclusion proposals.

Key focus areas across the finance industry in 2023 have been the implementation of the new Consumer Duty, the FCA's Cost of Living Forbearance review that stemmed from its Borrowers in Financial Difficulty ('BiFD') report in 2022, and the developments in model risk management.

Change during the year **Heightened**

The overall rating for the year is driven by the increased regulatory focus on conduct matters, including the new Consumer Duty, cost of living and forbearance across the motor finance sector following the FCA's BiFD review, and historic

discretionary motor finance commissions.

The Group completed the necessary activities to achieve the regulatory timeframe to implement the new Consumer Duty, including product and value assessments and consumer understanding testing. A programme of activities continues to embed further the Duty across the consumer businesses.

During H2 2023, the Group engaged in formal discussions with the FCA about its collections processes, procedures and policies in Vehicle Finance and engaged external support to assist. Where necessary, we are enhancing further our approach to enable good outcomes to be delivered in line with the Group's purpose and values.

In January 2024, the FCA announced it was undertaking a review of discretionary commission arrangements in the motor finance market. Vehicle Finance sometimes operated these arrangements until June 2017, ahead of the FCA banning their use in January 2021. We believe that the overall proportion of loans where we used discretionary commission arrangements was small and for a shorter period, relative to the industry in general. The Group is tracking developments in order to respond, when the implications for the industry become clearer.

Financial Crime risk

Description

The risk that the Group's products and services will be used to facilitate financial crime, resulting in harm to its customers, the Group or third parties, and the Group fails to protect them by not having effective systems and controls. Financial Crime includes anti-money laundering, terrorist financing, proliferation financing, sanctions restrictions, modern slavery, human trafficking, fraud and the facilitation of tax evasion. The Group may incur significant remediation costs to rectify issues, reimburse losses incurred by customers and address regulatory censure and penalties.

Mitigation

We operate in a constantly developing financial crime environment and are exposed to financial crime risks of varying degrees across all areas of the Group. The Group is focused on maintaining effective systems and controls, alongside vigilance against all forms of financial crime and meeting our regulatory obligations.

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

- Mandatory annual colleague training and awareness initiatives.
- Regular reviews of our suite of financial crime policies, standards and procedures, checking they remain up to date and address any legislative/regulatory change and emerging risks.
- Detection, transaction monitoring and screening technologies.
- Extensive recruitment policy to screen potential employees.
- Horizon-scanning and regular management information production and analysis conducted to identify emerging threats, trends and typologies, as well as preparing for new legislation and regulation.
- Financial crime-focused governance with risk committees providing senior management oversight, challenge and risk escalation.
- Intelligence shared through participating in key industry events such as those hosted by UK Finance and other networks.

Change during the year **Stable**

Enhancements to the Group's financial crime control environment have continued with a focus on financial crime capabilities and systems and controls. We are closely monitoring changes to fraud and financial crime regulation and guidance and responding to them.

Climate Change risk

Description

Climate change, and society's response to it, present risks to the UK financial services sector, with some of these only fully crystallising over an extended period. The Group is exposed to physical and transition risks arising from climate change.

Mitigation

The Group has established processes to monitor our risk exposure to both the potential 'physical' effects of climate change and the 'transitional' risks from the UK's adjustment towards a carbon neutral economy. The Group has developed a new role to support the deployment of its Climate Strategy and enable pivotal change and development across the Group. The activities remain a core element of our Environmental, Social and Governance approach.

Stress testing work has been enhanced for 2023, for our Vehicle Finance and Real Estate Finance businesses to test the resilience of our portfolios and strategies to manage the risks and opportunities of climate change. Further detail is provided within the Climate-related financial disclosures section of the Annual Report and Accounts.

Change during the year	**Stable**

The Group's direct exposure to the physical impacts of climate change remains relatively limited, given its footprint and areas of operation. However, it has established robust controls designed to manage the associated risks and will continue to develop its business plans in the future as the risks evolve. Disclosures are made within the Climate-related financial disclosures section of the Annual Report and Accounts in line with the guidance from the 'Task Force on Climate-Related Financial Disclosures. Specific detail on each of the key risks identified and mitigation are covered within the Strategy section of the Annual Report and Accounts. The Group continues to monitor the evolving climate disclosure landscape and regulatory requirements and expectations, including transition planning.

Strategic and emerging risks

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

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

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

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

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

Director's responsibility statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial statements in accordance with United Kingdom adopted international accounting standards. The Financial Statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. The Directors have also chosen to prepare the parent Company Financial Statements under United Kingdom adopted international accounting standards. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

- make an assessment of the company's ability to continue as a going concern.

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

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

Responsibility statement

Each of the Directors who are in office at the date of this report and whose names and roles are listed in the Annual Report and Accounts (pages 66 to 68) confirm that to the best of our knowledge:

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

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	**2023** **£million**	Restated[1] 2022 £million
Income statement			
Continuing operations			
Interest income and similar income	4.1	304.0	203.0
Interest expense and similar charges	4.1	(136.5)	(50.4)
Net interest income	4.1	**167.5**	**152.6**
Fee and commission income	4.2	17.3	17.4
Fee and commission expense	4.2	(0.1)	(0.4)
Net fee and commission income	4.2	**17.2**	**17.0**
Operating income		**184.7**	**169.6**
Net impairment charge on loans and advances to customers	16	(43.2)	(38.2)
Gains on modification of financial assets		0.3	1.1
Fair value and other gains/(losses) on financial instruments	5	0.5	(0.3)
Operating expenses	6	(99.7)	(93.2)
Profit before income tax from continuing operations before exceptional items		**42.6**	**39.0**
Exceptional items	8	(6.5)	–
Profit before income tax from continuing operations		36.1	39.0
Income tax expense	9	(9.7)	(9.4)
Profit for the year from continuing operations		**26.4**	**29.6**
Discontinued operations			
(Loss)/profit before income tax from discontinued operations	10	**(2.7)**	**5.0**
Income tax credit/(expense)	10	0.6	(0.9)
(Loss)/profit for the year from discontinued operations	10	**(2.1)**	**4.1**
Profit for the year		**24.3**	**33.7**

Other comprehensive income			
Items that may be reclassified to the income statement			
Cash flow hedge reserve movements		–	(0.8)
Reclassification to the income statement		0.6	0.1
Taxation		(0.1)	0.2
Other comprehensive income/(loss) for the year, net of income tax		**0.5**	**(0.5)**
Total other comprehensive income		**24.8**	**33.2**
Profit attributable to equity holders of the Company		**24.3**	**33.7**
Total comprehensive income attributable to equity holders of the Company		**24.8**	**33.2**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per ordinary share	11.1	**129.6**	**180.5**
Diluted earnings per ordinary share	11.2	**126.1**	**174.7**
Basic earnings per ordinary share – continuing operations		**140.8**	**158.5**
Diluted earnings per ordinary share – continuing operations		**137.0**	**153.4**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3 for further details.

Consolidated statement of financial position

As at 31 December

	Note	**2023 £million**	Restated[1] 2022 £million	Restated[1] 2021 £million
ASSETS				
Cash and Bank of England reserve account		351.6	370.1	235.7
Loans and advances to banks	13	53.7	50.5	50.3
Debt securities		–	–	25.0
Loans and advances to customers	14, 15	3,315.3	2,919.5	2,530.6
Fair value adjustment for portfolio hedged risk	17	(3.9)	(32.0)	(3.5)
Derivative financial instruments	17	25.5	34.9	3.8
Assets held for sale		–	–	1.3
Investment property	18	–	–	4.7
Property, plant and equipment	19	10.8	9.7	8.8
Right-of-use assets	20	1.8	1.5	2.2
Intangible assets	21	5.9	6.6	6.9
Current tax assets		0.1	–	0.8
Deferred tax assets	23	4.3	5.6	7.2
Other assets	24	12.9	13.4	11.9
Total assets		**3,778.0**	**3,379.8**	**2,885.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	25	402.0	400.5	390.8
Deposits from customers	26	2,871.8	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	17	(1.4)	(23.0)	(5.3)
Derivative financial instruments	17	22.0	26.7	6.2
Liabilities directly associated with assets held for sale		–	–	2.0

Current tax liabilities		–	0.8	–
Lease liabilities	27	2.3	2.1	3.1
Other liabilities	28	37.7	78.1	31.3
Provisions for liabilities and charges	29	6.0	2.5	1.3
Subordinated liabilities	30	93.1	51.1	50.9
Total liabilities		**3,433.5**	**3,053.4**	**2,583.5**
Equity attributable to owners of the parent				
Share capital	32	7.6	7.5	7.5
Share premium		83.8	82.2	82.2
Other reserves	33	(1.7)	(1.1)	(0.3)
Retained earnings		254.8	237.8	212.8
Total equity		**344.5**	**326.4**	**302.2**
Total liabilities and equity		**3,778.0**	**3,379.8**	**2,885.7**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3 for further details.

Company statement of financial position

As at 31 December

	Note	**2023 £million**	Restated[1] 2022 £million	Restated[1] 2021 £million
ASSETS				
Cash and Bank of England reserve account		351.6	370.1	235.7
Loans and advances to banks	13	53.0	48.9	47.4
Debt securities		–	–	25.0
Loans and advances to customers	14, 15	3,315.3	2,919.5	2,450.3
Fair value adjustment for portfolio hedged risk	17	(3.9)	(32.0)	(3.5)
Derivative financial instruments	17	25.5	34.9	3.8
Investment property	18	0.9	1.0	5.7
Property, plant and equipment	19	6.3	4.9	3.9
Right-of-use assets	20	1.6	1.3	1.5
Intangible assets	21	3.5	4.4	5.4
Investments in group undertakings	22	5.9	5.7	4.3
Current tax assets		–	–	1.5
Deferred tax assets	23	4.3	5.3	6.9
Other assets	24	14.4	15.1	99.8
Total assets		**3,778.4**	**3,379.1**	**2,887.7**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	25	402.0	400.5	390.8
Deposits from customers	26	2,871.8	2,514.6	2,103.2
Fair value adjustment for portfolio hedged risk	17	(1.4)	(23.0)	(5.3)
Derivative financial instruments	17	22.0	26.7	6.2
Current tax liabilities		0.3	0.6	–
Lease liabilities	27	2.1	1.9	2.3
Other liabilities	28	44.7	85.9	43.8
Provisions for liabilities and charges	29	5.6	2.0	1.3
Subordinated liabilities	30	93.1	51.1	50.9

Total liabilities		**3,440.2**	**3,060.3**	**2,593.2**
Equity attributable to owners of the parent				
Share capital	32	7.6	7.5	7.5
Share premium		83.8	82.2	82.2
Other reserves	33	(1.7)	(1.1)	(0.3)
Retained earnings		248.5	230.2	205.1
Total equity		**338.2**	**318.8**	**294.5**
Total liabilities and equity		**3,778.4**	**3,379.1**	**2,887.7**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3 for further details.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not present the parent company income statement. The profit for the parent company for the year of £25.6 million is presented in the Company statement of changes in equity.

Consolidated statement of changes in equity

			Other reserves				
	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2022	**7.5**	**82.2**	**(0.3)**	**1.3**	**–**	**211.7**	**302.4**
Land and buildings prior year restatement net of tax (see Note 1.3)	–	–	–	(1.3)	–	1.1	(0.2)
Balance at 1 January 2022 (restated)	**7.5**	**82.2**	**(0.3)**	**–**	**–**	**212.8**	**302.2**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.7	33.7
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedge reserve movements	–	–	0.2	–	–	–	0.2
Total other comprehensive loss	**–**	**–**	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**–**	**–**	**33.7**	**33.2**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**237.8**	**326.4**
Total comprehensive income for the year							
Profit for 2023	–	–	–	–	–	24.3	24.3
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	0.6	–	–	–	0.6
Tax on cash flow hedge reserve movements	–	–	(0.1)	–	–	–	(0.1)
Total other comprehensive income	**–**	**–**	**0.5**	**–**	**–**	**–**	**0.5**

Total comprehensive income for the year	**–**	**–**	**0.5**	**–**	**–**	**24.3**	**24.8**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(1.2)	–	(1.2)
Sale of own shares	–	–	–	–	0.1	–	0.1
Issue of shares	0.1	1.6	–	–	–	–	1.7
Dividends paid	–	–	–	–	–	(8.4)	(8.4)
Share-based payments	–	–	–	–	–	1.1	1.1
Total contributions by and distributions to owners	**0.1**	**1.6**	**–**	**–**	**(1.1)**	**(7.3)**	**(6.7)**
Balance at 31 December 2023	**7.6**	**83.8**	**(0.3)**	**–**	**(1.4)**	**254.8**	**344.5**

Company statement of changes in equity

			Other reserves				
	Share capital £million	**Share premium £million**	**Cash flow hedge reserve £million**	**Revaluation reserve £million**	**Own shares £million**	**Retained earnings £million**	**Total £million**
Balance at 1 January 2022	**7.5**	**82.2**	**(0.3)**	**0.7**	**–**	**204.1**	**294.2**
Land and buildings prior year restatement net of tax (see Note 1.3)	–	–	–	(0.7)	–	1.0	0.3
Balance at 1 January 2022 (restated)	**7.5**	**82.2**	**(0.3)**	**–**	**–**	**205.1**	**294.5**
Total comprehensive income for the year							
Profit for 2022	–	–	–	–	–	33.8	33.8
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	(0.7)	–	–	–	(0.7)
Tax on cash flow hedges reserve movements	–	–	0.2	–	–	–	0.2
Total other comprehensive loss	**–**	**–**	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Total comprehensive income for the year	**–**	**–**	**(0.5)**	**–**	**–**	**33.8**	**33.3**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Own shares	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	(10.7)	(10.7)
Share-based payments	–	–	–	–	–	2.0	2.0
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(0.3)**	**(8.7)**	**(9.0)**
Balance at 31 December 2022	**7.5**	**82.2**	**(0.8)**	**–**	**(0.3)**	**230.2**	**318.8**
Total comprehensive income for the year							
Profit for 2023	–	–	–	–	–	25.6	25.6
Total other comprehensive income, net of income tax							
Cash flow hedge reserve movements	–	–	0.6	–	–	–	0.6
Tax on cash flow hedge reserve movements	–	–	(0.1)	–	–	–	(0.1)

Total other comprehensive income	**–**	**–**	**0.5**	**–**	**–**	**–**	**0.5**
Total comprehensive income for the year	**–**	**–**	**0.5**	**–**	**–**	**25.6**	**26.1**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of own shares	–	–	–	–	(1.2)	–	(1.2)
Sale of own shares	–	–	–	–	0.1	–	0.1
Issue of shares	0.1	1.6	–	–	–	–	1.7
Dividends paid	–	–	–	–	–	(8.4)	(8.4)
Share-based payments	–	–	–	–	–	1.1	1.1
Total contributions by and distributions to owners	**0.1**	**1.6**	**–**	**–**	**(1.1)**	**(7.3)**	**(6.7)**
Balance at 31 December 2023	**7.6**	**83.8**	**(0.3)**	**–**	**(1.4)**	**248.5**	**338.2**

