Secure Trust Bank PLC

Interim Report for the six months ended 30 June 2017

Straightforward transparent banking

Registered Number 00541132

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Financial and operational highlights

	Period ended 30 June 2017	Period ended 30 June 2016	Year ended 31 December 2016
Operating income	£65.8 million	£57.3 million	£118.2 million
Underlying profit before tax *	£14.5 million	£16.2 million	£32.9 million
Profit before tax	£13.9 million	£12.5 million	£25.0 million
Common Equity Tier 1 ('CET1') capital ratio **	15.3%	20.1%	18.0%
Loan to deposit ratio ***	113.9%	108.2%	114.7%
Earnings per share	60.6 pence	57.0 pence	102.6 pence
Total assets	£1,674.4 million	£1,345.3 million	£1,510.0 million

Operating income, underlying profit before tax, profit before tax and earnings per share are all attributable to continuing operations.

* Underlying profit is the profit attributable to continuing operations, adjusted for items that are outside of the Group's normal recurring business activities. A reconciliation of underlying profit before tax to profit before tax included in the income statement is provided on page 14.

** Common Equity Tier 1 ('CET 1') capital ratio is calculated on a group consolidated basis.

*** This excludes the UK Treasury Bills borrowed from the Bank of England under the Funding for Lending Scheme, which have subsequently been pledged as part of a sale and repurchase agreement. If these were included the loan to deposit ratio would be 108.7% (30 June 2016: 106.7%, 31 December 2016: 108.1%).

	New business volumes Period ended 30 June 2017 £million	Loans and advances to customers At 30 June 2017 £million	New business volumes Period ended 30 June 2016 £million	Loans and advances to customers At 30 June 2016 £million	New business volumes Year ended 31 December 2016 £million	Loans and advances to customers At 31 December 2016 £million
Business Finance						
Real Estate Finance	158.2	541.4	77.0	361.7	218.0	451.0
Asset Finance	19.5	111.5	58.3	112.3	84.7	117.2
Commercial Finance	25.9	94.2	19.4	54.5	39.5	62.8
Consumer Finance						
Retail Finance	254.1	394.3	184.4	271.7	396.3	325.9
Motor Finance	72.2	258.4	73.8	205.6	146.8	236.2
Personal Lending	0.6	48.5	14.4	64.6	39.0	65.5
Other	4.3	61.3	35.2	57.9	40.0	62.4
	534.8	**1,509.6**	**462.5**	**1,128.3**	**964.3**	**1,321.0**

	June 2017 £million	June 2016 £million	December 2016 £million
Deposits from customers	1,325.8	1,042.6	1,151.8

- Total customer lending balances across the STB Group increased by 33.8% year-on-year (14.3% up from 31 December 2016) to £1,509.6 million.
- Business Finance lending balances increased by 41.4% year-on-year (18.4% up from 31 December 2016) to £747.1 million.
- Consumer Finance lending balances increased by 29.4% year-on-year (11.7% up from 31 December 2016) to £701.2 million.
- Customer deposits increased by 27.2% year-on-year (15.1% up from 31 December 2016) to £1,325.8 million.
- Customer numbers increased 39.5% year-on-year (12.5% up from 31 December 2016) to 849,365.
- Customer FEEFO ratings (from the Feedback Forum, mark out of 5 based on star rating from approximately 300 reviews): 4.6 stars (31 December 2016: 4.5 stars from approximately 400 reviews).

Chairman's statement

This year marks the 65th anniversary of the foundation in 1952 of the Secure Trust Group. Throughout its history, the Group has responded flexibly to changing economic and market conditions to protect and create shareholder value and this approach continues today. The Group enjoys strong capital ratios and liquidity, and customer satisfaction as measured by FEEFO remains encouragingly high. During the course of my visits to our operations across the UK, I have met many employees and their commitment to our customers is evident and much appreciated by the Board.

The skills, diversity and experience of the new independent non-executive directors have enriched our Boardroom debates. I welcome Victoria Stewart as our new chairman of the remuneration committee and thank Sir Henry Angest for his work as the previous chairman of the committee. The new remuneration policy approved by shareholders at the AGM will ensure that, subject to performance, a good proportion of the annual variable compensation of the executives will be in the form of medium term share based payments, aligning the interests of the executives with that of the shareholders. The first awards under the Long Term Incentive Plan were made in June. The new Save As You Earn share scheme, which will be launched shortly, will also help staff to take a long term stake in the Group's future.

The last six months have seen a slowdown in UK economic activity and the Bank of England has expressed growing concern about behaviour in some lending markets and announced plans to investigate further. The Chief Executive, Paul Lynam, has warned about this repeatedly and has curtailed activities which do not generate targeted risk adjusted returns. The increased focus on the Consumer Credit market by the regulators is welcome but the majority of consumer credit firms are not regulated by the Bank of England. Any intervention which results in activity moving to the less heavily regulated non-banking market would be a mistake.

2016 was a transformational year with record levels of profits from ongoing trading and the sale of our branch based subprime lending subsidiary Everyday Loans. This was the start of an evolution of our business model away from higher risk, higher margin consumer lending, to lower risk activities. The statutory profit before tax of £13.9 million for the first half of 2017 reflects this strategic repositioning.

The Board proposes to pay an increased interim dividend of 18p per share (30 June 2016: 17p) in respect of the six months ending 30 June 2017. This will be paid on 29 September 2017 to shareholders on the register as at 1 September 2017.

With strong capital and funding positions, the Board believes that the Bank is well positioned to navigate the current economic environment whilst seeking to take advantage of any attractive opportunities that may arise. The Board continues to see potential to grow the Bank's lending portfolio in line with its ambition and risk appetite and has a clear growth strategy and organic and external new business opportunities.

Chief Executive’s statement

In my equivalent statement last year, I outlined my concerns about the economic outlook and the steps we had started to take to adopt a defensive position were an economic slowdown to occur. Our previous bias towards subprime and near prime unsecured personal lending had generated very substantial shareholder value over recent years, most markedly in 2016 with the profits arising from the sale of Everyday Loans. However, I had become concerned with the dynamics of some parts of the lending market and the risks that persistently high inflation could lead to a squeeze on household disposable income, with associated negative implications for general consumption and debt servicing. As a result we decided to reduce our risk appetite and evolve the focus of the business model away from higher risk unsecured consumer credit and to focus the Group towards lower risk secured lending.

Building on actions taken in 2016, we have made further progress in reshaping the business model during the last six months:

- Following the successful sale of Everyday Loans in 2016, we are no longer exposed to the subprime unsecured loan market following the sale, for a modest profit, of the equity stake taken in Non-Standard Finance plc as part of the consideration. Since 30 June, the £30 million vendor loan provided to Non-Standard Finance plc has also now been repaid in full.
- We ceased originating new non-prime online unsecured personal loans in January 2017 and the back book of loans has been put into run off. These balances have contracted by 26% since the beginning of the year and are only 3.2% of the Group’s overall loan book as at 30 June 2017.
- We have stopped writing new subprime motor finance and are managing this exposure down. At the same time we have seen significant growth in the volumes of better credit quality lending being written.
- We launched our residential mortgage lending operations in March, targeting owner occupiers only. This new operation is slowly building momentum.
- We have increased new business volumes in Real Estate Finance by 105%, compared to the same period last year, whilst maintaining a modest overall loan to value risk profile.
- Real Estate Finance net lending balances have grown by 50% since 30 June 2016, despite a number of higher Loan to Gross Development Value prime Central London residential property development loans being satisfactorily repaid, in some cases earlier than planned, at the Group's request. These early redemptions have a short term income impact and remove the Bank's related risk exposure should the Central London prime residential market continue to weaken.

As a result of the Group’s strategic repositioning this year, it is seeing a change in the mix of its business, away from higher risk unsecured lending, which has historically generated higher returns but face an increasing level of risk, in particular against a less certain economic backdrop. The Group is focusing on reallocating capital into secured lending with a lower return but also lower risk profile. This repositioning has a short term economic impact as the lower income impact comes through faster than the impairment benefit thus creating a short term profit growth drag. This point is illustrated in relation to the legacy personal unsecured loan portfolio, which has contracted by 26% in the first six months of 2017, while generating £2 million of impairments in the same period. As this portfolio continues to run off, and is repaid the associated impairments will cease and the associated profit drag will come to an end.

The financial results for the first half of 2017 reflect these trends as the Group focuses on growth in lower risk lending, invests in new lines of business such as mortgages and winds down its existing unsecured non-prime personal and sub prime motor balances. The Group statutory profit before tax for the first half increased 11% to £13.9 million, while underlying profit before tax reduced 10% to £14.5 million.

Chief Executive's statement

Strong customer satisfaction

I have been very pleased with the continuing commitment and 'can do' attitude of my colleagues with a continued focus on delivering good customer outcomes in a customer friendly and professional manner, as the Group's lending and deposit taking activities grow. This in turn is reflected in customer satisfaction levels which, as measured by the independent FEEFO customer feedback forum, are consistently in the 90-96% range.

Customer numbers continue to grow and are over 39.5% higher than at 30 June last year at 849,365 (30 June 2016: 608,891).

Very robust Capital and Liquidity positions

The Bank's capital and funding positions remain strong.

Our Common Equity Tier one ratio was 15.3% as at 30 June 2017 compared to 20.1% at the same point last year. Our overall leverage ratio was 12.7% (2016: 15.7%). The movement reflects the growth in balance sheet assets and lending for residential development being risk weighted at 150% during 2017 in line with guidance to all banks on the Standard Approach to capital from the Bank of England.

Secure Trust Bank has continued to fund its lending activities primarily from customers' deposits. Our loan to deposit ratio was 113.9% at 30 June 2017 which compares to 108.2% at 30 June 2016. Usage of the Funding for Lending and Term Funding Schemes remains a nominal 4% of total lending balances. We have not undertaken lending activities that are only viable when temporary discounted funding is available and our deliberate and modest use of these schemes means we are not exposed to a sudden funding cost shock when these schemes end in early 2018.

We have no reliance for funding from wholesale or interbank markets. The Bank has continued broadly to match-fund its customer lending with customer deposits. This strategy seeks to mitigate maturity transformation and interest basis risks. Customer demand for our deposit products remains very strong, and I am pleased to note that the majority of customers with maturing medium term savings bonds chose to reinvest their funds into deposit products with us.

To coincide with the commencement of residential mortgage lending activities, we have upgraded our corporate treasury capabilities with the recruitment of an experienced treasurer with recent involvement in securitisation markets. Whilst we have no current plans to use these markets, it is appropriate that we should build this operational capability to maximise our options for the future.

Lending activities

Our strategic repositioning and our reduced credit appetite have guided the allocation of capital to support growth particularly in lower risk in our core lending activities during the period. Overall net customer lending as at 30 June 2017 of £1,509.6 million represents 34% growth over the same period in 2016. As at 30 June 2017, 53% of these lending balances are in secured SME lending.

The total volume of new loans written in the period was £534.8 million representing a 15.6% increase on the £462.5 million for the same period last year. Growth in the targeted segments of the lending market remained strong, while the overall Group growth rate reflected the curtailment of some higher risk lending activities as previously mentioned.