Consolidated statement of cash flows

For the year ended 31 December

	Note	**2023 £million**	2022 £million
Cash flows from operating activities			
Profit for the year		24.3	33.7
Adjustments for:			
Income tax expense	9	9.1	10.3
Depreciation of property, plant and equipment	19	0.9	1.2
Depreciation of right-of-use assets	20	0.7	0.7
Amortisation of intangible assets	21	1.2	1.4
Loss on disposal of property, plant and equipment, right of use assets and intangible assets		0.2	1.4
Impairment charge on loans and advances to customers		43.2	39.0
Share-based compensation	34	1.1	2.0
Gain on disposal of loan books	10	–	(8.9)
Provisions for liabilities and charges	29	8.5	–
Other non-cash items included in profit before tax		(0.8)	1.0
Cash flows from operating profits before changes in operating assets and liabilities		**88.4**	**81.8**
Changes in operating assets and liabilities:			
– loans and advances to customers		(439.0)	(497.1)
– loans and advances to banks		(1.3)	0.6
– other assets		0.4	(1.5)
– deposits from customers		357.2	411.4
– provisions for liabilities and charges utilisation		(4.7)	(1.1)
– other liabilities		(37.8)	45.6
Income tax paid		(8.6)	(7.0)
Net cash (outflow)/inflow from operating activities		**(45.4)**	**32.7**
Cash flows from investing activities			
Consideration on sale of loan books	10	–	81.9
Sale of investment property	18	–	3.3
Maturity and sales of debt securities		–	80.0
Purchase of debt securities		–	(80.0)

Purchase of property, plant and equipment and intangible assets	20, 21	(2.7)	(2.7)
Net cash (outflow)/inflow from investing activities		**(2.7)**	**82.5**
Cash flows from financing activities			
Issue of subordinated debt	30	70.0	–
Redemption of subordinated debt	30	(28.8)	–
(Repayment)/drawdown of amounts due to banks		(0.9)	7.0
Purchase of own shares		(1.2)	(0.3)
Issue of shares		1.7	–
Dividends paid	12	(8.4)	(10.7)
Repayment of lease liabilities	21	(0.9)	(1.0)
Net cash inflow/(outflow) from financing activities		**31.5**	**(5.0)**
Net (decrease)/increase in cash and cash equivalents		**(16.6)**	**110.2**
Cash and cash equivalents at 1 January		416.9	306.7
Cash and cash equivalents at 31 December	35	**400.3**	**416.9**

Company statement of cash flows

For the year ended 31 December

	Note	**2023 £million**	2022 £million
Cash flows from operating activities			
Profit for the year		25.6	33.8
Adjustments for:			
Income tax expense	9	6.7	6.9
Depreciation of property, plant and equipment	19	0.6	0.7
Depreciation of right-of-use assets	20	0.6	0.4
Amortisation of intangible assets	21	1.0	1.1
Loss on disposal of property, plant and equipment		0.1	–
Impairment charge on loans and advances to customers		43.2	37.8
Share-based compensation	34	0.9	1.6
Dividends received from subsidiaries		(10.2)	(14.0)
Provisions for liabilities and charges	29	7.2	1.4
Other non-cash items included in profit before tax		1.4	(0.3)
Cash flows from operating profits before changes in operating assets and liabilities		**77.1**	**69.4**
Changes in operating assets and liabilities:			
– loans and advances to customers		(439.0)	(505.7)
– loans and advances to banks		(1.3)	0.6
– other assets		8.7	98.7
– deposits from customers		357.2	411.4
– provisions for liabilities and charges utilisation		(3.3)	(1.1)
– other liabilities		(38.6)	44.0
Income tax paid		(5.9)	(3.0)
Net cash (outflow)/inflow from operating activities		**(45.1)**	**114.3**
Cash flows from investing activities			
Sale of investment property	18	–	3.3
Purchase of subsidiary undertaking	22	–	(1.0)
Maturity and sales of debt securities		–	80.0

Purchase of debt securities		–	(80.0)
Purchase of property, plant and equipment and intangible assets	20, 21	(2.2)	(0.4)
Net cash (outflow)/inflow from investing activities		**(2.2)**	**1.9**
Cash flows from financing activities			
Issue of subordinated debt	30	70.0	–
Redemption of subordinated debt	30	(28.8)	–
(Repayment)/drawdown of amounts due to banks		(0.9)	7.0
Purchase of own shares	33	(1.2)	(0.3)
Issue of shares	32	1.7	–
Dividends paid	12	(8.4)	(10.7)
Repayment of lease liabilities	21	(0.8)	(0.7)
Net cash inflow/(outflow) from financing activities		**31.6**	**(4.7)**
Net (decrease)/increase in cash and cash equivalents		**(15.7)**	**111.5**
Cash and cash equivalents at 1 January		415.3	303.8
Cash and cash equivalents at 31 December	35	**399.6**	**415.3**

Notes to the consolidated financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below, and if applicable, directly under the relevant note to the consolidated financial statements. These policies have been consistently applied to all of the years presented, unless otherwise stated.

1.1. Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as 'the Company') and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is Yorke House, Arleston Way, Solihull, B90 4LH. The consolidated financial statements of the Company as at and for the year ended 31 December 2023 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in the provision of banking and financial services.

1.2. Basis of presentation

The figures shown for the year ended 31 December 2023 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2023 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 2022 and 31 December 2021 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, which 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.

1.3. Property, plant and equipment prior year adjustment

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

- The historical model or;
- The revaluation model.

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

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

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

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

Statement of financial position	As originally stated 1 January 2022 Group £million	Prior year adjustment 1 January 2022 Group £million	Restated 1 January 2022 Group £million	As originally stated 1 January 2022 Company £million	Prior year adjustment 1 January 2022 Company £million	Restated 1 January 2022 Company £million
Property, plant and equipment	9.3	(0.5)	8.8	3.7	0.2	3.9
Deferred tax assets	6.9	0.3	7.2	6.8	0.1	6.9
Other assets	2,869.7	–	2,869.7	2,876.9	–	2,876.9
Total assets	**2,885.9**	**(0.2)**	**2,885.7**	**2,887.4**	**0.3**	**2,887.7**
Total liabilities	**2,583.5**	**–**	**2,583.5**	**2,593.2**	**–**	**2,593.2**
Retained earnings	211.7	1.1	212.8	204.1	1.0	205.1
Revaluation reserve	1.3	(1.3)	–	0.7	(0.7)	–
Other equity/reserves	89.4	–	89.4	89.4	–	89.4
Total equity	**302.4**	**(0.2)**	**302.2**	**294.2**	**0.3**	**294.5**
Total liabilities and equities	**2,885.9**	**(0.2)**	**2,885.7**	**2,887.4**	**0.3**	**2,887.7**

Statement of financial position	As originally stated 1 January 2023 Group £million	Prior year adjustment 1 January 2023 Group £million	Restated 1 January 2023 Group £million	As originally stated 1 January 2023 Company £million	Prior year adjustment 1 January 2023 Company £million	Restated 1 January 2023 Company £million
Property, plant and equipment	10.3	(0.6)	9.7	4.7	0.2	4.9
Deferred tax assets	5.5	0.1	5.6	5.3	–	5.3
Other assets	3,364.5	–	3,364.5	3,368.9	–	3,368.9
Total assets	**3,380.3**	**(0.5)**	**3,379.8**	**3,378.9**	**0.2**	**3,379.1**
Total liabilities	**3,053.4**	**-**	**3,053.4**	**3,060.3**	**–**	**3,060.3**
Retained earnings	237.5	0.3	237.8	230.0	0.2	230.2
Revaluation reserve	0.8	(0.8)	–	–	–	–
Other equity/reserves	88.6	–	88.6	88.6	–	88.6
Total equity	**326.9**	**(0.5)**	**326.4**	**318.6**	**0.2**	**318.8**
Total liabilities and equities	**3,380.3**	**(0.5)**	**3,379.8**	**3,378.9**	**0.2**	**3,379.1**

There is negligible impact on the income statement and cash flow statement for the year ended 31 December 2022.

1.4. Consolidation

Subsidiaries

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

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

acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The parent company's investments in subsidiaries are recorded at cost less, where appropriate, provision for impairment. The fair value of the underlying business of the Company's only material investment was significantly higher than carrying value, and therefore no impairment was required.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

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

Subsidiaries are de-consolidated from the date that control ceases.

Discontinued operations

Discontinued operations are a component of an entity that has been disposed of and represents a major line of business and/or is part of a single co-ordinated disposal plan.

1.5. Financial assets and financial liabilities accounting policy

Financial assets (with the exception of derivative financial instruments) accounting policy

The Group classifies its financial assets at inception into three measurement categories; 'amortised cost', 'Fair Value Through Other Comprehensive Income' ('FVOCI') and 'Fair Value Through Profit or Loss' ('FVTPL'). A financial asset is measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates that are Solely Payments of Principal and Interest ('SPPI').

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 SPPI on the outstanding principal amount. All of the Group's financial assets are therefore currently classified as amortised cost, except for derivative financial instruments. Loans are recognised when funds are advanced to customers and are carried at amortised cost using the Effective Interest Rate ('EIR') method.

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

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

The Group currently has no financial instruments classified as FVOCI.

See below for further details of the business model assessment and the SPPI test.

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

All other assets are classified as FVTPL.

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

Assessment whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the cost of funds and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet the condition.

In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Prepayments and extension terms;
- Terms that limit the Group's claim to cash flows from specific assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rate).

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on managing the portfolio in order to collect contractual cash flows or whether it is managed in order to trade to realise fair value changes;
- How the performance of the portfolio is evaluated and reports to management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are classified as FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Group currently has no financial instruments classified as FVTPL.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, plus or minus the cumulative amortisation using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, minus any reduction for impairment.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all of the risks and rewards of ownership or in the event of a substantial modification. There have not been any instances where assets have only been partially derecognised.

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 EIR based on the expected future cash flows at origination. Determination of the origination Probability of Default ('PD') for the new loan is required, based on the PD as at the date of the modification, which is used for the calculation of the impairment provision against the new loan. Any deferred fees or deferred interest, and any difference between the carrying value of the derecognised loan and the new loan, is written off to the income statement on recognition of the new loan.

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

Financial liabilities (with the exception of derivative financial instruments)

The Group classifies its financial liabilities as measured at amortised cost. Such financial liabilities are recognised when cash is received from depositors and carried at amortised cost using the EIR method. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are not offset in the consolidated financial statements unless the Group has both a legally enforceable right and intention to offset.

1.6. Foreign currencies

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

2. Critical accounting judgements and key sources of estimation uncertainty

2.1. Judgements

Critical judgements are disclosed in

- Note 16.2.
- Note 31.1.2.

2.2. Key sources of estimation uncertainty

Estimations that could have a material impact on the Group's financial results, and are therefore considered to be key sources of estimation uncertainty. Key sources of estimation can be found in:

- Note 16.1. Allowances for impairment of loans and advances to customers
- Note 29. Provisions for liabilities and charges

3. Operating segments

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

Continuing operations

Consumer Finance

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

Business Finance

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

Other

- This principally includes interest receivable from central banks, interest receivable and payable on derivatives and interest payable on deposits from customers, amounts due to banks and subordinated liabilities which are not recharged to the operating segments.

The Group's chief operating decision-maker, the Group Chief Executive Officer, regularly reviews these segments by looking at the operating income, size of the loan books and impairments.

Interest expense is charged to the operating segments in accordance with the Group's internal funds transfer pricing policy.

Operating expenses are not aligned to operating segments for the day-to-day management of the business, so they cannot be allocated on a reliable basis. Additionally, no balance sheet items are allocated to segments other than loans and advances to customers.

Discontinued operations

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

	Interest income and similar income £million	Interest expense and similar charges £million	Net interest income £million	Net fee and commission income £million	Operating income from external customers £million	Net impairment charge on loans and advances to customers £million	Loans and advances to customers £million
31 December 2023							
Retail Finance	106.5	(33.4)	**73.1**	3.2	**76.3**	15.9	1,223.2
Vehicle Finance	59.1	(15.0)	**44.1**	1.8	**45.9**	14.8	467.2
Consumer Finance	165.6	(48.4)	**117.2**	5.0	**122.2**	30.7	1,690.4
Real Estate Finance	74.4	(44.7)	**29.7**	0.9	**30.6**	4.5	1,243.8
Commercial Finance	27.2	(14.0)	**13.2**	11.3	**24.5**	8.0	381.1
Business Finance	101.6	(58.7)	**42.9**	12.2	**55.1**	12.5	1,624.9
Other	36.8	(29.4)	**7.4**	–	**7.4**	–	–
	304.0	**(136.5)**	**167.5**	**17.2**	**184.7**	**43.2**	**3,315.3**

	Interest income and similar income £million	Interest expense and similar charges £million	Net interest income £million	Net fee and commission income £million	Operating income from external customers £million	Net impairment charge on loans and advances to customers £million	Loans and advances to customers £million
31 December 2022							
Retail Finance	74.4	(13.2)	**61.2**	3.6	**64.8**	14.8	1,054.5
Vehicle Finance	46.6	(7.7)	**38.9**	1.4	**40.3**	21.3	373.1
Debt Management	5.3	(0.8)	**4.5**	4.1	**8.6**	0.8	–
Consumer Finance	126.3	(21.7)	**104.6**	9.1	**113.7**	36.9	1,427.6
Real Estate Finance	57.4	(27.7)	**29.7**	0.2	**29.9**	1.3	1,115.5
Commercial Finance	17.5	(6.1)	**11.4**	11.6	**23.0**	0.8	376.4
Business Finance	74.9	(33.8)	**41.1**	11.8	**52.9**	2.1	1,491.9
Other	7.1	4.3	**11.4**	0.2	**11.6**	–	–
	208.3	**(51.2)**	**157.1**	**21.1**	**178.2**	**39.0**	**2,919.5**
Of which:							
Continuing	**203.0**	**(50.4)**	**152.6**	**17.0**	**169.6**	**38.2**	**2,919.5**
Discontinued (Note 10)	**5.3**	**(0.8)**	**4.5**	**4.1**	**8.6**	**0.8**	**–**

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

	2023 £million	2022 £million
Loans and advances to customers	267.0	201.1
Cash and Bank of England reserve account	17.5	4.6
Debt securities	–	0.1
	284.5	205.8
Income on financial instruments hedging assets	19.5	2.5
Interest income and similar income	**304.0**	**208.3**
Of which:		

Continuing	**304.0**	**203.0**
Discontinued (Note 10)	**–**	**5.3**

Deposits from customers	(88.2)	(38.4)
Due to banks	(18.7)	(5.7)
Subordinated liabilities	(10.7)	(3.4)
Other	(0.1)	(0.1)
	(117.7)	(47.6)
Expense on financial instruments hedging liabilities	(18.8)	(3.6)
Interest expense and similar charges	**(136.5)**	**(51.2)**
Of which:		
Continuing	**(136.5)**	**(50.4)**
Discontinued (Note 10)	**–**	**(0.8)**

Interest income and expense accounting policy

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

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

In calculating the EIR for financial instruments, other than assets that were credit-impaired on initial recognition, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges and broker commissions) and anticipated customer behaviour but does not consider future credit losses.

The calculation of the EIR includes all fees received and paid that are an integral part of the loan, 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 EIR to the gross carrying amount of the financial asset. For financial assets that become credit-impaired subsequent to initial recognition ('Stage 3' assets), from the next reporting period onwards interest income is recognised by applying the EIR to the amortised cost of the financial asset. The credit risk of financial assets that become credit-impaired are not expected to improve such that they are no longer considered credit-impaired, however, if this were to occur the calculation of interest income would revert back to the gross basis. The Group's definition of Stage 1, Stage 2 and Stage 3 assets is set out in Note 16.

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

Further details regarding when an asset becomes credit-impaired subsequent to initial recognition is provided within Note 16.

4.2 Net fee and commission income

	2023 **£million**	2022 £million
Fee and disbursement income	16.4	19.8
Commission income	0.9	1.4
Other income	–	0.3
Fee and commission income	**17.3**	**21.5**
Of which:		
Continuing	**17.3**	**17.4**
Discontinued (Note 10)	**–**	**4.1**

Other expenses	(0.1)	(0.4)
Fee and commission expense - Continuing	**(0.1)**	**(0.4)**

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

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

Fee and commission accounting policy

Fees and commission income that is not considered an integral part of the EIR of a financial instrument are recognised under IFRS 15 when the Group satisfies performance obligations by transferring promised services to customers and presented in the income statement as fee and commission income. All of the Group's fees and commissions relate to performance obligations that are recognised at a point in time.

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

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

5. Fair value and other gains/(losses) on financial instruments

	2023 £million	2022 £million
Fair value movement during the year – Interest rate derivatives	(6.1)	10.6
Fair value movement during the year – Hedged items	6.2	(10.9)
Hedge ineffectiveness recognised in the income statement	0.1	(0.3)
Losses recognised on derivatives not in hedge relationships	(0.8)	–
Extinguishment gain on redemption of subordinated debt	1.2	–
	0.5	**(0.3)**

The extinguishment gain on redemption of subordinated debt relates to the redemption during the year at a discount to par of the £50 million 6.75% Fixed Rate Reset Callable Subordinated Notes due in 2028.

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. For further information on the Group's risk management strategy for market risk see the Group's Strategic Report.

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

5.1 Fair value gain/(loss) recognised in other comprehensive income

	2023 £million	2022 £million
Cash flow hedges		
Fair value movement in year – Interest rate derivatives	–	(0.8)
Interest reclassified to the income statement during the year	0.6	0.1
Fair value gain/(loss) recognised in other comprehensive income	**0.6**	**(0.7)**

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

- differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience; or

- differences in the timing of cash flows for the hedged item and the hedging instrument.

How fair value and cash flow hedge accounting affect the consolidated financial statements and the main sources of the residual hedge ineffectiveness remaining in the income statement are set out below. Further information on the current derivative portfolio and the allocation to hedge accounting types is included in Note 17.

Derivative financial instruments accounting policy

The Group enters into derivatives to manage exposures to fluctuations in interest rates. Derivatives are not used for speculative purposes. Derivatives are carried at fair value, with movements in fair value recognised in the income statement or other comprehensive income. Derivatives are valued by discounted cash flow models using yield curves based on Overnight Indexed Swap ('OIS') rates. All derivatives are carried as assets where fair value is positive and as liabilities when fair value is negative. Derivatives are not offset in the consolidated 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 the implementation of IFRS 9, the Group 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).

6. Operating expenses

	2023 £million	2022 £million
Employee costs, including those of Directors:		
Wages and salaries	49.5	47.9
Social security costs	5.6	5.7
Pension costs	1.8	2.1
Share-based payment transactions	1.1	1.8
Depreciation of property, plant and equipment (Note 19)	0.9	1.2
Depreciation of lease right-of-use assets (Note 20)	0.7	0.7
Amortisation of intangible assets (Note 21)	1.2	1.4
Operating lease rentals	0.7	0.7
Other administrative expenses	40.9	40.6
Total operating expenses	**102.4**	**102.1**
Of which:		
Continuing	**99.7**	**93.2**
Discontinued (Note 10)	**2.7**	**8.9**

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

Post-retirement obligations accounting policy

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

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

	2023 £million	2022 £million
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	1.0	0.8
Fees payable to the Company's Auditor for other services:		
Other assurance services	0.2	0.1
	1.2	**0.9**

Other assurance services related to the Interim independent review report and profit certification and a comfort letter in relation to the Tier 2 capital issuance (2022: Interim independent review report and profit certification).

7. Average number of employees

	2023 Number	2022 Number
Directors	7	8
Other senior management	23	28
Other employees	849	904
	879	**940**

8. Exceptional items

Borrowers in financial difficulty ('BiFD') Vehicle Finance collections review

Following the Financial Conduct Authority's review of BiFD across the industry, and in response to the specific feedback we received on our own collection activities, we have engaged external support to assist us and, where necessary, are enhancing our approach, which includes offering a wider range of forbearance options to our customers. We have incurred or provided for costs of £4.7 million (comprising £2.7 million costs and £2.0 million potential redress/goodwill) (2022: £nil) relating to processes, procedures and policies in our Vehicle Finance collections operations. Costs associated with these activities are outside the normal course of business and are treated as exceptional. We expect the review to be completed in H2 2024.

Corporate activity

Corporate activities undertaken outside the normal course of business and amounted to £1.8 million (2022: £nil).

Income tax on exceptional items

Income tax on exceptional items amount to £0.6 million credit (2022: £nil).

Exceptional items accounting policy

Exceptional items are expenses that do not relate to the Group's core activities, which are material in the context of the Group's performance.

9. Income tax expense

	2023 £million	2022 £million
Current taxation		
Corporation Tax charge – current year	8.0	8.4
Corporation Tax (credit)/charge – adjustments in respect of prior years	(0.1)	0.1
	7.9	8.5
Deferred taxation		
Deferred tax charge – current year	1.3	1.9
Deferred tax credit – adjustments in respect of prior years	(0.1)	(0.1)
	1.2	1.8
Income tax expense	**9.1**	**10.3**
Of which:		
Continuing	**9.7**	**9.4**
Discontinued (Note 10)	**(0.6)**	**0.9**

Tax reconciliation		
Profit before tax	33.4	44.0
Tax at 23.50% (2022: 19.00%)	7.8	8.4
Permanent differences on exceptional items	0.9	–
Other permanent differences	0.3	0.4
Rate change on deferred tax assets	0.1	1.2
Other adjustments including prior year adjustments	–	0.3
Income tax expense for the year	**9.1**	**10.3**

The Corporation Tax rate increased from 19% to 25%, with effect from 1 April 2023, giving a rate of 23.5% for the year to 31 December 2023. At the same time, the banking surcharge reduced from 8% to 3% and the surcharge allowance available to a banking group increased from £25 million to £100 million. These changes were enacted prior to the start of 2023, and so opening and closing 2023 deferred asset values have been calculated from expected future tax relief based on these enacted rates. There was a deferred tax charge in 2022, arising from the changes to the banking surcharge enacted in 2022. The main component of the deferred tax asset is deferred tax on the IFRS 9 transition adjustment, which reverses on a straight-line basis over 10 years commencing in 2018.

Income tax accounting policy

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

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

related deferred tax asset is realised or the deferred tax liability is settled.

10. Discontinued operations

The Group sold Debt Managers (Services) Limited's ('DMS') portfolio of loans during 2022. As the Group has exited this market, the results of the Debt Management business have presented as discontinued operations.

Income statement	**2023 £million**	2022 £million
Interest income and similar income	–	5.3
Interest expense and similar charges	–	(0.8)
Net interest income	**–**	**4.5**
Fee and commission income	–	4.1
Net fee and commission income	**–**	**4.1**
Operating income	**–**	**8.6**
Net impairment charge on loans and advances to customers	–	(0.8)
Overall profit on disposal of loan portfolios (see below)	–	6.1
Operating expenses	(2.7)	(8.9)
(Loss)/profit before income tax from discontinued operations	**(2.7)**	**5.0**
Income tax credit/(charge)	0.6	(0.9)
(Loss)/profit for the year from discontinued operations	**(2.1)**	**4.1**
Basic earnings per ordinary share – discontinued operations	**(11.2)**	**22.0**
Diluted earnings per ordinary share – discontinued operations	**(10.9)**	**21.3**

2023 operating expenses relate to the costs of winding down the business.

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

Net cash flows	**2023 £million**	2022 £million
Operating	(2.7)	(82.6)
Investing	–	81.9
Financing	–	(0.1)
Net cash outflow	**(2.7)**	**(0.8)**

11. Earnings per ordinary share

11.1 Basic

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

	2023	2022
Profit attributable to equity holders of the parent (£million)	24.3	33.7
Weighted average number of ordinary shares (number)	18,751,059	18,672,650
Earnings per share (pence)	**129.6**	**180.5**

11.2 Diluted

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

options in issue during the year, as follows:

	2023	2022
Weighted average number of ordinary shares	18,751,059	18,672,650
Number of dilutive shares in issue at the year-end	515,782	617,340
Fully diluted weighted average number of ordinary shares	**19,266,841**	**19,289,990**
Dilutive shares being based on:		
Number of options outstanding at the year-end	1,210,544	1,206,639
Weighted average exercise price (pence)	225	304
Average share price during the year (pence)	719	1,040
Diluted earnings per share (pence)	**126.1**	**174.7**

12. Dividends

	2023 £million	2022 £million
2023 interim dividend – 16.0 pence per share (paid September 2023)	3.0	–
2022 final dividend – 29.1 pence per share (paid May 2023)	5.4	–
2022 interim dividend – 16.0 pence per share (paid September 2022)	–	3.0
2021 final dividend – 41.1 pence per share (paid May 2022)	–	7.7
	8.4	**10.7**

The Directors recommend the payment of a final dividend of 16.2 pence per share (2022: 29.1 pence per share). The final dividend, if approved by members at the Annual General Meeting, will be paid on 23 May 2024, with an associated record date of 26 April 2024.

Dividends accounting policy

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

13. Loans and advances to banks

Moody's long-term ratings are as follows:

	Group 2023 £million	Group 2022 £million	**Company 2023 £million**	Company 2022 £million
Aaa - Aa3	4.8	3.7	4.8	3.7
A1	48.9	41.6	48.2	40.0
Arbuthnot Latham & Co. Limited – Unrated	–	5.2	–	5.2
	53.7	**50.5**	**53.0**	**48.9**

None of the loans and advances to banks are either past due or impaired. Loans and advances to banks includes £5.0 million (2022: £3.7 million), which the Group and Company does not have access to, and are therefore excluded from cash and cash equivalents. See Note 35.1 for a reconciliation to cash and cash equivalents.

14. Loans and advances to customers

Group and Company

	2023 £million	2022 £million
Gross loans and advances	3,403.4	2,997.5
Less: allowances for impairment of loans and advances (Note 16)	(88.1)	(78.0)
	3,315.3	**2,919.5**

The fair value of loans and advances to customers is shown in Note 41. Loans and advances to customers includes finance lease receivables of £450.3 million (2022: £371.2 million). See Note 15 for further details.

Retail Finance assets of £1,004.9 million (2022: £810.6 million) were pre-positioned under the Bank of England's liquidity support operations and Term Funding Scheme with additional incentives for SMEs and are available for use as collateral within the schemes.

The Real Estate Finance loan book of £1,243.8 million (2022: £1,115.5 million) is secured upon real estate, which had a loan-to-value of 57% at 31 December 2023 (2022: 58%).

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

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

* based on gross development value.

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.

£1.7 million of cash collateral has been received as at 31 December 2023 in respect of certain loans and advances (2022: £6.8 million).

The accounting policy for loans and advances to customers is included in Note 1.5 Financial assets and financial liabilities accounting policy.

15. Finance lease receivables

Group and Company

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

	2023 £million	2022 £million
Gross investment in finance lease receivables:		
– Not more than one year	186.2	157.6
– Later than one year and no later than five years	446.1	365.6
	632.3	523.2
Unearned future finance income on finance leases	(182.0)	(152.0)
Net investment in finance leases	**450.3**	**371.2**
The net investment in finance leases may be analysed as follows:		
– Not more than one year	113.3	93.7
– Later than one year and no later than five years	337.0	277.5
	450.3	**371.2**

Finance lease receivables include Vehicle Finance loans to consumers.

Lessor accounting policy

The present value of the lease payments on assets leased to customers under agreements that 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.

16. Allowances for impairment of loans and advances

Group and Company

	Not credit-impaired		**Credit-impaired**			
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total provision £million**	**Gross loans and advances to customers £million**	**Provision coverage %**
31 December 2023						
Consumer Finance:						

Retail Finance	12.0	11.8	8.3	32.1	1,255.3	2.6%
Vehicle Finance:						
Voluntary termination provision	6.7	–	–	6.7		
Other impairment	10.0	5.6	23.6	39.2		
	16.7	5.6	23.6	45.9	513.1	8.9%
Business Finance:						
Real Estate Finance	0.3	0.7	7.0	8.0	1,251.8	0.6%
Commercial Finance	0.5	0.1	1.5	2.1	383.2	0.5%
	29.5	**18.2**	**40.4**	**88.1**	**3,403.4**	**2.6%**

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

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

	2023 £million	2022 £million
Expected credit losses: impairment charge	37.3	38.9
(Credit)/charge in respect of off balance sheet loan commitments (Note 29)	(0.3)	0.2
Loans written off/(recovered) directly to the income statement[1]	6.2	(0.1)
	43.2	**39.0**
Of which:		
Continuing	43.2	38.2
Discontinued (Note 10)	–	0.8

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

Total provisions above include expert credit judgements as follows:

	2023 £million	2022 £million
Specific overlays held against credit-impaired secured assets held within the Business Finance portfolio	(1.0)	0.7
Management judgement in respect of:		
– Consumer Finance affordability	–	2.5
– Vehicle Finance used car valuations	–	1.3
– Vehicle Finance LGD on Stage 3 balances	(2.1)	–

Other	1.9	(1.6)
Expert credit judgements over the IFRS 9 model results	**(1.2)**	**2.9**

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

For further details on Vehicle Finance used car valuations and Consumer Finance affordability, see Notes 16.1.4 and 16.2.1, respectively.

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 2023	24.3	28.6	25.1	78.0
(Decrease)/increase due to change in credit risk				
– Transfer to Stage 2	(10.4)	56.1	–	45.7
– Transfer to Stage 3	(0.1)	(30.6)	41.9	11.2
– Transfer to Stage 1	10.2	(35.3)	–	(25.1)
Passage of time	(9.1)	3.5	3.7	(1.9)
New loans originated	20.5	–	–	20.5
Matured and derecognised loans	(2.3)	(4.6)	(4.7)	(11.6)
Changes to credit risk parameters	(5.3)	0.5	0.3	(4.5)
Other adjustments	3.0	–	–	3.0
Charge/(credit) to income statement	6.5	(10.4)	41.2	37.3
Allowance utilised in respect of write-offs	(1.3)	–	(25.9)	(27.2)
31 December 2023	**29.5**	**18.2**	**40.4**	**88.1**

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 £million
At 1 January 2022	18.5	20.0	29.0	67.5
(Decrease)/increase due to change in credit risk				
– Transfer to Stage 2	(8.8)	46.3	–	37.5
– Transfer to Stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to Stage 1	2.3	(4.6)	-	(2.3)
Passage of time	(6.3)	(0.7)	(2.5)	(9.5)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.9	(8.2)
Other adjustments	2.4	–	–	2.4
Charge to income statement	6.6	8.6	23.7	38.9
Allowance utilised in respect of write-offs	(0.8)	–	(27.6)	(28.4)
31 December 2022	**24.3**	**28.6**	**25.1**	**78.0**

During the prior year, £8.1 million was utilised in respect of the DMS book sale.