Chief Executive's statement

Motor Finance balances have grown to £258.4 million from £205.6 million a year ago and £236.2 million as at 31 December 2016 representing 26% and 9% growth respectively. As previously disclosed, we stopped writing new subprime motor in light of the performance of that cohort of risk. This is reflected in the slowing of the motor finance new business growth rate in the last six months. We are now focused on originating higher volumes of lower risk, lower margin motor finance business. The proportion of new lending written in this category during the period was over 37% higher than the same period last year. This shift and further changes being made to our credit criteria are expected to improve the overall motor portfolio quality as it works through to the back book.

Personal unsecured lending balances are being run off with no new business being written. As such the balances have been contracted to £48.5 million from £65.5 million as at 31 December 2016 representing a reduction of 26% in the last six months.

We have prioritised Retail Point of Sale lending during this period, noting this is the best quality consumer lending we write and also the shortest in duration. Balances have grown to £394.3 million from £271.7 million a year ago and £325.9 million as at 31 December 2016 representing 45% and 21% growth respectively.

As at 30 June 2017, Real Estate Finance lending balances have grown to £541.4 million from £361.7 million a year ago and £451.0 million as at 31 December 2016, representing 50% growth and 20% growth respectively. Consistent with our strategy of reducing our risk profile during the period, a number of higher Loan to Gross Development Value prime Central London residential property development loans have been satisfactorily repaid, as stated above. The lending repaid has been replaced with lower margin and modestly leveraged residential investment lending. This is reflected in the portfolio composition, which is now split roughly 70% residential investment: 30% residential development. (2016 50%: 50%).

Asset Finance lending balances have remained flat over the last year at £111.5 million as at 30 June 2017 compared to £112.3 million a year ago. During the second half of last year, we reduced our risk appetite in asset finance and no longer offer loans up to 100% of the open market value of the underlying asset. The rationale is that in an economic downturn, business insolvencies rise, which drives an increase in asset repossessions. This increase in assets for sale, coinciding with reduced demand, invariably leads to a fall in value. For some assets these valuation adjustments can be quite marked. Whilst I do not necessarily foresee a big increase in business insolvencies, the reality is that the economy is slowing and the outlook is increasingly uncertain. Nevertheless some lenders are still offering loans up to or exceeding 100% of open market value on asset finance at extremely low margins, by historical standards. Our cautious stance means we are not seen as being as competitive as the more aggressive lenders in the asset finance market and as a result are writing materially less new business than previously expected. We are not prepared to compromise on risk or price simply to achieve short term net balance sheet growth, and as matters stand expect this part of the lending portfolio to contract during the rest of 2017 and into 2018, as existing loans, of an acceptable risk profile, continue to get repaid. It is possible that the competitive dynamics in the lending markets could change once the Funding for Lending and Term Funding Schemes close in early 2018 and the supply of heavily discounted funding ends. We will monitor developments closely and adjust our stance should risk: reward dynamics change.

As at 30 June 2017 Invoice Finance lending balances have grown to £94.2 million from £54.5 million a year ago and £62.8 million as at 31 December 2016 representing 73% growth and 50% respectively. During this period we have surpassed the milestone of having funded over £1billion of customer invoices since we started invoice finance operations in September 2014.

The level of the Group's impairments reflects the mixture of its businesses. Our SME lending activities have performed as expected, with modest levels of impairments in asset finance and commercial finance. The subprime segment of the motor book has, however, continued to see higher levels of impairments consistent with the trends in the second half of 2016. This was a key factor in our decision to cease originating new subprime motor finance

earlier this year. We expect this to be addressed as the subprime cohort is run off and replaced by the better quality new motor lending being written. We are keeping a close watch on the performance of the subprime cohort and are focused on recovery of the loans. The legacy unsecured personal loan book is running off as expected. In Retail Finance the increase in impairments seen is as expected, being a mirror of the increase in net lending balances. Given the slowing of economic growth and the heightened levels of uncertainty we have continued to tighten our credit risk appetite and acceptance criteria during this period. This is expected to impact new lending volumes in the second half of 2017. As a matter of course, we will regularly refine our credit criteria and pricing to take into account our view of the current and future economic conditions.

Fee based services

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

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

Increasing regulatory focus and potential interventions

During the period the Bank of England has, via the Financial Policy Committee and the PRA, expressed concerns about the UK Consumer Credit market. The Financial Conduct Authority has echoed many of these. Both regulators have subsequently taken steps to address their concerns which are centred around mortgage affordability, increases in the maximum size and terms of unsecured personal loans coupled with much lower pricing, ever lengthening interest free balance transfer periods on credit cards and the associated accounting treatments, the pace of growth in Personal Contract Purchase lending in the motor finance market and whether mortgage customers are getting good outcomes having regard to the pricing dynamics in the mortgage market.

The Bank of England has separately expressed concerns, once again, regarding certain parts of the Commercial Property Market.

Secure Trust Bank is not exposed to the majority of the issues above and our mortgage affordability testing was already in line with these regulatory expectations.

I am not surprised about the various announcements from the regulators. In the recent past I have highlighted my views that risk is being mispriced in a number of lending markets in the UK. Our prior recognition of what we regard as unsustainable market dynamics and assessment of the economic outlook have informed the strategic repositioning of the Group's business model over the last eighteen months.

It is rather frustrating that one form of regulatory intervention was the Bank of England's decision to increase the UK countercyclical capital buffer rate to 0.5% (of risk weighted assets) from 0%. This applies to all banks and does not distinguish between those like Secure Trust Bank which have exited overheating parts of the consumer credit markets, from others.

The regulator has announced that it will be reviewing the activities of individual firms in relation to the concerns described above, and it will be interesting to see how this influences the competitive landscape. It will also be interesting to see if the regulators decide to intervene in the pricing of some lending activities, as they did in the high cost short term credit market.

It is now being widely speculated that the ongoing Basel Committee on Banking Supervision's debates about bank capital requirements will result in the introduction of a capital floor under the IRB approach used by the largest banks, set as high as 70% to 75% of the risk weights used under the standardised approach. This could be announced alongside measures to introduce more risk sensitivity into the risk weights used in the standardised approach. One

reported proposal is to reduce the risk weight on owner occupied residential mortgages where the LTV is 75% or less, from a risk weight of 35% to 20%. Such an outcome would largely remove the substantial capital advantages enjoyed by the systemic banks in certain lending classes thereby creating a much more level competitive playing field. This would clearly bode well for smaller banks in the longer term.

We are reviewing the revised EU state aid remedies recently announced by RBS to ascertain whether there is any potential benefit arising for the Group.

Outlook

The forward looking economic indicators are pointing to a period of low confidence and tepid economic growth. This is notwithstanding the fact that the current UK economic fundamentals are solid. The market is awash with liquidity and banks are holding dramatically more capital than they were ahead of the last downturn. There is record employment and unemployment is also at a record low. While there remains a high job vacancy rate, net take home pay is being squeezed by high inflation and low wage growth. Inflation levels should subside as the effects of the devaluation of sterling in the second half of 2016 begin to flow through. There remains a chronic shortage of housing and a political consensus for much more house building to address this.

During recent months we engaged in a number of discussions relating to inorganic business opportunities but these did not progress to a conclusion that was acceptable to us. Our previous M&A activities have generated considerable shareholder value due in part to the discipline that we apply. We will continue to be disciplined in our approach to opportunities.

Our approach to the market will reflect evolving economic conditions and our credit appetite will be kept under review. We expect the second half to experience similar trends to the first half, with the benefits of our strategic repositioning becoming more visible in 2018 as we continue to build our SME and secured offering, and reduce areas of higher risk lending.

Our long term strategic objective is to be active in Consumer Credit, SME Finance and Mortgage Lending. This enables flexibility to restrict lending in areas which may be overheating and allocate capital for more sustainable returns. Notwithstanding the current uncertain economic outlook, I believe there is scope to pursue our strategic priorities by developing the business model organically and pursuing attractive acquisition opportunities.

Interim business review – Business Finance

Real Estate Finance

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

Revenue and lending performance vs prior periods

	Period ended 30 June 2017 £million	Period ended 30 June 2016 £million	Year ended 31 December 2016 £million
Lending revenue	14.8	14.0	28.4
Lending balance	541.4	361.7	451.0
Impairment losses	0.1	-	0.1

2017 performance

The Real Estate Finance business has maintained its growth trajectory, with balances up 20% in the period and up 50% year-on-year. This reflects the increase in the level of investment lending within the portfolio, with new investment loans of £92 million in the period accounting for the overall growth in the portfolio. The development book has remained stable with repayments on a number of higher value developments in London offsetting the new lending. This reflects the Group's more cautious policy in relation to developments within London, as well as the desire to focus on lower risk, and lower capital intensive lending within the portfolio. Investment lending now accounts for 67% of the portfolio, up from 63% at December 2016 and 50% at December 2015. The change in mix means that the level of income growth has been more limited due to lower yield on investment lending. The business has continued to invest in its origination and risk functions in the period to ensure that growth continues in a controlled fashion. Credit performance has reflected the continued cautious approach, with no individual impairment provisions required to date.

Looking forward

The business continues to invest in the quality of its people and processes, with a view to maintaining growth. It remains alive to the economic uncertainties which persist within the UK Real Estate marketplace.

Asset Finance

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

Revenue and lending performance vs prior periods

	Period ended 30 June 2017 £million	Period ended 30 June 2016 £million	Year ended 31 December 2016 £million
Lending revenue	4.3	3.5	7.8
Lending balance	111.5	112.3	117.2
Impairment losses	0.5	0.2	0.6

2017 performance

The Asset Finance business has continued to consolidate during 2017 with balances reducing 5% from December 2016, and being broadly in line with the balance at June 2016. The level of new business has been managed by a combination of not reducing target yields (to ensure the business is properly reflective of the risk) and credit policy over asset values and debt servicing ability. Whilst balances have been down, overall income is up £0.8m compared to the same period last year, reflecting increased average balances in 2017. The concerns over asset valuations have been reflected in the increased impairment charge in the period, which primarily arises due to specific historical cases where asset valuations were reassessed.

Interim business review – Business Finance

Looking forward

The business remains committed to asset finance as an asset class, and remains cautious as to the level of growth, until pressures on asset valuations and yields come back to more realistic levels.

Commercial Finance

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

Revenue and lending performance vs prior periods

	Period ended 30 June 2017 £million	Period ended 30 June 2016 £million	Year ended 31 December 2016 £million
Lending revenue	3.0	1.7	4.6
Lending balance	94.2	54.5	62.8
Impairment losses	-	-	0.2

2017 performance

Despite being only in its third year of trading, STB Commercial Finance is one of the top ten independent providers of Asset Based Lending facilities in the UK, with total facility limits agreed in excess of £160 million. Since inception the business has funded over £1bn of invoices providing clients with funding secured against them. Key strategic partnerships continue to be developed, and coupled with further expansion of the product range the Group has enhanced the client experience and flexibility of facilities offered. The handpicked team continues to offer origination and client servicing capability across the UK from its head office in Manchester. The team's expertise has maintained strong credit performance.

Looking forward

Commercial Finance continues to develop strong links with the professional community and private equity markets, and a client base of increasing size. The market is moving towards funding larger SMEs, and according to recent Asset Based Finance Association statistics this is a trend which is accelerating.