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

Passage of time represents the impact of accounts maturing through their contractual life, the associated reduction in PDs and the unwind of the discount applied in calculating the ECL.

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

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

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

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

Group and Company

				2023				2022
	Stage 1 £million	**Stage 2 £million**	**Stage 3 £million**	**Total £million**	Stage 1 £million	Stage 2 £million	Stage 3 £million	Total £million
Business Finance:								
Strong	57.9	–	–	57.9	127.5	–	–	127.5
Good	1,087.8	4.5	–	1,092.3	962.4	28.5	–	990.9
Satisfactory	236.5	82.0	28.8	347.3	195.7	125.7	1.8	323.2
Weak	–	59.3	78.2	137.5	–	40.2	15.5	55.7
	1,382.2	**145.8**	**107.0**	**1,635.0**	**1,285.6**	**194.4**	**17.3**	**1,497.3**

Consumer Finance:								
Good	706.0	58.9	10.1	775.0	601.5	77.6	6.0	685.1
Satisfactory	596.5	54.4	18.4	669.3	495.3	60.5	9.3	565.1
Weak	266.8	38.7	18.6	324.1	197.4	38.2	14.4	250.0
	1,569.3	**152.0**	**47.1**	**1,768.4**	**1,294.2**	**176.3**	**29.7**	**1,500.2**

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

Company

All Company allowances for impairment of loans and advances are the same as Group, except for the table below. For the Company disclosure, see the Group tables above and Note 24.

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2022	18.6	20.3	22.0	60.9
(Decrease)/increase due to change in credit risk				
– Transfer to Stage 2	(8.8)	46.3	–	37.5
– Transfer to Stage 3	(0.4)	(21.4)	29.5	7.7
– Transfer to Stage 1	2.3	(4.6)	–	(2.3)
Passage of time	(6.4)	(1.0)	(1.8)	(9.2)
New loans originated	23.2	–	–	23.2
Matured and derecognised loans	(2.9)	(3.8)	(5.2)	(11.9)
Changes to credit risk parameters	(2.9)	(7.2)	1.0	(9.1)
Other adjustments	2.4	–	(0.2)	2.2
Charge to income statement	6.5	8.3	23.3	38.1
Allowance utilised in respect of write-offs	(0.8)	–	(20.2)	(21.0)

31 December 2022	24.3	28.6	25.1	78.0

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

Passage of time represent the impact of accounts maturing through their contractual life, the associated reduction in PDs and the unwind of the discount applied in calculating the ECL.

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

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

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

Impairment of financial assets and loan commitments accounting policy

The Group recognises loss allowances for Expected Credit Losses ('ECL') on all financial assets carried at amortised cost, including lease receivables and loan commitments. Credit loss allowances on Stage 1 assets are measured as an amount equal to 12-month ECL and credit loss allowances on Stage 2 and Stage 3 assets are measured as an amount equal to lifetime ECL.

Stage 1 assets

Stage 1 assets comprise of the following:

- Financial assets determined to have low credit risk at the reporting date.
- Financial assets that have not experienced a significant increase in credit risk since their initial recognition.
- Financial assets that have experienced a significant increase in credit risk since their initial recognition, but have subsequently met the Group's cure policy, as set out below.

A low credit risk asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of 'investment grade' assets. This is not applicable to loans and advances to customers, but the Group has assessed all its debt securities, which represents UK Treasury bills, to be low credit risk.

Stage 2 assets

Loans and advances to customers that have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Group's cure policy are classified as Stage 2 assets and are reclassified from stage 1 to stage 2.

The Group's definitions of a significant increase in credit risk and default are set out below.

For Consumer Finance, the credit risk of a financial asset is considered to have experienced a significant increase in credit risk since initial recognition where there has been a significant increase in the remaining lifetime probability of default of the asset. The Group may also use its expert credit judgement, and where possible, relevant historical and current performance data, including bureau data, to determine that an exposure has undergone a significant increase in credit risk.

For Business Finance, the credit risk of a financial asset is considered to have experienced a significant increase in credit risk where certain early warning indicators apply. These indicators may include notification of county court judgements or, specifically for the Real Estate Finance portfolio, cost over-runs and timing delays experienced by borrowers.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for all portfolios.

Stage 3 assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired or defaulted (Stage 3). A financial asset is considered to be credit-impaired when an event or events that have a detrimental impact on estimated future cash flows have occurred, or have other specific unlikeliness to pay indicators. Evidence that a financial asset is credit-impaired includes the following observable data:

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

In addition, a loan that is 90 days or more past due is considered credit-impaired for all portfolios. The credit risk of financial assets that become credit-impaired are not expected to improve so they remain credit-impaired.

For Commercial Finance facilities that do not have a fixed term or repayment structure, evidence that a financial asset is credit-impaired includes:

- the client ceasing to trade; or
- unpaid debtor balances that are dated at least six months past their normal recourse period.

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 in Vehicle Finance and three months in Retail Finance.

For Consumer Finance loans, the Group has determined Stage 3 to be an absorbing state. Once a loan is in default it is not therefore expected to cure back to Stage 1 or 2.

Calculation of expected credit loss ('ECL')

ECL are probability weighted estimates of credit losses that 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. 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 that have not been reflected in the modelled outcome.

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

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

Emergence curves modelling is used in the production of forward-looking lifetime PDs. This method defines the way that debt emerges for differing quality accounts 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 the auction sale of repossessed collateral and debt sale of the residual shortfall amount. For loans secured by real estate property, loan-to-value ratios are key parameters in determining LGD. LGDs are calculated on a discounted cash flow basis using the financial instrument's origination effective interest rate as the discount factor.

Incorporation of forward-looking data

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

The Group considers that the key drivers of credit risk and credit losses included in the macroeconomic scenarios are annual unemployment rate growth and annual house price index growth. Base case assumptions applied for each of these variables have been sourced from external consensus or Bank of England forecasts. Further details of the assumptions applied to other scenarios are presented below.

Expert credit judgements

The impairment charge comprises modelled ECLs and expert credit judgements. Where the ECL modelled output does not reflect the level of credit risk, judgement is used to calculate expert credit judgements, which are overlaid on to the output from the models.

Presentation of loss allowance

Loss allowances for ECLs and expert credit judgements are presented in the statement of financial position as follows with the loss recognised in the income statement:

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

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

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

Vehicle Finance voluntary termination provision

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

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

Write off

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

Intercompany receivables

The parent company's expected credit loss on amounts due from related companies is calculated by applying probability of default and loss given default to the amount outstanding at the year-end. See Note 24 for further details.

16.1. Key sources of estimation uncertainty

Estimations that could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty all relate to the impairment charge on loans and advances to customers and are therefore set out below. The potential impact of the current macroeconomic environment has been considered in determining reasonably possible changes in key sources of estimation uncertainty that may occur in the next 12 months. The determination of both the PD and LGD require estimation, which is discussed further below.

16.1.1. Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. Further detail on this process is provided below. The macroeconomic scenarios used were provided by external economic advisers. The scenarios and weightings applied are summarised below:

December 2023		**UK unemployment rate – Annual Average**				**UK HPI – movement from December 2023**			
Scenario	**Weightings**	**2024 %**	**2025 %**	**2026 %**	**5 Yr Average %**	**2024 %**	**2025 %**	**2026 %**	**5 Yr Average %**
Upside	20%	4.2	3.9	3.8	3.9	(0.7)	2.4	9.4	3.7
Base	50%	4.5	4.4	4.1	4.1	(4.3)	(3.3)	0.9	2.1
Downside	25%	5.4	6.5	7.1	6.5	(10.4)	(13.8)	(14.3)	(0.9)
Severe	5%	5.7	7.0	7.6	7.0	(15.1)	(21.8)	(26.0)	(3.5)

December 2022		UK unemployment rate – Annual Average				UK HPI – movement from December 2022			
Scenario	Weightings	2023 %	2024 %	2025 %	5 Yr Average %	2023 %	2024 %	2025 %	5 Yr Average %
Upside	20%	4.1	4.0	3.8	3.8	(5.2)	(6.3)	(2.0)	1.9
Base	50%	4.4	4.4	4.0	4.1	(8.4)	(11.4)	(9.2)	0.4
Downside	25%	5.4	6.5	7.1	6.5	(14.6)	(21.3)	(23.5)	(2.6)
Severe	5%	5.6	7.0	7.6	6.9	(19.2)	(28.8)	(34.3)	(5.2)

The sensitivity of the ECL allowance to reasonably possible changes in scenario weighting (an increase in downside case weighting from the upside case and an increase in severe stress case weighting from the base case) has been assessed by the Group and computed as not material.

The Group recognised a total impairment charge of £43.2 million (2022: £39.0 million). Were each of the scenarios to be applied at 100%, rather than using the weightings set out above, the increase/(decrease) in ECL provisions would be as follows:

	2023				2022			
Scenario	**Vehicle Finance £million**	**Retail Finance £million**	**Business Finance £million**	**Total Group £million**	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(0.4)	(1.2)	(0.3)	(1.9)	(1.9)	(0.3)	(0.7)	(2.9)
Base	(0.2)	(0.5)	(0.2)	(0.9)	(1.5)	0.4	(0.4)	(1.5)
Downside	0.5	1.5	0.4	2.4	0.9	3.0	0.9	4.8
Severe	0.6	2.2	1.1	3.9	1.6	3.8	1.7	7.1

16.1.2. ECL modelled output: Estimation of PDs

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

A 15% change in the PD for Vehicle Finance would immediately impact the ECL allowance by £2.5 million (2022: a 15% change impacted the ECL allowance by £3.1 million).

A 15% change in the PD for Retail Finance would immediately impact the ECL allowance by £4.4 million (2022: a 15% change impacted the ECL allowance by £2.5 million).

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

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

16.1.3. ECL modelled output: Vehicle Finance recovery rates

With the exception of the Vehicle Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. The Vehicle Finance portfolio is particularly sensitive to changes in LGD due to the range of outcomes that could crystallise, depending on whether the Group is able to recover the vehicle as security. For the Vehicle Finance portfolio, a 20% (2022: 20%) change in the LGD is considered reasonably possible due to delays in the vehicle collection process. A 20% (2022: 20%) reduction in the vehicle recovery rate assumption element of the LGD for Vehicle Finance would increase the ECL by £0.9 million (2022: £1.9 million). There has been no change in the vehicle recovery rate assumption in the ECL model in either the current or prior year.

16.1.4. ECJ: Vehicle Finance used car values

At 31 December 2022, an overlay for lower recoveries impacted the ECL by £1.0 million. At 31 December 2023, observed used car values have now adjusted to expected levels following an initial increase in used car prices since the COVID-19 pandemic in March 2021. As a result, a sensitivity is no longer applicable.

16.1.5. Climate-risk impact

The Group has considered the impact of climate-related risks on the consolidated financial statements, in particular climate change negatively impacting the value of the Group's Real Estate Finance business' security due to the increased risk of flood associated with climate change.

While the effects of climate change represent a source of uncertainty (in respect of potential transitional risks, such as those that may arise from changes in future Government policy), the impact of all of the climate change risks is considered to be low. Accordingly, the Group does not consider there to be a material impact on its judgements and estimates from the physical, transition and other climate-related risks in the short-term on the Real Estate Finance loan book.

16.2. Critical judgments

16.2.1. ECJ: Consumer Finance customer affordability

At 31 December 2023, the ECL model now captures the impact of inflation on our Consumer Businesses. The resulting expert credit judgement relating to Consumer Finance affordability was released. As a result, at 31 December 2023 a sensitivity was no longer applicable.

17. Derivative financial instruments

Group and Company

Interest rate derivatives are held for risk mitigation purposes. The table below provides an analysis of the notional amount and fair value of derivatives by hedge accounting relationship. The amount of ineffectiveness recognised for each hedge type is shown in Note 5. Notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

	Notional 2023 £million	**Assets 2023 £million**	**Liabilities 2023 £million**	Notional 2022 £million	Assets 2022 £million	Liabilities 2022 £million
Interest rate derivatives designated in fair value hedges						
In less than one year	783.7	6.9	(3.0)	689.8	3.9	(6.0)
More than one year but less than three years	859.4	13.2	(9.0)	718.5	15.4	(16.1)
More than three years but less than five years	494.0	5.3	(9.3)	274.9	15.5	(3.3)
More than five years	-	-	-	7.5	–	–
	2,137.1	**25.4**	**(21.3)**	**1,690.7**	**34.8**	**(25.4)**
Interest rate derivatives designated in cash flow hedges						
In less than one year	4.7	–	(0.2)	–	–	–
More than one year but less than three years	9.4	–	(0.4)	14.1	–	(1.1)
More than three years but less than five years	2.4	0.1	–	2.4	0.1	–
	16.5	**0.1**	**(0.6)**	**16.5**	**0.1**	**(1.1)**

Foreign exchange derivatives						
In less than one year	28.0	–	(0.1)	16.7	–	(0.2)
	2,181.6	**25.5**	**(22.0)**	**1,723.9**	**34.9**	**(26.7)**

In order to manage interest rate risk arising from fixed rate financial instruments, the Group monitors its interest rate mismatch regularly throughout each month, seeking to 'match' assets and liabilities in the first instance and hedging residual risk using interest rate derivatives to maintain adherence to risk appetites. Some residual risk remains due to timing differences. The exposure from the portfolio frequently changes due to the origination of new instruments, contractual repayments and early prepayments made in each period. As a result, the Group adopts a dynamic hedging strategy (sometimes referred to as 'macro' or 'portfolio' hedge) to hedge its exposure profile by closing and entering into new interest rate derivative agreements. The Group establishes the hedging ratio by matching 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:

	Carry amount of hedged item Asset/(liability) 2023 £million	**Accumulated amount of fair value adjustments in the hedged items (Liability)/asset 2023 £million**	Carry amount of hedged item Asset/(liability) 2022 £million	Accumulated amount of fair value adjustments in the hedged items (Liability)/asset 2022 £million
ASSETS				
Interest rate fair value hedges				
Loans and advances to customers				
Fixed rate Real Estate Finance loans	565.5	(3.5)	430.7	(22.3)
Fixed rate Vehicle Finance loans	130.5	(0.3)	110.5	(4.0)
Fixed rate Retail Finance loans	393.0	(0.1)	249.2	(5.7)
	1,089.0	(3.9)	790.4	(32.0)
Interest rate cash flow hedges				
Cash and Bank of England reserve account				
Bank of England reserve	16.5	N/A	16.5	N/A
	1,105.5	**(3.9)**	**806.9**	**(32.0)**
LIABILITIES				
Interest rate fair value hedges				
Deposits from customers				
Fixed rate customer deposits	(957.6)	3.6	(900.3)	23.0
Subordinated liabilities				
Fixed rate Tier 2 regulatory capital	(90.0)	(2.2)	–	–
	(1,047.6)	**1.4**	**(900.3)**	**23.0**

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 (2022: £0.2 million).

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 2023				
Derivative financial assets				

Interest rate derivatives	25.5	(21.9)	(3.5)	0.1
	25.5	**(21.9)**	**(3.5)**	**0.1**
Derivative financial liabilities				
Interest rate derivatives	(21.9)	21.9	–	–
Foreign exchange derivatives	(0.1)	–	0.2	0.1
	(22.0)	**21.9**	**0.2**	**0.1**

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million
31 December 2022				
Derivative financial assets				
Interest rate derivatives	34.9	(26.5)	(7.7)	0.7
	34.9	**(26.5)**	**(7.7)**	**0.7**
Derivative financial liabilities				
Interest rate derivatives	(26.5)	26.5	–	–
Foreign exchange derivatives	(0.2)	–	–	(0.2)
	(26.7)	**26.5**	**–**	**(0.2)**

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.

18. Investment property

	Group £million	**Company £million**
1 January 2022	4.7	5.7
Disposal	(3.3)	(3.3)
Transfer to property, plant and equipment	(1.4)	(1.4)
At 31 December 2022	**–**	**1.0**
Revaluation	–	(0.1)
At 31 December 2023	**–**	**0.9**

The Company's investment property comprises 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ, which is occupied by one of the Company's subsidiaries.

The transfer to Property, plant and equipment during 2022 related to a property that was previously let to a third party, which became vacant and was subsequently occupied by the Company.

The Company's investment property was stated at fair value as at 31 December 2023. The Directors have assessed the value of the investment property at the year-end through comparison to current rental yields on similar properties in the same area. This has resulted in a reduction in the carrying amount of £0.1 million since 31 December 2022. Movements in the fair value of investment property are recognised as operating expenses in the income statement.

Investment property accounting policy

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

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

income statement in the period in which the property is derecognised.

19. Property, plant and equipment

Group

	Freehold land and buildings £million	Leasehold property £million	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2022	6.9	0.1	9.3	16.3
Land and buildings prior year restatement (see Note 1.3)	1.8	–	–	1.8
At 1 January 2022 (as restated)	8.7	0.1	9.3	18.1
Additions	–	–	1.0	1.0
Disposals	–	(0.1)	(3.4)	(3.5)
Transfer from investment properties	1.4	–	–	1.4
At 31 December 2022	**10.1**	**–**	**6.9**	**17.0**
Additions	–	–	2.2	2.2
Disposals	–	–	(1.4)	(1.4)
At 31 December 2023	**10.1**	**–**	**7.7**	**17.8**
Accumulated depreciation				
At 1 January 2022	–	–	(7.0)	(7.0)
Land and buildings prior year restatement (see Note 1.3)	(2.3)	–	–	(2.3)
At 1 January 2022 (as restated)	(2.3)	–	(7.0)	(9.3)
Depreciation charge	(0.1)	–	(1.1)	(1.2)
Disposals	–	–	3.2	3.2
At 31 December 2022	**(2.4)**	**–**	**(4.9)**	**(7.3)**
Depreciation charge	(0.1)	–	(0.8)	(0.9)
Disposals	–	–	1.2	1.2
At 31 December 2023	**(2.5)**	**–**	**(4.5)**	**(7.0)**
Net book amount				
At 31 December 2022	**7.7**	**–**	**2.0**	**9.7**
At 31 December 2023	**7.6**	**–**	**3.2**	**10.8**

The Group's freehold properties, which are occupied by the Group, comprise:

- the Registered Office of the Company;
- One Arleston Way, Solihull, B90 4LH; and
- 25 and 26 Neptune Court, Vanguard Way, Cardiff CF24 5PJ.

Company

	Freehold property £million	Computer and other equipment £million	Total £million
Cost or valuation			
At 1 January 2022	2.1	6.4	8.5
Land and buildings prior year restatement (see Note 1.3)	0.3	–	0.3

At 1 January 2022 (as restated)	2.4	6.4	8.8
Additions	–	0.3	0.3
Disposals	–	(0.5)	(0.5)
Transfer from investment properties	1.4	–	1.4
At 31 December 2022	**3.8**	**6.2**	**10.0**
Additions	–	2.1	2.1
Disposals	–	(1.2)	(1.2)
At 31 December 2023	**3.8**	**7.1**	**10.9**

Accumulated depreciation			
At 1 January 2022	–	(4.8)	(4.8)
Land and buildings prior year restatement (see Note 1.3)	(0.1)	–	(0.1)
At 1 January 2022 (as restated)	(0.1)	(4.8)	(4.9)
Depreciation charge	–	(0.7)	(0.7)
Disposals	–	0.5	0.5
At 31 December 2022	**(0.1)**	**(5.0)**	**(5.1)**
Depreciation charge	(0.1)	(0.5)	(0.6)
Disposals	–	1.1	1.1
At 31 December 2023	**(0.2)**	**(4.4)**	**(4.6)**

Net book amount			
At 31 December 2022	**3.7**	**1.2**	**4.9**
At 31 December 2023	**3.6**	**2.7**	**6.3**

The Company's freehold property comprises the Registered Office of the Company.

During the year, the accounting policy has been changed from carrying freehold properties at fair value to historic cost. Further details are given in Note 1.3.

The carrying value of freehold land, which is included in the total carrying value of freehold land and buildings, and which is not depreciated at 31 December 2023 and 31 December 2022 was £1.5 million for the Group and £0.8 million for the Company.

Property, plant and equipment accounting policy

Property, plant and equipment is stated at historical cost less any accumulated depreciation and any accumulated impairment losses. 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

The above useful economic lives have not changed since the prior year.

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.

20. Right-of-use assets

	Group			Company		
	Leasehold	**Leased**	**Total**	**Leasehold**	**Leased**	**Total**

	property £million	motor vehicles £million	£million	property £million	motor vehicles £million	£million
Cost						
At 1 January 2022	4.4	0.3	4.7	3.1	0.2	3.3
Additions	–	0.5	0.5	–	0.2	0.2
Disposals	(1.3)	(0.2)	(1.5)	–	(0.2)	(0.2)
At 31 December 2022	**3.1**	**0.6**	**3.7**	**3.1**	**0.2**	**3.3**
Additions	0.8	0.2	1.0	0.8	0.1	0.9
At 31 December 2023	**3.9**	**0.8**	**4.7**	**3.9**	**0.3**	**4.2**
Accumulated depreciation						
At 1 January 2022	(2.2)	(0.3)	(2.5)	(1.6)	(0.2)	(1.8)
Depreciation charge	(0.6)	(0.1)	(0.7)	(0.4)	–	(0.4)
Disposals	0.8	0.2	1.0	–	0.2	0.2
At 31 December 2022	**(2.0)**	**(0.2)**	**(2.2)**	**(2.0)**	**–**	**(2.0)**
Depreciation charge	(0.5)	(0.2)	(0.7)	(0.5)	(0.1)	(0.6)
At 31 December 2023	**(2.5)**	**(0.4)**	**(2.9)**	**(2.5)**	**(0.1)**	**(2.6)**
Net book amount						
At 31 December 2022	**1.1**	**0.4**	**1.5**	**1.1**	**0.2**	**1.3**
At 31 December 2023	**1.4**	**0.4**	**1.8**	**1.4**	**0.2**	**1.6**

Lessee accounting policy

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

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

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

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

21. Intangible assets

Group

	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2022	1.0	17.3	2.2	20.5
Additions	–	1.7	–	1.7

Disposals	–	(1.8)	–	(1.8)
At 31 December 2022	**1.0**	**17.2**	**2.2**	**20.4**
Additions	–	0.5	–	0.5
At 31 December 2023	**1.0**	**17.7**	**2.2**	**20.9**
Accumulated amortisation				
At 1 January 2022	–	(11.6)	(2.0)	(13.6)
Amortisation charge	–	(1.2)	(0.2)	(1.4)
Disposals	–	1.2	–	1.2
At 31 December 2022	**–**	**(11.6)**	**(2.2)**	**(13.8)**
Amortisation charge	–	(1.2)	–	(1.2)
At 31 December 2023	**–**	**(12.8)**	**(2.2)**	**(15.0)**
Net book amount				
At 31 December 2022	**1.0**	**5.6**	**–**	**6.6**
At 31 December 2023	**1.0**	**4.9**	**–**	**5.9**

Goodwill above relates to the V12 cash generating unit, which is part of the Retail Finance operating segment.

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% (2022: 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. Hence no impairment has been recognised.

Other intangible assets were recognised as part of the V12 Finance Group acquisition, which are now fully amortised.

Company

	Goodwill £million	Computer software £million	Total £million
Cost or valuation			
At 1 January 2022	0.3	12.4	12.7
Additions	–	0.1	0.1
At 31 December 2022	**0.3**	**12.5**	**12.8**
Additions	–	0.1	0.1
At 31 December 2023	**0.3**	**12.6**	**12.9**
Accumulated amortisation			
At 1 January 2022	–	(7.3)	(7.3)
Amortisation charge	–	(1.1)	(1.1)
At 31 December 2022	**–**	**(8.4)**	**(8.4)**
Amortisation charge	–	(1.0)	(1.0)
At 31 December 2023	**–**	**(9.4)**	**(9.4)**
Net book amount			
At 31 December 2022	**0.3**	**4.1**	**4.4**
At 31 December 2023	**0.3**	**3.2**	**3.5**

Goodwill above relates to the Retail Finance operating segment. The recoverable amount is determined on the same basis as for the Group.

Intangible assets accounting policy

(a) Goodwill

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

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

(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 10 years.

(c) Other intangibles

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

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

22. Investments in group undertakings

Company

Cost and net book value	**2023 £million**	2022 £million
At 1 January	5.7	4.3
Addition – Investment in AppToPay Ltd	–	1.0
Equity contributions to subsidiaries in respect of share options	0.2	0.4
At 31 December	**5.9**	**5.7**

During the prior year, the Group completed the acquisition of 100% of the issued share capital of AppToPay Ltd for £1.0 million. AppToPay Ltd was the owner of a proprietary technology platform.

The Group elected to use the optional practical expedient within IFRS 3 Business Combinations, which allows a simplified assessment that a purchase is accounted for as an asset purchase as opposed to a business combination if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset. AppToPay Ltd's principal asset was a software development intangible asset. Since acquisition, the assets and liabilities have been transferred across to V12 Retail Finance Limited.

Shares in subsidiary undertakings of Secure Trust Bank PLC are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. The share capital of the subsidiary undertakings comprises solely of ordinary shares and 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:

	Company number	**Principal activity**
Owned directly		
AppToPay Ltd	11204449	Non-trading
Debt Managers (Services) Limited	08092808	Debt management
Secure Homes Services Limited	01404439	Property rental
STB Leasing Limited	01648384	Non-trading

V12 Finance Group Limited	07498951	Holding company
Owned indirectly via an intermediate holding company		
V12 Personal Finance Limited	05418233	Dormant
V12 Retail Finance Limited	04585692	Sourcing and servicing of unsecured loans

The registered office of the Company, and all subsidiary undertakings, is Yorke House, Arleston Way, Solihull, B90 4LH.

AppToPay Ltd, Debt Managers (Services) Limited, Secure Homes Services Limited, STB Leasing Limited, V12 Finance Group Limited and V12 Personal Finance Limited are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of s479A, and the Company has given guarantees accordingly under s479C in respect of the year ended 31 December 2023.

23. Deferred taxation

	Group 2023 £million	Group 2022 £million	**Company 2023 £million**	Company 2022 £million
Deferred tax assets:				
Other short-term timing differences	4.3	5.6	4.3	5.3
At 31 December	**4.3**	**5.6**	**4.3**	**5.3**

Deferred tax assets:				
At 1 January	5.6	6.9	5.3	6.8
Land and buildings prior year restatement (see Note 1.3)	–	0.3	–	0.1
At 1 January (as restated)	5.6	7.2	5.3	6.9
Income statement	(1.2)	(1.8)	(0.9)	(1.8)
Other comprehensive income	(0.1)	0.2	(0.1)	0.2
At 31 December	**4.3**	**5.6**	**4.3**	**5.3**

Deferred tax accounting policy

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

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

24. Other assets

	Group 2023 £million	Group 2022 £million	**Company 2023 £million**	Company 2022 £million
Gross amounts due from related companies	–	–	4.8	3.1
less: allowances for impairment of amounts due from related companies	–	–	(2.1)	–
Amounts due from related companies	–	–	2.7	3.1
Other receivables	2.4	1.7	2.3	1.5
Cloud software development prepayment	4.4	4.7	4.4	4.7
Other prepayments and accrued income	6.1	7.0	5.0	5.8
	12.9	**13.4**	**14.4**	**15.1**

Cloud software development costs, principally relating to the Group’s Motor Transformation Programme, do not meet the intangible asset recognition criteria and are therefore classified as a prepayment, which is expensed to the income statement over the useful economic life of the software.

25. Due to banks

Group and Company

	Group	Group

	2023 £million	2022 £million
Amounts due under the Bank of England's liquidity support operations (Term Funding Scheme with additional incentives for SMEs ('TFSME'))	390.0	390.0
Amounts due to other credit institutions	6.8	7.7
Accrued interest	5.2	2.8
	402.0	**400.5**

Amounts due under TFSME bear interest at the Bank of England base rate and are due for repayment during 2025.

The accounting policy for amounts due to banks is included in Note 1.5 Financial assets and financial liabilities accounting policy.

26. Deposits from customers

Group and Company

	2023 £million	2022 £million
Access accounts	521.3	178.1
Fixed term bonds	1,546.6	1,414.0
Notice accounts	174.3	500.7
ISAs	629.6	421.8
	2,871.8	**2,514.6**

The accounting policy for deposits from customers is included in Note 1.5 Financial assets and financial liabilities accounting policy.

27. Lease liabilities

	Group 2023 £million	Group 2022 £million	Company 2023 £million	Company 2022 £million
At 1 January	2.1	3.1	1.9	2.3
New leases	1.0	0.5	0.9	0.2
Lease termination	–	(0.6)	–	–
Payments	(0.9)	(1.0)	(0.8)	(0.7)
Interest expense	0.1	0.1	0.1	0.1
At 31 December	**2.3**	**2.1**	**2.1**	**1.9**
Lease liabilities – Gross				
– No later than one year	0.9	0.7	0.9	0.7
– Later than one year and no later than five years	1.5	1.5	1.3	1.3
	2.4	2.2	2.2	2.0
Less: Future finance expense	(0.1)	(0.1)	(0.1)	(0.1)
Lease liabilities – Net	**2.3**	**2.1**	**2.1**	**1.9**
Lease liabilities – Gross				
– No later than one year	0.9	0.7	0.9	0.7
– Later than one year and no later than five years	1.4	1.4	1.2	1.2
	2.3	**2.1**	**2.1**	**1.9**

The accounting policy for lease liabilities is included in Note 20 Lessee accounting policy.