Interim business review – Consumer Finance

Retail Finance

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

Revenue and lending performance vs prior periods

	Period ended 30 June 2017 £million	Period ended 30 June 2016 £million	Year ended 31 December 2016 £million
Lending revenue	23.4	16.6	36.7
Lending balance	394.3	271.7	325.9
Impairment losses	6.6	4.8	9.5

2017 performance

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

The business has continued to grow strongly across all of the core business sectors. This has been driven by continuing sector growth, including the cycle market which continues to increase in popularity, and the business' success in gaining increased market share. New lending volumes increased to £254.1 million (an increase of 37.8% on the previous year). Lending assets totalled £394.3 million at the half year end (June 2016: £271.7 million) which is an increase of 45.1% on the previous year.

Income from retail lending increased year-on-year by 41.0% to £23.4 million, whilst impairment losses continued to be well controlled and increased in line with business volumes to £6.6 million (an increase of 37.5% on the previous year).

Looking forward

The Group plans continued growth in Retail Finance for the remainder of 2017 with the focus on acquiring increased market share across its target markets including music, furniture, sports and leisure equipment, consumer electronics, healthcare and jewellery.

A number of initiatives are underway to further enhance systems capabilities to ensure that quality of service to both retailers and customers is maintained or improved as the business continues to expand. To further support the maintenance of service levels the business intends to improve the level of process automation whilst continuing the expansion of its workforce and investing in additional office, support and training facilities.

Motor Finance

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

Lending performance v prior periods

	Period ended 30 June 2017 £million	Period ended 30 June 2016 £million	Year ended 31 December 2016 £million
Lending revenue	22.4	18.8	40.5
Lending balance	258.4	205.6	236.2
Impairment losses	9.2	6.1	14.6

2017 performance

Motor Finance balances have grown to £258.4 million from £236.2 million as at 31 December 2016. This is despite the cessation of lending to the subprime motor loans market segment and shifting the business' lending focus to origination of higher volumes of lower risk, lower margin motor finance lending. The proportion of new lending written in this category during the period was over 37% higher than the same period last year.

Interim business review – Consumer Finance

Impairment losses for the period increased from £6.1 million to £9.2 million, reflecting the performance of subprime motor lending discontinued by the business during the period.

Looking Forward

The Group will continue to optimise its performance in the non-prime sector of the market through existing introducer channels. The shift in business mix toward lower risk motor finance lending during the period is expected to continue and result in improvements in the overall motor portfolio quality as it works through to the back book.

Personal Lending

Following the sale of Everyday Loans Group (ELG) in April 2016, the Group continued to provide unsecured personal loans through its Moneyway branded business. In January 2017, the Group announced its intention to cease originating new personal loans and this segment is now closed to new business.

Revenue and lending performance vs prior periods

	Period ended 30 June 2017 £million	Period ended 30 June 2016 £million	Year ended 31 December 2016 £million
Lending revenue	4.7	8.0	11.2
Lending balance	48.5	64.6	65.5
Impairment losses	2.1	2.2	4.4

Mortgage finance

STB Mortgages was launched on the 20th March 2017. The division supports residential customers who are underserved by the traditional high street lenders.

The UK has approximately 4.6 million self-employed and contract workers. In addition there is a growing population of individuals with complex income and those with a recently restored credit history. These potential customers have been underserved by traditional high street lenders whose operating models are based on high volumes of simple, straight forward cases. STB Mortgages provide, through intermediaries, competitive fixed rate mortgages products to people whose personal circumstances do not fit the norm but are still credit worthy individuals with good affordability.

Financing is typically provided over a term of up to 35 years with fixed interest rate periods of 2, 3 and 5 years. The Group's purchase and remortgage products currently have a maximum loan to value of 85% and a maximum loan size of £2m.

The STB Mortgage team is staffed by experienced Mortgage and banking individuals with proven property lending expertise and underwriting skills. The team provides full support to customers and introducers over the life of the products.

2017 performance

Since launch, the pipeline has been steadily building.

Looking forward

STB Mortgages were initially available exclusively through the Mortgage Advice Bureau to ensure the Group's proposition lived up to its promise of providing excellent customer service. Since the launch, STB Mortgages has steadily built out its distribution partners and the plan is to continue to expand through 2017 and 2018. Additionally the Group is looking to extend its product range and proposition to customers that are underserved and who are aligned to STB's target market.

Interim business review – Savings

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

The Group's deposits consist principally of notice accounts and fixed term savings, available to individuals as well as small to medium sized businesses in the UK.

Accounts are straightforward in design with competitive interest rates easily applied for online with deposits protected by the UK Financial Services Compensation Scheme up to the specified limits.

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

- 60 to 183 day notice periods and fixed term savings over one to seven years.
- Minimum balance of £1,000.
- Maximum balance of £1 million for sole account holders and £2 million for business and joint accounts.
- Interest paid quarterly (notice) or annually (fixed term) to a nominated account.

By virtue of a focus on higher margin lending, the absence of a branch network and a policy of not cross-subsidising loss making products with profitable ones, the Group is able to offer competitive rates and has been successful in attracting high volumes of sizeable deposits, particularly in short timescales, from a wide range of customers. This provides a funding profile which gives additional financial security to the business.

The Group enters the market for deposits as and when it is necessary and maintains a funding strategy of broadly matching the term and tenor of its customer deposits to the desired maturity profiles of the Group, which are primarily determined by the interest rates and terms offered on loans and advances to customers. This strategy seeks to help mitigate maturity transformation and interest basis risks.

The Group is able to reprice its new business range to adjust the entire portfolio of products within 48 hours, enabling it to raise large volumes of funding in short periods. As part of this funding strategy, the Group may only offer deposit accounts for limited periods of time and, from time to time, may not offer deposit accounts to customers at all. The Group will cease offering deposit products when the Group's need for funding at that time has been satisfied.

Savings balances vs prior periods

	30 June 2017	30 June 2016	31 December 2016
	£million	£million	£million
Notice deposits	419.0	364.7	373.8
Fixed Term Savings	890.8	643.1	762.8
Sight/Instant Access	16.0	34.8	15.2
Total Balances	**1,325.8**	**1,042.6**	**1,151.8**

2017 performance

The Group acquired £344 million deposits during the period, supported by sustained best buy and media coverage. At the end of June 2017, the Group had almost 29,000 savings customers, acquiring more than 5,500 new customers in the first six months of the year. Both new and existing customers were in receipt of competitive interest rates in comparison to the average rates quoted by the Bank of England.

Alongside sustaining organic growth, the Group has been developing its new deposit platform which is expected to be delivered in the fourth quarter of this year. The platform will provide a firm basis for considerable growth of the Group offering a number of benefits; enhancing the existing product set, introducing internet banking, improving operational efficiency, strengthening risk controls and providing a sustainable platform for future product and service development.

Interim business review – Savings

At launch, the majority of customers will now be able to:

- Choose from monthly or annual interest, capitalised or paid away.
- Apply online, receive their account number and sort code instantly and deposit immediately.
- Use internet banking and secure message servicing, alongside UK based telephone service.
- Provide their maturity instructions online with the option to choose instant access, notice or fixed term.

This will enable the Group to further increase its capability to acquire large volumes of deposits in short time periods and be more nimble to take advantage of lending opportunities.

Looking forward

From late 2017 and into 2018, the Group will look to further extend and diversify its savings proposition:

- Introducing Fixed Term Cash ISAs; allowing new subscriptions and transfers of previous years' ISA funds.
- Appraising the opportunity to introduce Easy Access products; both ISAs and non-ISAs.
- Seeking further cost efficiency in its operational processes and diversification of product distribution.

The group has ensured that usage of the Funding for Lending and Term Funding Schemes has been at a nominal level and has not undertaken lending activities that are only viable when temporary discounted funding is available. As a result of the deliberate and modest use of these schemes the Group is not exposed to a sudden funding cost shock when these schemes end in early 2018.

Outside of the activity of the Group, the 2018 regulatory agenda is of particular interest. Any intervention increasing transparency and competition in the retail savings market are positive steps towards levelling the playing field on the cost of funds. However, regulatory intervention to date has had limited impact.

In particular, the Group welcomes the MREL capital requirements on transactional accounts, Open Banking initiative, Competition and Markets Authority review of digital aggregation tools and the Financial Conduct Authority's review of the Retail Banking Sector.

The Group believes these interventions could go some way to reducing the advantage of existing current account incumbents in their monopolisation of instant access funds – £665bn of household retail savings funds with an average rate of 0.36% at the end of May 2017 according to the Bank of England - which acts in contradiction to the regulators' competition agenda and the interests of savings customers seeking a fair and competitive rate of interest.

Interim financial review

Summarised income statement	Period ended 30 June 2017 Continuing operations and Total £million	Period ended 30 June 2016 Continuing operations £million	Period ended 30 June 2016 Discontinued operations £million	Period ended 30 June 2016 Total £million	Year ended 31 December 2016 Continuing operations £million	Year ended 31 December 2016 Discontinued operations £million	Year ended 31 December 2016 Total £million
Interest, fee and commission income	79.0	71.4	11.2	82.6	146.3	11.2	157.5
Interest, fee and commission expense	(13.2)	(14.1)	(0.1)	(14.2)	(28.1)	(0.1)	(28.2)
Operating income	65.8	57.3	11.1	68.4	118.2	11.1	129.3
Impairment losses	(18.5)	(13.3)	(2.6)	(15.9)	(27.7)	(2.6)	(30.3)
Operating expenses	(33.7)	(31.5)	(6.0)	(37.5)	(65.5)	(6.0)	(71.5)
Profit on sale of equity investment available-for-sale	0.3	-	-	-	-	-	-
Profit before tax	**13.9**	**12.5**	**2.5**	**15.0**	**25.0**	**2.5**	**27.5**
Fair value amortisation	0.4	0.4	-	0.4	0.9	-	0.9
Share based incentive scheme	-	0.3	-	0.3	(0.7)	-	(0.7)
Net Arbuthnot Banking Group management recharges	-	0.2	-	0.2	0.2	-	0.2
Transformation costs	0.5	0.1	-	0.1	3.4	-	3.4
Discontinued operations	-	-	(2.5)	(2.5)	-	(2.5)	(2.5)
Costs of moving to Main Market	-	-	-	-	1.4	-	1.4
Bonus payments made in respect of ELG sale	-	3.5	-	3.5	3.5	-	3.5
Other items relating to ELG sale	-	(0.8)	-	(0.8)	(0.8)	-	(0.8)
Profit on sale of NSF plc shares	(0.3)	-	-	-	-	-	-
Underlying adjustments to profit	0.6	3.7	(2.5)	1.2	7.9	(2.5)	5.4
Underlying profit before tax	**14.5**	**16.2**	**-**	**16.2**	**32.9**	**-**	**32.9**
Tax	(2.7)	(2.2)	(0.5)	(2.7)	(6.3)	(0.5)	(6.8)
Tax on underlying adjustments	(0.1)	(0.7)	0.5	(0.2)	(1.5)	0.5	(1.0)
Underlying tax	**(2.8)**	**(2.9)**	**-**	**(2.9)**	**(7.8)**	**-**	**(7.8)**
Profit after tax	11.2	10.3	2.0	12.3	18.7	2.0	20.7
Underlying adjustments after tax	0.5	3.0	(2.0)	1.0	6.4	(2.0)	4.4
Underlying profit after tax	**11.7**	**13.3**	-	**13.3**	**25.1**	-	**25.1**
Underlying basic earnings per share (pence)	**63.3**	**73.1**	**-**	**73.1**	**137.7**	**-**	**137.7**

The underlying adjustments to profit relate to items that fall outside of the Group's normal recurring business activities.