28. Other liabilities

	Group 2023 £million	Group 2022 £million	Company 2023 £million	Company 2022 £million
Other payables	25.9	68.1	23.7	65.0
Amounts due to related companies	–	–	10.5	12.4

Accruals and deferred income	11.8	10.0	10.5	8.5
	37.7	**78.1**	**44.7**	**85.9**

29. Provisions for liabilities and charges

			Group			**Company**
	ECL allowance on loan commitments £million	**Other £million**	**Total £million**	**ECL allowance on loan commitments £million**	**Other £million**	**Total £million**
Balance at 1 January 2022	0.9	0.4	1.3	0.9	0.4	1.3
Charge to income statement	0.2	1.9	2.1	0.2	1.4	1.6
Utilised	–	(0.9)	(0.9)	–	(0.9)	(0.9)
Balance at 31 December 2022	**1.1**	**1.4**	**2.5**	**1.1**	**0.9**	**2.0**
(Credit)/charge to income statement	(0.3)	8.5	8.2	(0.3)	7.2	6.9
Utilised	–	(4.7)	(4.7)	–	(3.3)	(3.3)
Balance at 31 December 2023	**0.8**	**5.2**	**6.0**	**0.8**	**4.8**	**5.6**

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 2023 and 31 December 2022, no provision was held for losses in excess of drawn amounts.

Other

Other includes:

- provision for fraud, which relates to cases where the Group has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately;
- s75 Consumer Credit Act 1974 provision;
- costs and redress relating to the BiFD Vehicle Finance collections review (see Note 8 for further details and key sources of estimation uncertainty below); and
- costs and redress relating to further customer redress initiatives.

The Directors expect all provisions to be fully utilised within the next one to two years.

Provisions for liabilities and charges accounting policy

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated.

29.1 Key sources of estimation uncertainty

Redress/goodwill provision amounts relating to the BiFD Vehicle Finance collections review are £2.0 million, and are based on an estimate of customers potentially impacted over a number of years. As at 31 December 2023, the scope of the review and amounts of potential redress/goodwill are not yet finalised. Increasing the impact period by one year potentially increases the provision by £0.3 million. Increasing redress/goodwill amounts by 10% would increase the provision by £0.2 million.

30. Subordinated liabilities

Group and Company

	2023 £million	2022 £million
Notes at par value	90.0	50.0
Unamortised issue costs	(0.9)	(0.1)
Accrued interest	4.0	1.2

	93.1	51.1

On 28 February 2023, the Group issued £90.0 million 13.0% Fixed Rate Reset Callable Subordinated Notes due August 2033. The notes are listed on the International Securities Market of the London Stock Exchange. This issuance is in line with the Group's funding strategy and supports the Group's stated medium-term growth ambitions.

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

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

Transaction costs that are directly attributable to the issue of the notes and are deducted from the financial liability and expensed to the income statement on an effective interest rate basis over the expected life of the notes.

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

The Group redeemed all of its existing 6.75% Fixed Rate Reset Callable Subordinated notes due in 2028, that also qualified as Tier 2 capital, with first call dates in 2023, in two tranches: £25.0 million on 28 February 2023; and £25.0 million on 20 March 2023.

The accounting policy for subordinated liabilities is included in Note 1.5 Financial assets and financial liabilities accounting policy.

31. Contingent liabilities and commitments

31.1 Contingent liabilities

31.1.1 Laws and regulations

As a financial services business, the Group must comply with numerous laws and regulations that 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.

In July 2023, the Group was contacted by the FCA in a follow up to a review of forbearance outcomes associated with its Borrowers in Financial Difficulty project. The Group is responding to requirements from the FCA to review its practices in this area. In respect of its Vehicle Finance business see Note 29. In respect of its Retail Finance business, it is not possible to estimate or reliably predict the outcome of this review and its financial effect on the Group.

31.1.2 Discretionary motor finance commissions

On 11 January 2024, the FCA announced a review of historical motor finance commission arrangements. The Group operated some discretionary commission arrangements from 2009 until June 2017. While it is possible that certain charges may be incurred in the future, the Directors do not consider that a legal or constructive obligation exists that would require a provision to be recognised at this stage. There is also significant uncertainty about the outcome of the FCA's review, the timing and scope, and therefore the quantum of any potential financial impact cannot be reliably estimated at present. The FCA plans to set out its next steps in Q3 2024, when the implications for the industry should become clearer.

31.1.2.1 Critical accounting judgement

In determining the appropriate accounting and disclosure for potential claims in relation to historical motor finance commissions, the Directors have considered the criteria under IAS 37 for provisioning, and have judged that the threshold is currently not met. However, in the Directors' judgement, it is possible, dependent on future events, that costs could be incurred in relation to this matter and we have therefore disclosed a contingent liability.

31.2 Capital commitments

At 31 December 2023, the Group and Company had capital commitments of £nil (2022: £1.5 million).

31.3 Credit commitments

Group and Company

Commitments to extend credit to customers were as follows:

	2023 £million	2022 £million
Consumer Finance		
Retail Finance	91.6	97.2
Vehicle Finance	1.3	1.2
Business Finance		
Real Estate Finance	58.9	53.1
Commercial Finance	149.5	146.5
	301.3	**298.0**

32. Share capital

	Number	**£million**
At 1 January 2022	18,647,805	7.5
Issued during 2022	43,629	–
At 31 December 2022	**18,691,434**	**7.5**
Issued during 2023	326,361	0.1
At 31 December 2023	**19,017,795**	**7.6**

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

Equity instruments accounting policy

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

33. Other reserves

	Group 2023 £million	Group 2022 £million	**Company 2023 £million**	Company 2022 £million
Cash flow hedge reserve	(0.3)	(0.8)	(0.3)	(0.8)
Own shares	(1.4)	(0.3)	(1.4)	(0.3)
	(1.7)	**(1.1)**	**(1.7)**	**(1.1)**

33.1 Own shares

Employee Benefit Trust ('EBT')	**2023 Number**	**Nominal value 2023 £million**	2022 Number	Nominal value 2022 £million
At 1 January	37,501	–	–	–
Shares acquired	188,835	0.1	37,501	–
Shares disposed	(9,864)	–	–	–
At 31 December	**216,472**	**0.1**	**37,501**	**–**
Market value (£million)	**1.5**		**0.3**	
Accounting value (£million)	**1.4**		**0.3**	
Percentage of called up share capital	**1.1%**		**0.2%**	

These shares are held in trust for the benefit of employees, who will be exercising their options under the Group's share options schemes. The trustee's expenses are included in the operating expenses of the Group. The maximum number of shares held by the EBT during the year was 226,336 (2022: 37,501), which had a nominal value of £91,000 (2022: £15,000). Shares were disposed of during the year for consideration of £4,000.

Own shares accounting policy

The EBT qualifies for 'look-through' accounting, under which the EBT is treated as, in substance, an extension of the sponsoring entity, which is Secure Trust Bank PLC. Own shares represent the shares of the Parent Company, Secure Trust

Bank PLC, that are held by the EBT. Own shares are recorded at cost and deducted from equity.

34. Share-based payments

At 31 December 2023 and 31 December 2022, the Group had four share-based payment schemes in operation:

- 2017 Long-Term Incentive Plan,
- 2017 Sharesave Plan,
- 2017 Deferred Bonus Plan, and
- 'Phantom' Share Option Scheme.

A summary of the movements in share options during the year is set out below:

	Outstanding at 1 January 2023 Number	Granted during the year Number	Forfeited lapsed and cancelled during the year Number	Exercised during the year Number	Outstanding at 31 December 2023 Number	Vested and exercisable at 31 December 2023 Number	Vesting dates	Weighted average exercise price of options outstanding at 31 December 2023 £	Weighted average exercise price of options outstanding at 31 December 2022 £
Equity settled									
2017 Long-Term Incentive Plan	611,353	281,282	(161,233)	(13,304)	**718,098**	12,336	2024-2028	**0.40**	0.40
2017 Sharesave Plan	545,479	303,937	(123,809)	(321,694)	**403,913**	44,843	2024-2026	**5.93**	6.24
2017 Deferred Bonus Plan	49,807	39,953	–	(1,227)	**88,533**	18,389	2024-2026	**0.40**	0.40
	1,206,639	**625,172**	**(285,042)**	**(336,225)**	**1,210,544**	**75,568**		**2.25**	**3.04**
Weighted average exercise price	**3.04**	**2.85**	**3.56**	**5.10**	**2.25**	**3.31**			
Cash settled									
'Phantom' share option scheme	78,167	–	(40,167)	–	**38,000**	38,000	2019	**25.00**	25.00

	Group 2023 £million	Group 2022 £million	**Company 2023 £million**	Company 2022 £million
Expense incurred in relation to share-based payments	**1.1**	1.8	**0.9**	1.4

34.1. Long-Term Incentive Plan ('LTIP')

The LTIP was established on 3 May 2017. Two separate awards to a number of participants were made under this plan during the year, as set out below.

34.1.1 LTIP Restricted share award

63,975 (2022: 54,427) options were awarded during the year that were not subject to any performance conditions. The awards will vest three years from the date of grant. The original grant date valuation was determined using a Black-Scholes model. Measurement inputs and assumptions used for the grant date valuation were as follows:

	Awarded during 2023	Awarded during 2022
Share price at grant date	£6.70	£12.40
Exercise price	£0.40	£0.40
Expected dividend yield	5.20%	4.39%
Expected stock price volatility	42.93%	47.27%

Risk free interest rate	3.44%	1.47%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£5.37**	**£10.49**

34.1.2 LTIP

217,307 (2022: 176,362) options were awarded during the year that 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;
- increase in Return On Average Equity ('RoAE') over the performance period;
- increase in Earnings Per Share ('EPS') over the performance period; and
- maintaining appropriate risk practices over the performance period, reflecting the longer-term strategic risk management of the Group.

The awards have a performance term of three years. The awards will vest on the date on which the Board determines that these conditions have been met. 109,382 options will be released to the participants on the vesting date and 107,925 options will be released two years after the vesting date.

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

	Awarded during 2023 No holding period	**Awarded during 2023 Two year holding period**	Awarded during 2022
Share price at grant date	£6.70	£6.70	£12.40
Exercise price	£0.40	£0.40	£0.40
Expected dividend yield	5.20%	5.20%	4.39%
Expected stock price volatility	40.0%	40.0%	46.87%
Risk free interest rate	3.49%	3.42%	1.50%
Average expected life (years)	3.00	5.00	3.00
Original grant date valuation	**£2.98**	**£2.69**	**£7.43**

34.2. Sharesave Plan

The Sharesave Plan was established on 3 May 2017. This plan allows all employees to save for three years, subject to a maximum monthly amount of £250 (2022: £500), with the option to buy shares in Secure Trust Bank PLC when the plan matures. Participants cannot change the amount that they have agreed to save each month, but they can suspend payments for up to six months. Participants can withdraw their savings at any time but, if they do this before the completion date, they lose the option to buy shares at the Option Price, and in most circumstances if participants cease to hold plan-related employment before the third anniversary of the grant date, then the options are also lost. The options ordinarily vest approximately three years after grant date and are exercisable for a period of six months following vesting.

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

	Awarded during 2023	Awarded during 2022
Share price at grant date	£6.30	£9.62
Exercise price	£5.43	£8.10
Expected stock price volatility	37.25%	48.47%
Expected dividend yield	5.20%	4.39%
Risk free interest rate	4.52%	3.24%
Average expected life (years)	3.00	3.00
Original grant date valuation	**£1.63**	**£3.14**

34.3. Deferred Bonus Plan

The Deferred Bonus Plan was established on 3 May 2017. In 2023 and 2022, awards were granted to certain senior managers of the Group. The awards vest in three equal tranches after one, two and three years following deferral. Accordingly, the following awards remain outstanding under the plan, entitling the members of the scheme to purchase shares in the Company:

	Awards granted Vesting after one year Number	Awards granted Vesting after two years Number	Awards granted Vesting after three years Number	Awards granted Total
At 1 January 2022	5,727	6,836	7,123	19,686
Granted	12,779	12,779	12,786	38,344
Exercised	(5,727)	(2,496)	–	(8,223)
At 31 December 2022	**12,779**	**17,119**	**19,909**	**49,807**
Granted	13,315	13,315	13,323	39,953
Exercised	(401)	–	(826)	(1,227)
At 31 December 2023	**25,693**	**30,434**	**32,406**	**88,533**
Vested and exercisable	12,378	4,340	1,671	18,389

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

	Granted in 2023 Awards vesting after one year	Granted in 2023 Awards vesting after two years	Granted in 2023 Awards vesting after three years
Share price at grant date	£6.70	£6.70	£6.70
Exercise price	£0.40	£0.40	£0.40
Expected dividend yield	5.20%	5.20%	5.20%
Expected stock price volatility	44.41%	38.77%	42.93%
Risk free interest rate	3.97%	3.40%	3.44%
Average expected life (years)	1.00	2.00	3.00
Original grant date valuation	**£5.98**	**£5.66**	**£5.37**

34.3. Deferred Bonus Plan continued

	Granted in 2022 Awards vesting after one years	Granted in 2022 Awards vesting after two years	Granted in 2022 Awards vesting after three years
Share price at grant date	£12.40	£12.40	£12.40
Exercise price	£0.40	£0.40	£0.40
Expected dividend yield	4.39%	4.39%	4.39%
Expected stock price volatility	32.04%	42.03%	47.27%
Risk free interest rate	1.39%	1.46%	1.47%
Average expected life (years)	1.00	2.00	3.00
Original grant date valuation	**£11.47**	**£10.97**	**£10.49**

34.4 Cash settled share-based payments

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

scheme were sold in the market in November 2014. The options vested during 2019 and are exercisable for a period of 10 years after grant date.

As at 31 December 2023, using any reasonable range of inputs and assumptions, the fair value of the 'phantom' options is £nil (2022: £0.04). Accordingly, no liability was recognised in the consolidated financial statements at 31 December 2023 or 31 December 2022.

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

Share-based compensation accounting policy

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

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

35. Cash flow statement

35.1. 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 2023 £million	Group 2022 £million	**Company 2023 £million**	Company 2022 £million
Cash and Bank of England reserve account	351.6	370.1	351.6	370.1
Loans and advances to banks (Note 13)	53.7	50.5	53.0	48.9
Debt securities	–	–	–	–
Less:				
Cash ratio deposit	(4.8)	(3.7)	(4.8)	(3.7)
Collateral margin account	(0.2)	–	(0.2)	–
	(5.0)	(3.7)	(5.0)	(3.7)
Cash and cash equivalents	**400.3**	**416.9**	**399.6**	**415.3**

The Group and Company has no access to the cash ratio deposit or the collateral margin accounts, so these amounts do not meet the definition of cash and cash equivalents and accordingly they are excluded from cash and cash equivalents.

35.2. 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 (2022: £0.1 million) of lease liabilities interest expense, as shown in Note 27, and £0.2 million (2022: £0.2 million) amortisation of issue costs on subordinated liabilities, as shown in Note 30.