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

The share based incentive scheme movements have been driven primarily by market conditions, specifically the volatility of UK share prices, rather than factors controllable by the Group.

Arbuthnot Banking Group management charges will no longer be levied following the sale of their controlling interest in the Group, and so do not represent recurring expenditure.

Transformation costs comprise the costs of setting up the Group's mortgage operation and of closing the Current Account and Unsecured Personal Lending products.

The move to the Main Market and sale of ELG also represent non-recurring events.

Interim financial review

On 13 April 2016 the sale of the Group's branch based non-standard consumer lending business, Everyday Loans Group ('ELG'), to Non-Standard Finance Plc ('NSF') completed, generating a gain on disposal of £116.8 million. Results relating to ELG have therefore been analysed as discontinued operations throughout this interim report. Unless otherwise stated, the analyses presented below relate to continuing operations, which represents all of the Group's divisions, excluding ELG.

Operating Income

Operating income from continuing operations increased by 14.8% year-on-year to £65.8 million. Operating income comprises net interest receivable, being interest earned on assets less interest expense on liabilities, plus net fees and commissions earned.

The Group measures net revenue margin, calculated as operating income as a percentage of the average loan book. The net revenue margin for 2017 was 9.6% compared with 11.0% for the period to 30 June 2016. The Group's net interest margin, calculated as interest receivable and similar income less interest expense and similar charges as a percentage of the average loan book, reduced from 9.5% in 2016 to 8.5% in 2017. The reductions in these margins are driven by changes in book composition, partially offset by the reduction achieved in funding costs, as further detailed below.

The gross revenue margin, being interest income plus net fees and other income as a percentage of the average loan book, was 11.4% for 2017 compared with 13.6% for the first half of 2016. The reduction is driven by the change in the composition of the loan book, with an increase in the proportion of the book represented by lower interest-bearing Business Finance lending.

Interest, fee and commission income, which is predominantly interest earned on loans and advances to customers, increased to £79.0 million from £71.4 million in 2016, for continuing operations. The increase was driven by the growth of the Group's loan books over the period, offset by the reduction in margins noted above.

Interest, fee and commission expense, which mainly represents interest in respect of deposits from customers, along with some consumer finance commissions, fell from £14.1 million in the first half of 2016 to £13.2 million, for continuing operations. The decrease is due principally to the fact that the Group has been able to replace maturing term deposits with new deposits of the same tenor but at lower fixed rates. The cost of funding, measured as interest expense and similar charges as a percentage of the average loan book, reduced from 2.5% for the first half of 2016 to 1.9% for 2017, which reflects this effect. In addition to this, the fee income relating to Current Account and OneBill has decreased as these products have been closed to new business; OneBill in 2009 and Current Account in 2015.

Impairment Losses

Impairment losses during the period were £18.5 million (2016: £13.3 million). This increase is primarily due to the growth of the business and consequent increase in the size of loans and advances to customers, and in part due to an increase in the impairment losses on the sub-prime motor book.

Interim financial review

Impairment Losses	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Business Finance:			
Real Estate Finance	0.1	-	0.1
Asset Finance	0.5	0.2	0.6
Commercial Finance	-	-	0.2
Consumer Finance:			
Retail Finance	6.6	4.8	9.5
Motor Finance:			
Voluntary termination provision	1.3	0.6	1.5
Other impairment	7.9	5.5	13.1
Personal Lending	2.1	2.2	4.4
Other	-	-	(1.7)
Total Impairment Losses	**18.5**	**13.3**	**27.7**

The Group measures cost of risk, calculated as net impairment losses on loans and advances to customers as a percentage of the average loan book. The cost of risk for 2017 was 2.7%, compared with 2.6% for the equivalent period in 2016. Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 6, 7 and 17.

Interim financial review

Operating Expenses

Operating expenses have increased, reflecting a continuation in the investments made in the infrastructure and human capital of the Group to achieve growth targets, from £31.5 million in the first half of 2016 to £33.7 million in 2017, for continuing operations. The investment and business as usual costs have been closely managed, resulting in the Group's cost to income ratio reducing to 51.2% (2016: 55.0%).

Taxation

The effective underlying tax rate has increased to 19.3% (2016: 17.9%), which is mainly due to imputed Arbuthnot Banking Group management fees being deductible in the first half of 2016. These fees are no longer imputed, following the sale of their controlling interest in the Group in June 2016. The new Bank Corporation tax surcharge of 8%, which is effective from 1 January 2016, would apply to any future taxable profits of Secure Trust Bank Plc company that were in excess of £25.0 million.

Distributions to shareholders

The directors have declared the payment of an interim dividend of 18 pence per share.

Earnings per share

Detailed disclosures of earnings per ordinary share are shown in Note 5 to the interim report. Basic earnings per share increased by 6.3% to 60.6 pence per share (2016: 57.0 pence), whilst the underlying basic earnings per share fell by 13.4% to 63.3 pence per share (2016: 73.1 pence per share).

Summarised balance sheet	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Assets			
Cash and balances at central banks	114.0	141.8	112.0
Debt securities held-to-maturity	-	19.8	20.0
Loans and advances to banks	25.5	19.1	18.2
Loans and advances to customers	1,509.6	1,128.3	1,321.0
Other assets	25.3	36.3	38.8
	1,674.4	**1,345.3**	**1,510.0**
Liabilities			
Due to banks	63.0	15.0	70.0
Deposits from customers	1,325.8	1,042.6	1,151.8
Other liabilities	46.3	59.3	52.2
	1,435.1	**1,116.9**	**1,274.0**

The assets of the Group, on a continuing basis, increased year-on-year by 24.4% to £1,674.4 million, primarily driven by the growth in the Group's loan portfolios. The underlying return on average assets, calculated as the underlying profit after tax for the period as a percentage of average assets, was 1.6% for 2017, compared with 2.2% for the equivalent period in 2016.

The liabilities of the Group, on a continuing basis, increased year-on-year by 28.5% to £1,435.1 million, primarily driven by the increase in deposits from customers, providing funding for the Group's lending activities.

Loans and Advances to Customers

Loans and advances to customers includes secured and unsecured loans and finance lease receivables. The following table shows the increase in loans and advances to customers, and the change in composition of the book as the Business Finance loan books continue to grow faster than the more mature Consumer Finance books.

	30 June 2017	30 June 2017	30 June 2016	30 June 2016	31 December 2016	31 December 2016
	£million	% of total	£million	% of total	£million	% of total
Business Finance	747.1	50%	528.5	47%	631.0	48%
Consumer Finance	701.2	46%	541.9	48%	627.6	48%
Other	61.2	4%	57.9	5%	62.4	4%
Total	**1,509.6**	**100%**	**1,128.3**	**100%**	**1,321.0**	**100%**

Loan originations in the period, being the total of new loans and advances to customers entered into during the period arising from continuing operations, was £534.8 million (2016: £462.5 million).

Further analyses of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 6, 7 and 17.

Deposits from Customers

Customer deposits include term, notice and sight deposits. Customer deposits grew by 27.2% during the period to close at £1,325.8 million, to fund the increased lending balances. The Group also held £63.0 million of wholesale deposits at the end of the period, following the sale and repurchase of £15.0 million of Funding for Lending Scheme Treasury Bills, and raising £48.0 million through the Term Funding Scheme.

Interim financial review

Key Performance Indicators

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

	30 June 2017	30 June 2016	31 December 2016
Financial KPIs:			
Net Revenue Margin[1]	9.6%	11.0%	10.4%
Cost of Risk[2]	2.7%	2.6%	2.4%
Cost to Income Ratio[3]	51.2%	55.0%	55.4%
Underlying Profit Before Tax[4]	£14.5 million	£16.2 million	£32.9 million
Underlying Return on Average Assets[5]	1.6%	2.2%	1.9%
Underlying Return on Average Equity[6]	9.9%	15.3%	11.9%
Non-Financial KPIs:			
Customer FEEFO ratings (mark out of 5 based on star rating from 400 reviews)	4.6	N/A	4.5

The underlying return on average assets and underlying return on average equity have both fallen as expected as a result of the sale of ELG, the proceeds of which have increased the Group's equity and capital and have not yet been fully reinvested.

The customer FEEFO rating was not measured on a comparable basis in the period to 30 June 2016.

[1] Net revenue margin is calculated as operating income as a percentage of average loan book [7].
[2] Cost of risk is calculated as net impairment losses on loans and advances to customers as a percentage of average loan book [7].
[3] Cost to income ratio is calculated as operating expenses as a percentage of operating income.
[4] Underlying profit is the profit attributable to continuing operations, adjusted for items that are outside of the Group's normal recurring business activities. A reconciliation of underlying profit before tax to profit before tax included in the income statement is provided on page 14.
[5] Underlying return on average assets is calculated as the underlying profit after tax [9] for the previous 12 months as a percentage of average assets [8].
[6] Underlying return on average equity is calculated as the underlying profit after tax [9] for the previous 12 months as a percentage of average equity. Average equity is calculated as the mean of the total equity at the 13 previous month ends.
[7] The calculation of average loan book is the average of the monthly balance of loans and advances to customers, net of provisions and excluding ELG.
[8] The calculation of average assets is the average of the monthly balance of total assets, excluding ELG.
[9] Underlying profit after tax (PAT) is profit after tax attributable to continuing operations, adjusted for items that are outside of the Group's normal recurring business activities. A reconciliation of underlying profit after tax to profit after tax included in the income statement is provided on page 14.

All revenue, income, profit and earnings figures used in the calculation of key performance indicators are on a continuing operations basis.

Principal risks and risk management

Risk overview

The directors have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks are as follows:

Risk	Description
Credit Risk	The risk that a counterparty will be unable to pay amounts in full when due
Market Risk	The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates
Liquidity Risk	The risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset
Operational Risk	The risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above
Capital Risk	The risk that the Group will have insufficient capital resources to support the business
Conduct Risk	The potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff
Regulatory Risk	The risk that the Group fails to be compliant with all relevant regulatory requirements

Overview

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

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

Principal risks and risk management

Risk appetite statement

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

Key theme	Risk appetite statement	Risk categories
Profitability	The Group is profit and growth orientated whilst seeking to maintain a conservative and controlled risk profile. The Group manages credit risk through a pricing for risk model, which drives a potential post tax return on equity in excess of 20% in aggregate.	Market risk Credit risk
Financial strength	The Group's financial strength is safeguarded by a strong capital base and a prudent approach to liquidity management. The Group's governance and capital planning processes and procedures are designed to ensure that capital levels will not fall below the Group's individual capital guidance requirements. Liquidity is maintained at a level above the overall liquidity adequacy requirement with the majority of loans funded typically by retail deposits.	Credit risk Liquidity risk Capital risk
Conduct with customers and reputation	The Group conducts its business in a way that seeks to avoid negative outcomes for customers by consistently treating them fairly. The Group is straightforward and fair with its customers and seeks to achieve excellent customer service standards. The Group's aim is to be seen as a sound and professional business in the marketplace. It has no appetite for reputational risk arising from the way in which it or its partners behave. It seeks to remain fully compliant with all relevant regulatory requirements.	Conduct risk
Business processes and people	Our appetite for operational risk is to have well defined, scalable and controlled processes, running on robust and resilient systems, effective delivery of change and business continuity management. STB has a low tolerance for operational losses but understands that losses may occur in the pursuit of its business objectives. STB does not tolerate annual operational losses in excess of 15% of gross income over a 3 year period.	Operational risk Regulatory risk

The Group's risk appetite statements are subject to regular monitoring and review.

Risk governance

The 'Three Lines of Defence' model is implemented by the following individuals and/or units within the Group. These are:

(1) the Business Line Managers and Risk Owners;
(2) the Risk and Compliance Functions; and
(3) Internal Audit.

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

First Line of Defence – Business Line Managers and Risk Owners: As the First Line of Defence, the management and staff of each business unit are responsible and accountable for identifying, assessing, controlling and mitigating operational risks. They are the owners of the risks and controls that operate within their business. However there may be additional controls that are managed for them elsewhere within the business or functional teams.

Each business unit or subsidiary is responsible for the recording and maintenance of its own risks, and is subject to an annual review and challenge, presented to the Group Operational Risk Committee and the Board Risk Committee. Risks may be managed by a designated manager, but the risk owner is ultimately accountable for the risks in their business.

Principal risks and risk management

Second Line of Defence – Information Security, Credit Risk, Operational Risk, Financial Crime and Compliance Teams: The role of the Second Line of Defence is to support and guide the Group in order to operate within the risk appetite, by assisting the business in assessing and controlling operational risks, and by reporting to the Board and group risk committees on the effectiveness of the controls.

The Second Line of Defence enables the Group to adopt a common strategy and approach to operational risk management. It sets Group-wide policies and designs an operational risk management framework that helps businesses to control risks and that provides consistent insight into the risk profile.

Third Line of Defence – Group Internal Audit: Group Internal Audit periodically gives independent assurance on the organisational setup and effectiveness of risk management within the Group. The Third Line of Defence acts as an additional control to prevent risks from remaining unidentified.

Internal Audit provides the Audit Committee, the Board and Senior Managers with detailed independent and objective assurance on the effectiveness of the governance, risk management, and internal controls. This includes the manner in which the First and Second Lines of Defence achieve risk management and control objectives.

The scope of this assurance covers a broad range of objectives, including:

- efficiency and effectiveness of operations
- safeguarding of assets
- reliability and integrity of reporting processes
- compliance with laws, regulations, policies, procedures, and contracts.

The remit extends to a number of areas: group-wide processes; subsidiaries; business units and enabling functions, business processes including customer lifecycle, sales, marketing and operations, and enabling functions such as finance, HR, operational risk, compliance and IT.

The monitoring and control of risk is a fundamental part of the management process within the Group. The following committees form a key part of the Group's risk management governance structure:

Assets and Liabilities Committee ('ALCO')

The ALCO is a sub-committee of the Risk Committee and is responsible for implementing and controlling the liquidity and asset and liability management risk appetite of the Group, ensuring the high level control over the Group's balance sheet and associated risks. The committee sets and controls capital deployment, treasury strategy guidelines and limits focusing on the effects of the future plans and strategy on the Group's assets and liabilities.

Consumer Credit Risk Committee

This committee ensures that there is control of credit and lending decisions and related risks. Retail, Motor and Personal Lending loans are reviewed in alternate months to ensure a detailed analysis is undertaken of the entire portfolio. This committee determines whether the credit strategies and risk polices are working and will make recommendations on any changes required.

SME Credit Committees

The Group operates a Credit Committee structure for its Business Finance operations, with lending authorities approved at the Board Risk Committee. There is no local sales authority with all deals going via the respective Credit Risk functions for expert judgement underwriting and where required under the mandate approval at the respective STB Credit Committee levels.

Principal risks and risk management

Group Operational Risk Committee

This committee reviews and monitors the adequacy, the implementation and the level of embeddedness of the operational risk management framework across the Group. It recommends and undertakes improvements where required. The committee assesses the operational risks across the Group and recommends, initiates and monitors any further mitigating action that is required.

Group Compliance and Regulatory Risk Committee

This committee reviews and monitors regulatory change with which the Group is required to comply and it provides oversight that appropriate co-ordinated and controlled action is taken to deliver the required changes to an acceptable standard, which achieves compliance in a timely manner. This committee also reviews and approves the compliance risk management framework, the compliance universe and annual monitoring plan. It ensures that the Compliance function offers close and continual support to the first line of defence in understanding regulatory requirements and delivery of required outcomes.

Group Financial Crime Committee

This committee reviews and monitors the risk management framework for anti-money laundering and financial crime. It oversees the delivery of the fraud risk appetite and implementation of consistent financial crime standards across the Group. It ensures that the Financial Crime function supports the first line of defence in delivering regulatory requirements, and provides assurance through its monitoring and oversight programme.

Customer Focus Committee

This committee reviews customer experience, ensuring the Group's "treating customers fairly" principles, conduct risk, and customer service excellence requirements are met and good customer outcomes are achieved.

Information Security Management Committee

This committee oversees the Group's management of information, including safeguarding the personal information of its customers.

Changes to the Group's risk profile

Changes to the Group's risk profile since the position set out in the 2016 Annual Report and Accounts are set out in the following sections:

Credit risk

Consumer Finance Credit Risk

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

The Retail business has demonstrated good growth in the first half of 2017 as a result of both retaining the contracts with major retailers and winning contracts from its competitors. There has been further growth in the Interest Bearing and Buy Now Pay Later products which carry more risk, but this is mitigated in the pricing models which target accordingly to meet the Bank's minimum Return On Equity hurdle. The Credit Risk Team is continually monitoring acquisition and performance trends to ensure this portfolio delivers expected performance and it has been taking proactive steps to reduce exposure in the highest risk product sectors.

Principal risks and risk management

The first half of 2017 has seen significant tightening of credit policy in respect of Motor Finance, discontinuing the riskiest tier of business, and this has been combined with constructive discussions with key business introducers in order to attract a better mix of business quality. Despite tightening policy, new business performance has been strong and the Bank is achieving its objective of attracting a better mix of customer quality. The quality of the loans written continues to show a notable improvement since the final quarter of 2016 and the Bank has seen a significant shift of business towards the better quality tiers which will have a positive effect on the overall portfolio mix as 2017 progresses.

The higher volume of sub-prime new business taken on in 2015 has continued to perform below initial expectations. Although this cohort of lending remains profitable overall, the level of impairments associated with it has increased. The Group increased the level of impairment provision in respect of Motor Finance as a consequence.

Business Finance Credit Risk

Lending to this sector has continued to grow, with continued application of robust risk governance, credit appetite and lending policies, alongside the significant experience within the lending teams. This has served the Group well to date as it continues to assess the continued uncertainty over Brexit, particularly in the Central London Real Estate Market, where risk appetite has been curtailed.

A programme to develop probability of default modelling for each of the Business Finance portfolios commenced in 2015 and is now in delivery phase. The Bank's back books have been entered into the model to ensure the models robustness.

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

Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations the directors consider the lending operations of the Group as a whole to be well diversified. The increase in lending balances and loan commitments in the London region is principally due to the growth in Real Estate Finance portfolio during the period. Further detail on concentration risk is provided in Note 17.

Market risk

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

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

Liquidity risk

The Group has continued to use competitive interest rates to attract new fixed and variable rate deposits over terms ranging from one to seven years. The Bank of England's Term Funding Scheme has also been used for the first time, with £48 million drawn up to 30 June 2017.

The Overall Liquidity Adequacy Requirement has been maintained significantly above regulatory levels throughout the period. This is the Board's own view of the Group's liquidity needs as set out in the Board approved Internal Liquidity Adequacy Assessment Process ("ILAAP"). The Liquidity Coverage Ratio (LCR), which assesses net 30 day cash outflows as a proportion of High Quality Liquid Assets, was also significantly higher than the regulatory requirement throughout the period.

Principal risks and risk management

At 30 June 2017, the Funding to Loans ratio was 107.8% (30 June 2016: 114.0%, 31 December 2016: 110.4%). This ratio has fallen as capital introduced to the Group following the sale of ELG has been utilised.

Principal risks and risk management

Operational Risk

The Group's operational risk process and standards are defined and communicated through a formal Operational Risk Policy and Framework. This Framework defines and facilitates the following activities:

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

Key Risk themes of Operational Risk focus in 2017 include:

- **Supplier Management** – The Group uses a number of third parties to support its IT and operational processes. The Group recognises that it is important to effectively manage these suppliers and has introduced a new and more effective control framework.
- **IT Resilience** – Having adequate and effective servers, networks and storage systems. The Group tests its disaster recovery and business continuity processes each year and is also improving its control framework in relation to the inherent resilience of its critical IT assets.
- **Information Security and Cyber Risk** – As a financial institution, the Group is subject to a heightened risk of actual or attempted IT security breaches by sophisticated cybercrime groups. Any failure by the Group's intrusion detection and anti-penetration software to anticipate, prevent or mitigate a breach of the Group's IT network could significantly disrupt the Group's operations. The Group continues to invest in its information security controls in response to emerging cybercrime threats and to seek to ensure that controls for known threats remain robust.

Capital Risk

At 30 June 2017, the CET1 Ratio was 15.3% (30 June 2016: 20.1%, 31 December 2016: 18.0%) and the Leverage Ratio was 12.7% (30 June 2016: 15.7%, 31 December 2016: 14.2%) on a Group consolidated basis. Both ratios are significantly higher than regulatory requirements. The prior year numbers reflect the significant capital injection arising from the sale of Everyday Loans. The Group has since been utilising this capital to enable its organic growth.

The most recent Internal Capital Adequacy Assessment Process ('ICAAP') was approved by the Board in May 2017 and confirmed the Group's ability to withstand a range of stress scenarios. Updated Internal Capital Guidance is expected in the second half of the year.

Conduct risk

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

Monthly review and challenge of Key Risk Indicators in the Customer Focus Committee provides oversight of the first line activities to assure senior management that the first line are identifying conduct risks when they arise and taking appropriate actions to mitigate them.

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

Principal risks and risk management

Regulatory risk

In the period, the Group has delivered changes to address the introduction of Conduct Rules to all staff. The Group continues to work on new and revised regulations and legislation that will come into force over the next 18 months and beyond.

Capital, leverage and liquidity

Capital

The Group's capital management policy is focused on optimising shareholder value over the long-term. Processes exist to ensure that capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements. The Board reviews the capital position at every Board meeting.

In accordance with the EU's Capital Requirements Directive and the required parameters set out in the EU's Capital Requirements Regulation, the Group's ICAAP is embedded in the risk management framework of the Group. It is subject to ongoing updates and revisions where necessary, but as a minimum an annual review is undertaken as part of the business planning process. The ICAAP brings together the risk management framework, including stress testing using a range of scenarios, and the financial disciplines of business planning and capital management.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a 'Pillar I plus' approach to determine the level of capital the Group needs to hold. This method takes the Pillar I capital formula calculations as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequate to cover anticipated risks. Where it is considered that the Pillar I calculations do not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance issued to the Bank by the PRA.