Cash and cash equivalents accounting policy

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

36. 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 that sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board. In addition key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures, such as physical controls, credit and other authorisation limits and segregation of duties. The Board

also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

A more detailed description of the risk governance structure is contained in the Principal risks and uncertainties section.

Included within the principal financial risks inherent in the Group's business are credit risk (Note 37), market risk (Note 38), liquidity risk (Note 39), and capital risk (Note 40).

37. Credit risk

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to satisfy their debt servicing commitments when due. Counterparties include the consumers to whom the Group lends on a secured and unsecured basis and Small and Medium size Enterprises ('SMEs') to whom the Group primarily lends on a secured basis, as well as the market counterparties with whom the Group deals.

Impairment provisions are provided for expected credit losses at the statement of financial position date. Significant changes in the economy could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages the Group's exposures to credit risk as it considers this to be the most significant risk to the business. Disclosures relating to collateral on loans and advances to customers are disclosed in Note 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 13. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

See the Principal risks and uncertainties section for further details on the mitigation and change during the year of credit risk.

Group and Company

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

	Stage 1 £million	**<= 30 days past due £million**	**> 30 days past due £million**	**Stage 2 Total £million**	**Stage 3 £million**	**Total gross loans and advances to customers £million**
31 December 2023						
Consumer Finance						
Retail Finance	1,149.2	92.9	4.4	97.3	8.8	1,255.3
Vehicle Finance	420.1	34.3	20.4	54.7	38.3	513.1
Business Finance						
Real Estate Finance	1,024.9	134.4	1.5	135.9	91.0	1,251.8
Commercial Finance	357.3	9.9	–	9.9	16.0	383.2
Total drawn exposure	**2,951.5**	**271.5**	**26.3**	**297.8**	**154.1**	**3,403.4**
Off balance sheet						
Loan commitments	299.1	2.2	–	2.2	–	301.3
Total gross exposure	**3,250.6**	**273.7**	**26.3**	**300.0**	**154.1**	**3,704.7**
Less:						
Impairment allowance	(29.5)	(10.5)	(7.7)	(18.2)	(40.4)	(88.1)
Provision for loan commitments	(0.8)	–	–	–	–	(0.8)
Total net exposure	**3,220.3**	**263.2**	**18.6**	**281.8**	**113.7**	**3,615.8**

£117.8 million (2022: £16.1 million) of collateral in the form of property has been pledged as security for Real Estate Finance Stage 3 balances of £84.0 million (2022: £14.8 million). £21.0 million (2022: £11.2 million) of collateral in the form of vehicles has been pledged as security for Vehicle Finance Stage 3 balances of £14.7 million (2022: £6.1 million).

	Stage 1			Stage 2	Stage 3	Total gross loans and advances to customers
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Total £million	£million

31 December 2022

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

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

Company

In addition to the above, counterparties to the Company include subsidiary undertakings. For the ECL on amounts due from related companies, see Note 24.

37.1. 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 31, respectively.

Geographical concentration

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

Group and Company

	£million 2023	£million 2022
Central England	99.5	101.9
Greater London	709.5	689.7
Northern England	89.2	68.7
South East England (excl. Greater London)	233.3	189.5
South West England	40.7	20.4
Scotland, Wales and Northern Ireland	79.6	48.7
Gross loans and receivables	1,251.8	1,118.9
Allowance for impairment	(8.0)	(3.4)
Total	**1,243.8**	**1,115.5**

37.2. Forbearance

Consumer Finance

Throughout the year, 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, in line with our responsibilities from a conduct perspective, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment purposes. Arrears tracking would continue on the account, with any impairment charge being based on the original contractual due dates for all products.

All forbearance arrangements are formally discussed and agreed with the customer in accordance with regulatory guidance

on the support of customers. By offering customers in financial difficulty the option of forbearance, the Group potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment. All forbearance arrangements are reviewed and monitored regularly to assess the ongoing potential risk, suitability and sustainability to the Group. As at the year end, the Consumer Finance business approximately had the following cases (by volume) in forbearance:

- Retail Finance 0.15% (2022: 0.15%); and
- Vehicle Finance: 0.11% (2022: 0.16%).

In respect of Vehicle Finance, where forbearance measures are not possible or are considered not to be in the customer's best interests, or where such measures have been tried and the customer has not adhered to the forbearance terms that have been agreed, the Group will consider realising its security and taking possession of the vehicle in order to sell it and clear the outstanding debt. Where the sale of the vehicle does not cover all of the remaining loan, normal credit collection procedures may be carried out in order to recover the outstanding debt, or the debt may be sold to a third party debt recovery agent, or in certain circumstances, the debt may be written off.

Real Estate Finance

Where clients provided evidence of payment difficulties, they were supported by the provision of extensions to loan maturity dates. A small number of clients, who experienced difficulties in meeting their financial commitments, were offered concessions (facility restructures or amendments) that Real Estate Finance would not have provided under normal circumstances. As at 31 December 2023, 9.6% of accounts were classed as forborne (2022: 4.3%). Where forbearance measures are not possible or are considered not to be in the client's best interests, or where such measures have been tried and the customer has not adhered to the forbearance terms that have been agreed, the Group will consider realising its security.

38. Market risk

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

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

The principal currency in which the Group operates is Sterling, although a small number of transactions are completed in US dollars, Euros and other currencies in the Commercial Finance business. The Group has no significant exposures to foreign currencies and hedges any residual currency risks to Sterling. The Group does not operate a trading book.

See the Principal risks and uncertainties section for further details on the mitigation and change during the year of market risk.

Interest rate risk

Group and Company

The Group seeks to 'match' interest rate risk on either side of the statement of financial position and hedges residual mismatch in accordance with risk appetites. However, this is not a perfect match and interest rate risk is present on the mismatch between fixed rate loans and savings products and variable rate assets and liabilities.

The Group monitors the interest rate mismatch on at least a monthly basis, using market value sensitivity and earnings at risk, which were as follows at 31 December:

	2023 £million	2022 £million
Market value sensitivity		
+200bp parallel shift in yield curve	2.5	1.8
-200bp parallel shift in yield curve	(2.7)	(1.9)
Earnings at risk sensitivity		
+100bp parallel shift in yield curve	1.2	1.2
-100bp parallel shift in yield curve	(1.2)	(1.2)

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.

39. Liquidity and funding risk

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

liabilities as they fall due in normal and stressed conditions.

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

See the Principal risks and uncertainties section for further details on the mitigation and change during the year of liquidity and funding risk.

The tables below analyse the contractual undiscounted cash flows for financial liabilities into relevant maturity groupings:

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2023						
Due to banks	402.0	435.9	12.1	15.4	408.4	–
Deposits from customers	2,871.8	2,949.5	1,532.0	806.7	608.9	1.9
Subordinated liabilities	93.1	148.5	5.9	5.9	136.7	–
Lease liabilities	2.3	2.4	0.2	0.7	1.5	–
Other financial liabilities	25.9	25.9	25.9	–	–	–
	3,395.1	**3,562.2**	**1,576.1**	**828.7**	**1,155.5**	**1.9**
Derivative financial liabilities	22.0	23.4	2.8	5.6	15.0	–
	3,417.1	**3,585.6**	**1,578.9**	**834.3**	**1,170.5**	**1.9**

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2022						
Due to banks	400.5	438.7	10.6	10.2	417.9	–
Deposits from customers	2,514.6	2,565.0	956.7	1,030.0	577.2	1.1
Subordinated liabilities	51.1	53.4	0.8	52.6	–	–
Lease liabilities	2.1	2.2	0.2	0.5	1.5	–
Other financial liabilities	68.1	68.1	68.1	–	–	–
	3,036.4	**3,127.4**	**1,036.4**	**1,093.3**	**996.6**	**1.1**
Derivative financial liabilities	26.7	27.5	4.4	12.2	10.9	–
	3,063.1	**3,154.9**	**1,040.8**	**1,105.5**	**1,007.5**	**1.1**

Company

The contractual undiscounted cash flows for financial liabilities of the Company are the same as above except for the following:

	Carrying amount £million	**Gross nominal outflow £million**	**Not more than three months £million**	**More than three months but less than one year £million**	**More than one year but less than five years £million**	**More than five years £million**
At 31 December 2023						
Lease liabilities	2.1	2.1	0.2	0.7	1.2	–
Other financial liabilities	34.2	34.2	34.2	–	–	–
Non-derivative financial liabilities	**3,403.2**	**3,570.2**	**1,584.4**	**828.7**	**1,155.2**	**1.9**
Total	**3,425.2**	**3,593.6**	**1,587.2**	**834.3**	**1,170.2**	**1.9**

	Carrying amount	Gross nominal	Not more than three	More than three months but	More than one year but less	More than five years

	£million	outflow £million	months £million	less than one year £million	than five years £million	£million
At 31 December 2022						
Lease liabilities	1.9	2.0	0.2	0.5	1.3	–
Other financial liabilities	77.4	77.4	77.4	–	–	–
Non-derivative financial liabilities	**3,045.5**	**3,136.5**	**1,045.7**	**1,093.3**	**996.4**	**1.1**
Total	**3,072.2**	**3,164.0**	**1,050.1**	**1,105.5**	**1,007.3**	**1.1**

40. Capital risk

Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support the business. The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP'). The Group has Tier 1 and Tier 2 capital resources, noting the regulatory adjustments required in the table below.

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.

	2023 £million (unaudited)	Restated[1] 2022 £million (unaudited)
CET 1		
Share capital	7.6	7.5
Share premium	83.8	82.2
Retained earnings	254.8	237.8
Own shares	(1.4)	(0.3)
IFRS 9 transition adjustments (See below for further details)	2.1	11.7
Goodwill	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(4.9)	(5.6)
CET1 capital before foreseeable dividend	**341.0**	**332.3**
Foreseeable dividend	(3.1)	(5.4)
CET1 and Tier 1 capital	**337.9**	**326.9**
Tier 2		
Subordinated liabilities	89.1	49.9
Less ineligible portion	(29.4)	–
Total Tier 2 capital[2]	**59.7**	**49.9**
Own funds	**397.6**	**376.8**
Reconciliation to total equity:		
IFRS 9 transition adjustments	(2.1)	(11.7)
Eligible subordinated liabilities	(59.7)	(49.9)
Cash flow hedge reserve	(0.3)	(0.8)
Goodwill and other intangible assets net of attributable deferred tax	5.9	6.6
Foreseeable dividend	3.1	5.4
Total equity	**344.5**	**326.4**

1. Restated to reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3 for further details.

2. Tier 2 capital comprises solely subordinated debt, excluding accrued interest, capped at 25% of the Pillar 1 and 2A requirements as set by the PRA.

The Group has elected to adopt the IFRS 9 transitional rules. In 2022, this allowed for 25% of the initial IFRS 9 transitional adjustment, net of attributable deferred tax, and for increases in provisions between 1 January 2018 to 31 December 2019, except where these provisions relate to defaulted accounts, to be added back to eligible capital. This part of the relief has

now ended. The relief for increases in provisions since 1 January 2020. however continues to apply at 50% in 2023 (2022: 75%). This relief will taper off by 31 December 2024

The Group's regulatory capital is divided into:

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

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

Further information on capital is included within our Pillar 3 disclosures, which can be found on the Group's website. See the Principal risks and uncertainties section for further details on the mitigation and change during the year of capital risk.

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

41. Classification of financial assets and liabilities

Group

	Total carrying amount £million 2023	**Fair value £million 2023**	**Fair value hierarchy level 2023**	Total carrying amount £million 2022	Fair value £million 2022	Fair value hierarchy level 2022
Cash and Bank of England reserve account	351.6	351.6	Level 1	370.1	370.1	Level 1
Loans and advances to banks	53.7	53.7	Level 2	50.5	50.5	Level 2
Loans and advances to customers	3,315.3	3,279.7	Level 3	2,919.5	2,895.6	Level 3
Derivative financial instruments	25.5	25.5	Level 2	34.9	34.9	Level 2
Other financial assets	2.4	2.4	Level 3	1.7	1.7	Level 3
	3,748.5	**3,712.9**		**3,376.7**	**3,352.8**	
Due to banks	402.0	402.0	Level 2	400.5	400.5	Level 2
Deposits from customers	2,871.8	2,850.1	Level 3	2,514.6	2,494.0	Level 3
Derivative financial instruments	22.0	22.0	Level 2	26.7	26.7	Level 2
Lease liabilities	2.3	2.3	Level 3	2.1	2.1	Level 3
Other financial liabilities	25.9	25.9	Level 3	68.1	68.1	Level 3
Subordinated liabilities	93.1	94.8	Level 3	51.1	43.5	Level 2
	3,417.1	**3,397.1**		**3,063.1**	**3,034.9**	

All financial assets and liabilities at 31 December 2023 and 31 December 2022 were carried at amortised cost, except for derivative financial instruments that are at fair value through profit and loss. Therefore, for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

Company

	Total carrying amount £million 2023	**Fair value £million 2023**	**Fair value hierarchy level 2023**	Total carrying amount £million 2022	Fair value £million 2022	Fair value hierarchy level 2022
At 31 December 2023						
Cash and Bank of England reserve account	351.6	351.6	Level 1	370.1	370.1	Level 1
Loans and advances to banks	53.0	53.0	Level 2	48.9	48.9	Level 2
Loans and advances to customers	3,315.3	3,279.7	Level 3	2,919.5	2,895.6	Level 3
Derivative financial instruments	25.5	25.5	Level 2	34.9	34.9	Level 2
Other financial assets	5.0	5.0	Level 3	4.6	4.6	Level 3
	3,750.4	**3,714.8**		**3,378.0**	**3,354.1**	
Due to banks	402.0	402.0	Level 2	400.5	400.5	Level 2
Deposits from customers	2,871.8	2,850.1	Level 3	2,514.6	2,494.0	Level 3

Derivative financial instruments	22.0	22.0	Level 2	26.7	26.7	Level 2
Lease liabilities	2.1	2.1	Level 3	1.9	1.9	Level 3
Other financial liabilities	34.2	34.2	Level 3	77.4	77.4	Level 3
Subordinated liabilities	93.1	94.8	Level 3	51.1	43.5	Level 2
	3,425.2	**3,405.2**		**3,072.2**	**3,044.0**	

All financial assets and liabilities at 31 December 2023 and 31 December 2022 were carried at amortised cost except for derivative financial instruments that are valued at fair value through profit and loss. Therefore, for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Fair value classification

The tables above include the fair values and fair value hierarchies of the Group and Company's financial assets and liabilities. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Loans and advances to customers and Deposits from customers

The fair value of the financial assets and liabilities is calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was a market rate of interest at the balance sheet date. For loans and advances to customers, the same assumptions regarding the risk of default were applied as those used to derive the carrying value.

Debt securities

The fair value of debt securities is based on the quoted price where available.

Derivative financial instruments

The fair value of derivative financial instruments is calculated based on the present value of the expected future cash flows of the instruments. The rate used to discount the cash flows was the SONIA forward curve at the balance sheet date.

Subordinated liabilities

The fair value of subordinated liabilities is calculated based on quoted market prices where available, or where an active market quote is not available, it 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 UK Government five year bond plus the initial spread on the instruments.