The Group's regulatory capital is divided into:

- Common Equity Tier 1 ('CET1') which comprises shareholders' funds, after deducting intangible assets and deferred tax assets which have arisen due to losses.
- Tier 2 capital which comprises the collective allowance for impairment.

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities within the Group have complied during the period with all of the externally imposed capital requirements to which they are subject.

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

The Group is required by the PRA to report its capital on a Group and a solo-consolidated basis. The solo-consolidated group includes all entities where a solo-consolidation waiver has been received from the PRA; this includes all subsidiary undertakings, except the V12 Finance Group and DMS. At the period end the Group had the following capital resources and Total Risk Exposure. In accordance with Capital Requirements Regulation, the Total Risk Exposure reflects both credit risks and operational risks.

Capital, leverage and liquidity

	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Capital			
CET1 capital	218.5	217.1	227.4
Total Tier 2 capital	5.3	3.0	5.3
Total capital	**223.8**	**220.1**	**232.7**
Total Risk Exposure	**1,426.4**	**1,084.7**	**1,264.0**

CRD IV ratios			
CET1 capital (Group consolidated)	15.3%	20.1%	18.0%
Leverage ratio	12.7%	15.7%	14.2%

The Group benefited from a significant increase in CET1 capital following the sale of ELG in the first half of 2016. This capital is being utilised to drive the Group's organic growth. An analysis of CET1 capital can be found in Note 13 to the interim report.

Total Risk Exposure has increased year-on-year by 31.5% to £1,426.4 million reflecting the significant growth in both Business Finance and Consumer Lending, and the increase in the risk weights applied to residential development lending activities from 100% to 150% as advised by the Bank of England in December 2016.

The CET1 capital ratio is the ratio of CET1 capital divided by the Total Risk Exposure and was 15.3% at the period end. This compares to 18.2% at the end of 2016. The sale of ELG has provided significant capital for continued growth, whilst maintaining the CET1 ratio comfortably above regulatory minimum requirements.

Leverage

The Basel III framework introduced a relatively simple, transparent, non-risk based leverage ratio to act as a supplementary measure to the risk-based capital requirements. The leverage ratio is intended to restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy, whilst reinforcing the risk-based requirements with a complementary simple, non-risk based 'backstop' measure.

The Basel III leverage ratio is defined by the Capital Requirements Regulation as Tier 1 capital divided by on and off balance sheet asset exposure values, expressed as a percentage. The Basel committee on Banking Supervision will continue to test a minimum requirement of 3%. The Financial Policy Committee has recently proposed to increase the ratio to 3.25% in its June 2017 consultation paper.

As shown in the table above, the Group has a leverage ratio at 30 June 2017 of 12.7%, comfortably ahead of the minimum requirement.

Liquidity

The Group continues to manage its liquidity on a conservative basis by holding High Quality Liquid Assets and utilising predominantly retail funding from customer deposits, with only limited funding coming from the wholesale markets. In December 2012, Secure Trust Bank was admitted as a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework, to participate in the Discount Window Facility. From July 2013, the Group was permitted to draw down facilities under the Funding for Lending Scheme. Funding for Lending Scheme monies are maintained as a liquidity buffer, above that required to support lending. In August 2016, as part of a monetary policy package designed to stimulate the UK economy post-Brexit, the Bank of England

introduced the Term Funding Scheme (TFS) providing 4 year term funding to banks at base rate in the form of central bank reserves to support additional lending to the real economy. The Group was accepted as a member of the TFS on the 29th September 2016 and will make drawings until February 2018, when the scheme closes, to secure 4 year long term funding. These drawings will be repaid in the future through raising incremental client deposits.

At 30 June 2017 and throughout the period, the Group had significant surplus liquidity over the minimum requirements due to its stock of High Quality Liquid Assets, in the form of the Bank of England Reserve Account and Bank of England Treasury Bills. As shown in the table below, total liquid assets reduced by 22.8% from £180.7 million as at 30 June 2016 to £139.5 million as at 30 June 2017 (by 7.1% from £150.2 million as at 31 December 2016).

	30 June 2017	30 June 2016	31 December 2016
	£million	£million	£million
Liquid assets			
Aaa – Aa3	114.0	161.6	132.0
A1 – A3	20.5	14.1	13.2
Unrated	5.0	5.0	5.0
Balance sheet total	**139.5**	**180.7**	**150.2**

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

The Group's loan to deposit ratio has increased from 108.2% at 30 June 2016 to 113.9% at 30 June 2017, due to the Group using liquidity generated from the sale of ELG to fund new loans, rather than having to raise new deposits. Additionally, the proportion of the savings book held as fixed term deposits has increased from 61.7% at 30 June 2016 to 67.2% at 30 June 2017.

The LCR, introduced by the Basel Committee on Banking Supervision in 2013, applied to the Group from 1 October 2015. The objective of the LCR is to promote the short term resilience of the liquidity risk profile of banks, by ensuring that they have an adequate stock of unencumbered High Quality Liquid Assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

The PRA completed its consultation on the minimum LCR requirements to apply in the United Kingdom in 2015, and set levels marginally higher than those prescribed in the Capital Requirements Regulation during the transition period. The PRA have set the minimum at 80% from 1 October 2015, 90% from 1 January 2017 and 100% from 1 January 2018, coming into line with the Capital Requirements Regulation at this point.

The Group's LCR, and other measures used by management to manage liquidity risk, have remained significantly above regulatory requirements throughout the period.

Consolidated statement of comprehensive income

	Note	Period ended 30 June 2017 Unaudited Continuing and Total £million	Period ended 30 June 2016 Unaudited Continuing £million	Period ended 30 June 2016 Unaudited Discontinued £million	Period ended 30 June 2016 Unaudited Total £million	Year ended 31 December 2016 Audited Continuing £million	Year ended 31 December 2016 Audited Discontinued £million	Year ended 31 December 2016 Audited Total £million
Income statement								
Interest receivable and similar income		71.2	62.7	11.1	73.8	130.0	11.1	141.1
Interest expense and similar charges		(12.7)	(13.2)	-	(13.2)	(26.3)	-	(26.3)
Net interest income		**58.5**	**49.5**	**11.1**	**60.6**	**103.7**	**11.1**	**114.8**
Fee and commission income		7.8	8.7	0.1	8.8	16.3	0.1	16.4
Fee and commission expense		(0.5)	(0.9)	(0.1)	(1.0)	(1.8)	(0.1)	(1.9)
Net fee and commission income		**7.3**	**7.8**	-	**7.8**	**14.5**	-	**14.5**
Operating income		**65.8**	**57.3**	**11.1**	**68.4**	**118.2**	**11.1**	**129.3**
Net impairment losses on loans and advances to customers	7	(18.5)	(13.3)	(2.6)	(15.9)	(27.7)	(2.6)	(30.3)
Operating expenses		(33.7)	(31.5)	(6.0)	(37.5)	(65.5)	(6.0)	(71.5)
Profit on sale of equity instruments available-for-sale	8	0.3	-	-	-	-	-	-
Profit before income tax		**13.9**	**12.5**	**2.5**	**15.0**	**25.0**	**2.5**	**27.5**
Income tax expense	4	(2.7)	(2.2)	(0.5)	(2.7)	(6.3)	(0.5)	(6.8)
Profit after income tax		**11.2**	**10.3**	**2.0**	**12.3**	**18.7**	**2.0**	**20.7**
Gain recognised on disposal	18	-	-	116.8	116.8	-	116.8	116.8
Profit for the period		**11.2**	**10.3**	**118.8**	**129.1**	**18.7**	**118.8**	**137.5**

Consolidated statement of comprehensive income

	Note	Period ended 30 June 2017 Unaudited Continuing and Total £million	Period ended 30 June 2016 Unaudited Continuing £million	Period ended 30 June 2016 Unaudited Discontinued £million	Period ended 30 June 2016 Unaudited Total £million	Year ended 31 December 2016 Audited Continuing £million	Year ended 31 December 2016 Audited Discontinued £million	Year ended 31 December 2016 Audited Total £million
Profit for the period		**11.2**	**10.3**	**118.8**	**129.1**	**18.7**	**118.8**	**137.5**
Other comprehensive income								
Items that will not be reclassified to the income statement								
Revaluation reserve		-	-	-	-	1.2	-	1.2
Taxation		-	-	-	-	(0.2)	-	(0.2)
		-	-	-	-	1.0	-	1.0
Items that may subsequently be reclassified to the income statement								
Available-for-sale reserve		2.8	(2.1)	-	(2.1)	(2.8)	-	(2.8)
Taxation		-	-	-	-	-	-	-
		2.8	(2.1)	-	(2.1)	(2.8)	-	(2.8)
Other comprehensive income for the period, net of income tax		**2.8**	**(2.1)**	**-**	**(2.1)**	**(1.8)**	**-**	**(1.8)**
Total comprehensive income for the period		**14.0**	**8.2**	**118.8**	**127.0**	**16.9**	**118.8**	**135.7**
Profit attributable to:								
Equity holders of the Company		**11.2**	**10.3**	**118.8**	**129.1**	**18.7**	**118.8**	**137.5**
Total comprehensive income attributable to:								
Equity holders of the Company		**14.0**	**8.2**	**118.8**	**127.0**	**16.9**	**118.8**	**135.7**
Earnings per share for profit attributable to the equity holders of the Company during the period (pence per share)								
Basic earnings per share	5	**60.6**	**57.0**	**652.9**	**709.9**	**102.6**	**651.5**	**754.1**
Diluted earnings per share	5	**60.2**	**55.9**	**640.8**	**696.7**	**101.8**	**646.9**	**748.7**

Consolidated statement of financial position

	Note	30 June 2017 Unaudited £million	30 June 2016 Unaudited £million	31 December 2016 Audited £million
ASSETS				
Cash and balances at central banks		114.0	141.8	112.0
Loans and advances to banks		25.5	19.1	18.2
Loans and advances to customers	6	1,509.6	1,128.3	1,321.0
Debt securities held-to-maturity		-	19.8	20.0
Equity instruments available-for-sale		-	13.7	13.5
Property, plant and equipment		11.2	8.5	11.4
Intangible assets		9.8	7.0	9.0
Deferred tax assets		0.9	0.9	-
Other assets		3.4	6.2	4.9
Total assets		**1,674.4**	**1,345.3**	**1,510.0**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	9	63.0	15.0	70.0
Deposits from customers	10	1,325.8	1,042.6	1,151.8
Current tax liabilities		3.5	0.2	1.7
Deferred tax liabilities		0.3	-	0.2
Dividend payable		-	30.0	-
Other liabilities		41.3	27.8	49.0
Provisions for liabilities and charges	11	1.2	1.3	1.3
Total liabilities		**1,435.1**	**1,116.9**	**1,274.0**
Equity attributable to owners of the parent				
Share capital		7.4	7.3	7.4
Share premium		81.2	79.3	81.2
Revaluation reserve		1.2	0.2	1.2
Available-for-sale reserve		-	(2.1)	(2.8)
Retained earnings		149.5	143.7	149.0
Total equity		239.3	228.4	236.0
Total liabilities and equity		**1,674.4**	**1,345.3**	**1,510.0**

Consolidated statement of changes in equity

	Share capital	Share premium	Revaluation reserve	Available-for-sale reserve	Retained earnings	Total
	£million	£million	£million	£million	£million	£million
(Unaudited) Balance at 1 January 2017	**7.4**	**81.2**	**1.2**	**(2.8)**	**149.0**	**236.0**
Total comprehensive income for the period						
Profit for the six months ended 30 June 2017	-	-	-	-	11.2	11.2
Other comprehensive income , net of income tax						
Revaluation reserve	-	-	-	-	-	-
Available-for-sale reserve	-	-	-	2.8	-	2.8
Total other comprehensive income	**-**	**-**	**-**	**2.8**	**-**	**2.8**
Total comprehensive income for the period	**-**	**-**	**-**	**2.8**	**11.2**	**14.0**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	-	(10.7)	(10.7)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(10.7)**	**(10.7)**
Balance at 30 June 2017	**7.4**	**81.2**	**1.2**	**-**	**149.5**	**239.3**
(Unaudited) Balance at 1 January 2016	**7.3**	**79.3**	**0.2**	**-**	**54.4**	**141.2**
Total comprehensive income for the period						
Profit for the six months ended 30 June 2016	-	-	-		129.1	129.1
Other comprehensive income , net of income tax						
Available-for-sale reserve	-	-	-	(2.1)	-	(2.1)
Total other comprehensive income	**-**	**-**	**-**	**(2.1)**	**-**	**(2.1)**
Total comprehensive income for the period	-	-	-	(2.1)	**129.1**	**127.0**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
2015 final dividend (55 pence per share)	-	-	-	-	(10.0)	(10.0)
Special dividend (165 pence per share)	-	-	-	-	(30.0)	(30.0)
Charge for share based payments	-	-	-	-	0.2	0.2
Total contributions by and distributions to owners	-	-	-	-	**(39.8)**	**(39.8)**
Balance at 30 June 2016	**7.3**	**79.3**	**0.2**	**(2.1)**	**143.7**	**228.4**

Consolidated statement of changes in equity

	Share capital	Share premium	Revaluation reserve	Available-for-sale reserve	Retained earnings	Total
	£million	£million	£million	£million	£million	£million
(Audited) Balance at 1 January 2016	**7.3**	**79.3**	**0.2**	**-**	**54.4**	**141.2**
Total comprehensive income for the period						
Profit for the twelve months ended 31 December 2016	-	-	-	-	137.5	137.5
Other comprehensive income , net of income tax						
Revaluation reserve	-	-	1.0	-	-	1.0
Available-for-sale reserve	-	-	-	(2.8)	-	(2.8)
Total other comprehensive income	**-**	**-**	**1.0**	**(2.8)**	**-**	**(1.8)**
Total comprehensive income for the period	**-**	**-**	**1.0**	**(2.8)**	**137.5**	**135.7**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares under a share option scheme	0.1	1.9	-	-	-	2.0
Dividends	-	-	-	-	(43.1)	(43.1)
Charge for share based payments	-	-	-	-	0.2	0.2
Total contributions by and distributions to owners	**0.1**	**1.9**	**-**	**-**	**(42.9)**	**(40.9)**
Balance at 31 December 2016	**7.4**	**81.2**	**1.2**	**(2.8)**	**149.0**	**236.0**

Consolidated statement of cash flows

	Note	Period ended 30 June 2017 Unaudited £million	Period ended 30 June 2016 Unaudited £million	Year ended 31 December 2016 Audited £million
Cash flows from operating activities – Continuing operations				
Profit for the period		11.2	10.3	18.7
Adjustments for:				
Income tax expense		2.7	2.2	6.3
Depreciation of property, plant and equipment		0.4	0.3	0.6
Amortisation of intangible assets		0.9	0.7	1.6
Loss on sale of property, plant and equipment		-	-	0.2
Impairment losses on loans and advances to customers		18.5	13.3	27.7
Share based compensation		-	0.2	0.2
Profit on sale of equity instruments available-for-sale		(0.3)	-	-
Cash flows from operating profits before changes in operating assets and liabilities		33.4	27.0	55.3
Changes in operating assets and liabilities:				
- net decrease/(increase) in debt securities held-to-maturity		20.0	(16.0)	(16.2)
- net increase in loans and advances to banks		-	(5.0)	-
- net increase in loans and advances to customers		(207.1)	(181.0)	(388.1)
- net decrease in other assets		1.5	0.9	2.2
- net (decrease)/increase in amounts due to banks		(7.0)	(20.0)	35.0
- net increase in deposits from customers		174.0	9.5	118.7
- net (decrease)/increase in other liabilities		(7.8)	2.9	22.9
Income tax paid		(1.7)	(5.3)	(6.3)
Proceeds from sale of equity instruments available-for-sale		16.6	-	-
Net cash inflow/(outflow) from operating activities – Continuing operations		**21.9**	**(187.0)**	**(176.5)**
Cash flows from investing activities				
Purchase of property, plant and equipment		(0.2)	(0.3)	(2.5)
Purchase of computer software		(1.7)	(0.7)	(3.6)
Net cash outflow from investing activities – Continuing operations		**(1.9)**	**(1.0)**	**(6.1)**
Cash flows from financing activities				
Shares issued		-	-	2.0
Dividends paid		(10.7)	(10.0)	(43.1)
Net cash outflow from financing activities – Continuing operations		**(10.7)**	**(10.0)**	**(41.1)**
Net increase/(decrease) in cash and cash equivalents – Continuing operations		**9.3**	**(198.0)**	**(223.7)**
Sale of subsidiary undertakings – Discontinued operations		-	209.9	209.9
Net increase in cash and cash equivalents – Discontinued operations		-	0.7	0.7
Cash and cash equivalents at start of period		130.2	143.3	143.3
Cash and cash equivalents at end of period		**139.5**	**155.9**	**130.2**

Notes to the interim report

1. Accounting policies

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

1.1. Reporting entity

Secure Trust Bank PLC is a company incorporated in the United Kingdom (referred to as 'the Company'). The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The consolidated interim report of the Company as at and for the period ended 30 June 2017 comprises Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

1.2. Basis of presentation

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

The results for the periods ending 30 June 2017 and 30 June 2016 are unaudited. The results for the year ending 31 December 2016 are audited.

They have been prepared under the historical cost convention, as modified by the revaluation of equity instruments available-for-sale and land and buildings and financial instruments at fair value through profit or loss. The consolidated interim report is presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

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

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

In assessing the Group as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the Strategic Report. The Group uses various short and medium term forecasts to monitor future capital and liquidity requirements and these include stress testing assumptions to identify the headroom on regulatory compliance measures.

1.3. Accounting policies

The accounting policies applied in preparing the unaudited condensed interim report are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2016, except for the following:

Notes to the interim report

Charge-off of debt sold by Secure Trust Bank Plc to Debt Managers (Services) Limited

Previously, when debt was sold by Secure Trust Bank Plc to its subsidiary Debt Managers (Services) Limited, the debt was ‘charged off’, i.e. the gross receivable and associated impairment provision were written off, when Debt Managers (Services) Limited considered that the remaining debt was unlikely to be recovered. The Group considers that it better reflects the economic reality to charge off the debt at the point of its sale to Debt Managers (Services) Limited.

This has resulted in a reduction of both gross receivables and impairment provision of £10.9 million at 30 June 2016, £32.1 million at 31 December 2016 and £10.9 million at 31 December 2015. There is no impact on net receivables or the income statement. Further information is provided in Note 6.

Taxation

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

Standards in issue but not yet effective

New and amended standards and interpretations need to be adopted in the first interim report issued after their effective date (or date of early adoption). There are no new IFRSs or IFRICs that are effective for the first time for the six months ended 30 June 2017 which have a material impact on the group. The following standards have been issued which are not yet effective:

- IFRS 9 ‘Financial instruments’ (effective for annual periods beginning after 1 January 2018). This is the International Accounting Standards Board’s replacement of IAS 39 ‘Financial Instruments: Recognition and Measurement’. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: ‘amortised cost’, ‘fair value through other comprehensive income’ and ‘fair value through profit or loss’ and eliminates the existing categories of ‘held-to-maturity’, ‘available-for-sale’ and ‘loans and receivables’. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model aligns the accounting treatment with risk management activities. Details of the Group’s implementation of this standard are set out in Note 17.

- IFRS 15 ‘Revenue from contracts with customers’ (effective for annual periods beginning after 1 January 2018). This standard replaces a number of existing standards and interpretations and applies to contracts with customers, but does not apply to insurance contracts, financial instruments or lease contracts, which are in the scope of other IFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. It introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a principles-based five-step model to be applied to all contracts with customers. Following consideration of the Group’s operating model, this standard does not have a material impact on the Group.

- IFRS 16 'Leases' (effective for annual periods beginning after 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 'Leases', and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases, except short term and low value leases, are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. The effect of this standard is under review. However, it is likely to result in additional assets and liabilities being recognised of approximately £2 million, and the effect on the income statement is unlikely to be substantial. Lessor accounting remains unchanged from IAS 17.

2. Critical judgements and estimates

The Group makes certain judgements and estimates which affect the reported amounts of assets and liabilities. Critical judgements and the assumptions used in calculating estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The critical judgements and estimates relating to the Group's financial reporting, with the exception of those in respect of the new LTIP scheme launched in June 2017 which are shown below, are set out in Note 2 to the audited statutory financial statements for the year ended 31 December 2016 and summarised as follows:

Impairment losses on loans and advances to customers: Consumer Finance

Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be significantly different to historic trends.

The impairment provision is calculated by applying a percentage rate to the balance of different ages and categories of impaired debt. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and recent actual loss experience. The key judgements made in calculating the Consumer individual provisions are the probability of default rates, the loss given default and the emergence period.

Impairment losses on loans and advances to customers: Business Finance

The Business Finance portfolio is largely assessed on an individual basis with minimal losses experienced to date. The decision on whether or not an impairment trigger has occurred for Real Estate Finance loans is made based on the Group's knowledge of the counterparty and assessment of their ability to repay their loan balance. The Real Estate Finance portfolio is exposed to deteriorations in property prices, in the event of borrower default. However, given the low loan to value ratios of loans held within the portfolio, this exposure is not considered significant.

Within the Real Estate Finance and Asset Finance businesses, accounts which are impaired are assessed against the discounted cash flows expected to arise in order to identify any impairment provisions. Collective provisions are assessed only to the extent that there is sufficient data to justify an inherent level of losses within the current portfolios.

For specific Invoice Finance clients, assessment is made as to the collectability of outstanding invoices in relation to the amounts lent against them. If there is a deficit against outstanding invoices then other security is considered in terms of value and collectability. If there is an overall shortfall then the unsecured amount is assessed as to whether a provision is required. For collective provisions a view of the overall level of non-collectability in the portfolio is taken.

Average life of lending

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of these estimates would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions. The Group also needs to identify which cash flows relating to each instrument should be subject to the effective interest rate method.

Share Option Scheme valuations

The valuation of the equity settled Share Option Scheme was determined at the original grant date of 2 November 2011 using Black-Scholes valuation models. The final options under this scheme vested on 2 November 2016 and consequently there will be no further change to the valuation of the remaining outstanding options.

The valuation of the cash settled Share Option Scheme was determined at 31 December 2016 using Black-Scholes valuation models. On 3 May 2017, the Group established the Long Term Incentive Plan Scheme, the valuation of which was determined using Black-Scholes and Monte-Carlo models. The most significant assumption within these models relates to share price volatility. See Note 15 for further details.