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.

42. Related party transactions

Related parties of the Company and Group include subsidiaries, key management personnel, close family members of key management personnel and entities that are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members.

No transactions greater than £0.1 million were entered into with key management personnel or their close family members during the current or prior year.

The Company undertook the following transactions with other companies in the Secure Trust Bank Group:

	2023 £million	2022 £million
Interest income and similar income	(28.8)	(26.2)
Gain on sale of defaulted debt	–	0.2
Operating expenses	(0.4)	(0.4)
Waiver of intercompany balance	–	(0.2)
Allowances for impairment of amounts due from related companies	(2.1)	–
Investment income	10.2	14.0

	(21.1)	**(12.6)**
Equity contribution to subsidiaries re. share-based payments	**0.2**	**0.4**

The loans and advances with, and amounts receivable and payable to, related companies are noted below:

	Company 2023 £million	Company 2022 £million
Amounts receivable from subsidiary undertakings	2.7	3.1
Amounts due to subsidiary undertakings	(10.5)	(12.4)
	(7.8)	**(9.3)**

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 in the Annual Report and Accounts.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' Remuneration Report in 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.

43. Immediate parent company and ultimate controlling party

The Company has no immediate parent company or ultimate controlling party.

44. Country-by-Country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of CRD V. The requirements aim to give increased transparency regarding the activities of institutions. The

Country-by-Country information is set out below:

	Name	Nature of activity	Location	**Turnover £million**	**Average number of FTE employees**	**Profit before tax £million**	**Tax paid on profit £million**
31 December 2023	Secure Trust Bank PLC	Banking services	UK	321.3	879	33.4	8.6
31 December 2022	Secure Trust Bank PLC	Banking services	UK	208.3	940	44.0	7.0

45. Post balance sheet events

There have been no significant events between 31 December 2023 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

Five-year summary (unaudited)

	2023 £million	2022 £million	2021 £million	2020 £million	2019 £million
Profit for the year					
Continuing operations					
Interest and similar income	304.0	203.0	163.9	173.1	191.4
Interest expense and similar charges	(136.5)	(50.4)	(27.7)	(39.4)	(46.0)
Net interest income	**167.5**	**152.6**	**136.2**	**133.7**	**145.4**
Net fee and commission income	17.2	17.0	12.7	10.8	20.1
Operating income	**184.7**	**169.6**	**148.9**	**144.5**	**165.5**
Net impairment charge on loans and advances to customers	(43.2)	(38.2)	(5.0)	(41.4)	(32.6)
Gains/(losses) on modification of financial assets	0.3	1.1	1.5	(3.1)	–
Fair value gains/(losses) on financial instruments	0.5	(0.3)	(0.1)	–	–
Operating expenses	(99.7)	(93.2)	(89.4)	(81.8)	(96.8)

Profit before income tax before exceptional items	**42.6**	**39.0**	**55.9**	**18.2**	**36.1**
Exceptional items	(6.5)	–	–	–	–
Profit before income tax	**36.1**	**39.0**	**55.9**	**18.2**	**36.1**
Discontinued operations					
(Loss)/profit before income tax	(2.7)	5.0	0.1	0.9	–
Total profit before income tax	**33.4**	**44.0**	**56.0**	**19.1**	**36.1**

	Continuing 2023 £million	Continuing 2022 £million	Continuing 2021 £million	Continuing 2020 £million	2019 £million
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)					
Basic earnings per ordinary share	140.8	158.5	244.1	82.7	168.3

	2023 £million	Restated 2022 £million	Restated 2021 £million	2020 £million	2019 £million
Financial position					
Cash and Bank of England reserve account	351.6	370.1	234.0	181.5	105.8
Loans and advances to banks	53.7	50.5	52.0	63.3	48.4
Debt securities	–	–	25.0	–	25.0
Loans and advances to customers	3,315.3	2,919.5	2,530.6	2,358.9	2,450.1
Fair value adjustment for portfolio hedged risk	(3.9)	(32.0)	(3.5)	5.7	(0.9)
Derivative financial instruments	25.5	34.9	3.8	4.8	0.9
Other assets	35.8	36.6	44.0	47.0	51.4
Total assets	**3,778.0**	**3,379.6**	**2,885.9**	**2,661.2**	**2,680.7**
Due to banks	402.0	400.5	390.8	276.4	308.5
Deposits from customers	2,871.8	2,514.6	2,103.2	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	(1.4)	(23.0)	(5.3)	4.7	(0.7)
Derivative financial instruments	22.0	26.7	6.2	6.1	0.6
Subordinated liabilities	93.1	51.1	50.9	50.8	50.6
Other liabilities	46.0	83.5	37.7	63.1	49.4
Total shareholders' equity	344.5	326.2	302.4	267.6	252.0
Total liabilities and shareholders' equity	**3,778.0**	**3,379.6**	**2,885.9**	**2,661.2**	**2,680.7**

The 2021 and 2020 profits for the year have been restated to reflect the disclosure of discontinued operations.

Appendix to the Annual Report (unaudited)

Key performance indicators and other alternative performance measures

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

Restated prior year ratios reflect a change in accounting policy relating to land and buildings, which are now presented at historical cost. See Note 1.3 for further details.

(i) Continuing loans and advances to customers

A reconciliation of total loans and advances to customers to continuing operations loans and advances to customers is set out below:

	2023 £million	2022 £million	2021 £million	2020 £million	2019 £million	2018 £million

Loans and advances to customers	**3,315.3**	2,919.5	2,530.6	2,358.9	2,450.1	2,028.9
Assets held for sale – loan portfolios	–	–	1.3	–	–	–
Total loans and advances to customers	**3,315.3**	2,919.5	2,531.9	2,358.9	2,450.1	2,028.9
Less discontinued loans and advances to customers:						
Asset Finance (sold during 2021)	–	–	–	(10.4)	(27.7)	(62.8)
DMS (sold during 2022)	–	–	(79.6)	(81.8)	(82.4)	(32.3)
Consumer Mortgages (sold during 2021)	–	–	–	(77.7)	(105.9)	(84.7)
Other	–	–	(1.3)	(4.1)	(7.6)	(11.2)
Total discontinued operations loans and advances to customers	–	–	(80.9)	(174.0)	(223.6)	(191.0)
Continuing loans and advances to customers	**3,315.3**	**2,919.5**	**2,451.0**	**2,184.9**	**2,226.5**	**1,837.9**

(ii) Net interest margin, net revenue margin and risk adjusted margin ratios

Net interest margin is calculated as net interest income for the financial year as a percentage of the average loan book. Risk adjusted margin is calculated as risk adjusted income for the financial year as a percentage of the average loan book. Net revenue margin is calculated as operating income for the financial year as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over 13 months:

Group	**2023 £million**	2022 £million	2021 £million	2020 £million	2019 £million
Net interest income	167.5	152.6	136.2	133.7	133.5
Opening loan book	2,919.5	2,451.0	2,184.9	2,226.5	1,837.9
Closing loan book	3,315.3	2,919.5	2,451.0	2,184.9	2,226.5
Average loan book	3,099.4	2,699.3	2,240.5	2,197.8	2,041.3
Net interest margin	**5.4%**	**5.7%**	**6.1%**	**6.1%**	**6.5%**

Retail Finance	**2023 £million**	2022 £million	2021 £million	2020 £million	2019 £million
Net interest income	73.1	61.2	56.1	57.7	58.1
Average loan book	1,143.4	898.8	692.9	663.4	651.9
Net interest margin	**6.4%**	**6.8%**	**8.1%**	**8.7%**	**8.9%**
Net interest income	73.1	61.2	56.1	57.7	58.1
Net fee and commission income	3.2	3.6	2.6	2.1	3.6
Net impairment charge on loans and advances to customers	(15.9)	(14.8)	(5.0)	(14.5)	(19.8)
Gains/(losses) on modification of financial assets	–	0.2	0.4	(0.6)	–
Risk adjusted income	60.4	50.2	54.1	44.7	41.9
Risk adjusted margin	**5.3%**	**5.6%**	**7.8%**	**6.7%**	**6.4%**

Vehicle Finance	**2023 £million**	2022 £million	2021 £million	2020 £million	2019 £million
Net interest income	44.1	38.9	32.2	37.5	40.6
Average loan book	429.6	325.1	245.8	292.1	300.1
Net interest margin	**10.3%**	**12.0%**	**13.1%**	**12.8%**	**13.5%**
Net interest income	44.1	38.9	32.2	37.5	40.6
Net fee and commission income	1.8	1.4	1.1	0.6	0.6
Net impairment charge on loans and advances to customers	(14.8)	(21.3)	(0.1)	(20.7)	(13.8)
Gains/(losses) on modification of financial assets	0.3	0.9	1.1	(2.5)	–
Risk adjusted income	31.4	19.9	34.3	14.9	27.4

Risk adjusted margin	7.3%	6.1%	14.0%	5.1%	9.1%

Real Estate Finance	**2023 £million**	2022 £million	2021 £million	2020 £million	2019 £million
Net interest income	29.7	29.7	31.5	30.4	27.0
Net fee and commission income	0.9	0.2	0.3	–	1.0
Operating income	30.6	29.9	31.8	30.4	28.0
Net impairment charge on loans and advances to customers	(4.5)	(1.3)	(0.1)	(5.2)	(0.1)
Risk adjusted income	26.1	28.6	31.7	25.2	27.9
Average loan book	1,177.7	1,114.9	1,045.3	1,020.4	867.5
Net revenue margin	**2.6%**	**2.7%**	**3.0%**	**3.0%**	**3.2%**
Risk adjusted margin	**2.2%**	**2.6%**	**3.0%**	**2.5%**	**3.2%**

Commercial Finance	**2023 £million**	2022 £million	2021 £million	2020 £million	2019 £million
Net interest income	13.2	11.4	6.5	4.4	4.0
Net fee and commission income	11.3	11.6	8.4	7.7	9.2
Operating income	24.5	23.0	14.9	12.1	13.2
Net impairment (charge)/credit on loans and advances to customers	(8.0)	(0.8)	0.2	(1.1)	(0.1)
Risk adjusted income	16.5	22.2	15.1	11.0	13.1
Average loan book	348.8	360.7	259.6	221.9	221.8
Net revenue margin	**7.0%**	**6.4%**	**5.7%**	**5.5%**	**6.0%**
Risk adjusted margin	**4.7%**	**6.2%**	**5.8%**	**5.0%**	**5.9%**

These ratios show the net return on our lending assets, with and without adjusting for cost of risk.

(iii) Yield

Yield is calculated as interest income and similar income for the financial year as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over 13 months:

	2023 £million	2022 £million
Interest income and similar income	304.0	203.0
Average loan book	3,099.4	2,699.3
	9.8%	**7.5%**

The yield measures the gross return on the loan book.

(iv) Return on average equity

Total return on average equity is calculated as the total profit after tax for the previous 12 months as a percentage of average equity. Adjusted return on average equity is calculated as the adjusted profit after tax for the previous 12 months as a percentage of average equity. Average equity is calculated as the average of the monthly equity balances.

	2023 £million	Restated 2022 £million	2021 £million	2020 £million	2019 £million
Total profit after tax	24.3	33.7	45.6	15.4	31.1
Less:					
Loss/(profit) for the year from discontinued operations	2.1	(4.1)	N/A	N/A	N/A
Exceptional items after tax	5.9	–	–	–	–
Adjusted profit after tax	32.3	29.6	N/A	N/A	N/A
Opening equity	326.4	302.2	267.6	252.0	237.0

Closing equity	344.5	326.4	302.2	267.6	252.0
Average equity	334.9	313.4	287.0	261.1	242.9
Total return on average equity	**7.3%**	**10.8%**	**15.9%**	**5.9%**	**12.8%**
Adjusted return on average equity	**9.6%**	**9.4%**	**N/A**	**N/A**	**N/A**

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

(v) Cost to income ratio

Statutory cost to income is calculated as total operating expenses for the financial year as a percentage of operating income for the financial year. Adjusted cost to income is calculated as adjusted operating expenses for the financial year as a percentage of operating income for the financial year.

	2023 £million	2022 £million	2021 £million	2020 £million	2019 £million
Total operating expenses	106.2	93.2	89.4	81.8	83.5
Less: Exceptional items	(6.5)	–	–	–	–
Adjusted operating expenses	99.7	93.2	89.4	81.8	83.5
Operating income	184.7	169.6	148.9	144.5	148.4
Statutory cost to income ratio	**57.5%**	**55.0%**	**60.0%**	**56.6%**	**56.3%**
Adjusted cost to income ratio	**54.0%**	**55.0%**	**60.0%**	**56.6%**	**56.3%**

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

(vi) Cost of risk

Cost of risk is calculated as the total of the net impairment charge on loans and advances to customers and gains and losses on modification of financial assets for the financial year as a percentage of the average loan book

	2023 £million	2022 £million	2021 £million	2020 £million	2019 £million
Net impairment charge on loans and advances to customers	43.2	38.2	5.0	41.5	33.8
(Gains)/losses on modification of financial assets	(0.3)	(1.1)	(1.5)	3.1	–
Total	42.9	37.1	3.5	44.5	33.8
Average loan book	3,099.4	2,699.3	2,240.5	2,197.8	2,041.3
Cost of risk	**1.4%**	**1.4%**	**0.2%**	**2.0%**	**1.7%**

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

(vii) Cost of funds

Cost of funds is calculated as the interest expense for the financial year expressed as a percentage of average loan book

	2023 £million	2022 £million
Interest expense and similar charges	136.5	50.4
Average loan book	3,099.4	2,699.3
Cost of funds	**4.4%**	**1.9%**

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

(viii) Funding ratio and loan to deposit ratio

The funding ratio is calculated as the total funding at the year-end divided by total loans and advances to customers at the year-end. The loans to deposit ratio is calculated as total loans and advances to customers at the year-end divided by deposits from customers at the year end:

	2023 £million	Restated 2022 £million
Deposits from customers	2,871.8	2,514.6
Borrowings under the Bank of England's liquidity support operations (including accrued interest)	395.1	392.8
Tier 2 capital (including accrued interest)	93.1	51.1

Equity	344.5	326.4
Total funding	3,704.5	3,284.9
Total loans and advances to customers	3,315.3	2,919.5
Funding ratio	**111.7%**	**112.5%**
Loan to deposit ratio	**115.4%**	**116.1%**

The funding ratio and loan to deposit ratio measure the Group's excess of funding that provides liquidity.

(ix) Profit before tax pre impairments

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

	2023 £million	2022 £million
Profit before income tax	36.1	39.0
Excluding: net impairment charge on loans and advances to customers	43.2	38.2
Excluding: gains on modification of financial assets	(0.3)	(1.1)
Profit before tax pre impairments	**79.0**	**76.1**
Exception items	6.5	–
Adjusted profit before tax pre impairments	**85.5**	**76.1**

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

(x) Tangible book value per share

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

	2023 £million	2022 £million
Total equity	344.5	326.4
Less: Intangible assets	(5.9)	(6.6)
Tangible book value	338.6	319.8
Number of shares in issue at the end of the year	19,017,795	18,691,434
Tangible book value per share	**£17.80**	**£17.11**

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