3. Operating segments

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

Business finance

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

Consumer finance

4) Personal Lending: Unsecured consumer loans sold to customers via broker aggregators and business partners.
5) Motor Finance: Hire purchase agreements secured against the vehicle being financed.
6) Retail Finance: Point of sale unsecured finance for in-store and online retailers.

Other

Other includes STB Leasing Limited, debt collection, current accounts, OneBill and a £30 million loan to NSF as part of their purchase of ELG. All current accounts were closed by the end of September 2016, and OneBill has been closed to new customers since 2009.

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

	Interest receivable and similar income	Fee and commission income	Revenue from external customers	Net impairment losses on loans and advances to customers	Loans and advances to customers
	£million	£million	£million	£million	£million
Period ended 30 June 2017					
Business finance					
Real Estate Finance	14.7	0.1	**14.8**	0.1	**541.4**
Asset Finance	4.3	-	**4.3**	0.5	**111.5**
Commercial Finance	1.0	2.0	**3.0**	-	**94.2**
Consumer finance					
Retail Finance	21.8	1.6	**23.4**	6.6	**394.3**
Motor Finance	22.0	0.4	**22.4**	9.2	**258.4**
Personal Lending	4.7	-	**4.7**	2.1	**48.5**
Other	2.7	3.7	**6.4**	-	**61.3**
	71.2	**7.8**	**79.0**	**18.5**	**1,509.6**

	Interest receivable and similar income	Fee and commission income	Revenue from external customers	Net impairment losses on loans and advances to customers	Loans and advances to customers
	£million	£million	£million	£million	£million
Period ended 30 June 2016					
Business finance					
Real Estate Finance	13.9	0.1	**14.0**	-	**361.7**
Asset Finance	3.5	-	**3.5**	0.2	**112.3**
Commercial Finance	0.6	1.1	**1.7**	-	**54.5**
Consumer finance					
Retail Finance	15.4	1.2	**16.6**	4.8	**271.7**
Motor Finance	18.4	0.4	**18.8**	6.1	**205.6**
Personal Lending	8.0	-	**8.0**	2.2	**64.6**
Other	2.9	5.9	**8.8**	-	**57.9**
Continuing operations	62.7	8.7	**71.4**	13.3	**1,128.3**
Discontinued operations and assets held-for-sale					
Personal Lending (ELG)	11.1	0.1	**11.2**	2.6	**-**
	73.8	**8.8**	**82.6**	**15.9**	**1,128.3**

Notes to the interim report

	Interest receivable and similar income	Fee and commission income	Revenue from external customers	Net impairment losses on loans and advances to customers	Loans and advances to customers
	£million	£million	£million	£million	£million
Year ended 31 December 2016					
Business finance					
Real Estate Finance	28.3	0.1	**28.4**	0.1	**451.0**
Asset Finance	7.8	-	**7.8**	0.6	**117.2**
Commercial Finance	1.5	3.1	**4.6**	0.2	**62.8**
Consumer finance					
Retail Finance	34.3	2.4	**36.7**	9.5	**325.9**
Motor Finance	39.6	0.9	**40.5**	14.6	**236.2**
Personal Lending	11.2	-	**11.2**	4.4	**65.5**
Other	7.3	9.8	**17.1**	(1.7)	**62.4**
Continuing operations	130.0	16.3	**146.3**	27.7	**1,321.0**
Discontinued operations and assets held-for-sale					
Personal Lending (ELG)	11.1	0.1	**11.2**	2.6	-
	141.1	**16.4**	**157.5**	**30.3**	**1,321.0**

The ‘other’ segment above includes other products which are individually below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS 8.28 by reconciling operating segments to the amounts reported in the interim report.

As interest, fees, commission and operating expenses are not aligned to operating segments for day to day management of the business and cannot be allocated on a reliable basis, profit by operating segment has not been disclosed.

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

Notes to the interim report

4. Income tax expense

	Period ended 30 June 2017 Continuing operations and Total £million	Period ended 30 June 2016 Continuing operations £million	Period ended 30 June 2016 Discontinued operations £million	Period ended 30 June 2016 Total £million	Year ended 31 December 2016 Continuing operations £million	Year ended 31 December 2016 Discontinued operations £million	Year ended 31 December 2016 Total £million
Current taxation							
Corporation tax charge - current period	3.4	2.3	0.6	2.9	4.2	0.6	4.8
Corporation tax charge - adjustments in respect of prior periods	(0.7)	-	-	-	1.8	-	1.8
	2.7	**2.3**	**0.6**	**2.9**	**6.0**	**0.6**	**6.6**
Deferred taxation							
Deferred tax charge - current period	0.1	(0.1)	(0.1)	(0.2)	-	(0.1)	(0.1)
Deferred tax charge - adjustments in respect of prior periods	(0.1)	-	-	-	0.3	-	0.3
	-	**(0.1)**	**(0.1)**	**(0.2)**	**0.3**	**(0.1)**	**0.2**
Income tax expense	**2.7**	**2.2**	**0.5**	**2.7**	**6.3**	**0.5**	**6.8**

The tax for the period ended 30 June 2017 has been calculated at the current effective rate. The calculation is based on three months at a rate of 20% and nine months at the current prevailing rate of 19%.

The current taxation adjustment in respect of prior periods primarily relates to non-deductible expenditure.

5. Earnings per ordinary share

Basic

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

	Period ended 30 June 2017	Period ended 30 June 2016	Year ended 31 December 2016
Profit attributable to equity holders of the parent (£ millions)			
Continuing operations	11.2	10.3	18.7
Discontinued operations	-	118.8	118.8
	11.2	129.1	137.5
Weighted average number of ordinary shares (number)	18,475,229	18,191,894	18,234,588

Diluted

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

	Period ended 30 June 2017	Period ended 30 June 2016	Year ended 31 December 2016
Weighted average number of ordinary shares	18,475,229	18,191,894	18,234,588
Number of dilutive shares in issue at the period end	115,460	343,723	130,200
Fully diluted weighted average number of ordinary shares	18,590,689	18,535,617	18,364,788
Dilutive shares being based on:			
Number of options outstanding at the period end	177,084	460,419	177,084
Exercise price (pence)	720	720	720
Average share price during the period (pence)	2,069	2,841	2,720

6. Loans and advances to customers

	30 June 2017	30 June 2016	31 December 2016
		Restated	Restated
	£million	£million	£million
Gross loans and advances	1,545.2	1,161.5	1,349.4
Less: allowances for impairment on loans and advances (Note 7)	(35.6)	(33.2)	(28.4)
	1,509.6	1,128.3	1,321.0

The Group has changed its policy on the charge-off of debt sold by Secure Trust Bank Plc to Debt Managers (Services) Limited. A description of this change in accounting policy is set out in Note 1.3, the effect of which is set out below:

	30 June 2016	31 December 2016	31 December 2015
	£million	£million	£million
Gross loans and advances			
As originally stated	1,172.4	1,381.5	994.9
Restatement	(10.9)	(32.1)	(10.9)
As restated	1,161.5	1,349.4	984.0
Allowances for impairment on loans and advances			
As originally stated	(44.1)	(60.5)	(34.3)
Restatement	10.9	32.1	10.9
As restated	(33.2)	(28.4)	(23.4)

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

Notes to the interim report

7. Allowances for impairment of loans and advances

	Individual provision £million	Collective provision £million	Total £million	Provision cover %
Period ended 30 June 2017				
Business Finance:				
Real Estate Finance	-	0.5	0.5	0.1%
Asset Finance	1.3	0.2	1.5	1.3%
Commercial Finance	0.4	0.2	0.6	0.6%
Consumer Finance:				
Retail Finance	4.8	1.2	6.0	1.5%
Motor Finance:				
Voluntary termination provision	0.9	-	0.9	0.3%
Other impairment	13.6	2.5	16.1	5.8%
Personal Lending	5.6	0.6	6.2	11.3%
Other	3.8	-	3.8	5.8%
	30.4	**5.2**	**35.6**	**2.3%**

	Individual provision £million	Collective provision £million	Total £million	Provision cover %
Period ended 30 June 2016 (Restated)				
Business Finance:				
Real Estate Finance	-	0.4	0.4	0.1%
Asset Finance	0.3	0.1	0.4	0.4%
Commercial Finance	0.3	-	0.3	0.5%
Consumer Finance:				
Retail Finance	4.0	1.0	5.0	1.8%
Motor Finance:				
Voluntary termination provision	0.8	-	0.8	0.4%
Other impairment	10.8	1.7	12.5	5.6%
Personal Lending	7.1	1.2	8.3	11.4%
Other	5.5	-	5.5	8.7%
	28.8	**4.4**	**33.2**	**2.9%**

Notes to the interim report

	Individual provision	Collective provision	Total	Provision cover
	£million	£million	£million	%
Year ended 31 December 2016 (Restated)				
Business Finance:				
Real Estate Finance	-	0.5	0.5	0.1%
Asset Finance	0.4	0.1	0.5	0.4%
Commercial Finance	0.4	0.1	0.5	0.8%
Consumer Finance:				
Retail Finance	4.0	0.9	4.9	1.5%
Motor Finance:				
Voluntary termination provision	0.6	-	0.6	0.2%
Other impairment	10.0	3.0	13.0	5.2%
Personal Lending	3.5	0.7	4.2	6.0%
Other	4.2	-	4.2	6.3%
	23.1	**5.3**	**28.4**	**2.1%**

Provisions included in 'Other' are in respect of OneBill and other various legacy products. This segment also includes loans of £17.1 million (30 June 2016: £21.0 million, 31 December 2016: £18.7 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans. The £30 million loan to NSF, which is included in this segment, is not impaired and no provision is held against it.

The Group has changed its policy on the charge-off of debt sold by Secure Trust Bank Plc to Debt Managers (Services) Limited. A description of this change, and its effect, is set out in Note 1.3.

The Group net impairment losses disclosed in the Consolidated Statement of Comprehensive Income, for continuing operations, can be analysed as follows:

	Period ended 30 June 2017	Period ended 30 June 2016	Year ended 31 December 2016
	£million	£million	£million
Individual provision: charge for impairment losses	18.4	10.9	25.1
Collective provision: charge for impairment losses	(0.1)	2.4	3.3
Loans written off, net of amounts utilised	0.7	0.4	1.2
Recoveries of loans written off	(0.5)	(0.4)	(1.9)
	18.5	**13.3**	**27.7**

Notes to the interim report

A reconciliation of the allowance accounts for losses on loans and advances is as follows:

	Period ended 30 June 2017 £million	Period ended 30 June 2016 Restated £million	Year ended 31 December 2016 Restated £million
Individual allowances for impairment			
At 1 January	23.1	21.4	21.4
Charge for impairment losses	18.4	10.9	25.1
Amounts utilised	(7.3)	(3.5)	(10.7)
Changes to presentation in respect of debt sales	(3.8)	-	(12.7)
	30.4	**28.8**	**23.1**
Collective allowances for impairment			
At 1 January	5.3	2.0	2.0
Charge for impairment losses	(0.1)	2.4	3.3
	5.2	**4.4**	**5.3**
Total allowances for impairment	**35.6**	**33.2**	**28.4**

8. Equity instruments available-for-sale

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

In May 2017, the shares were sold at an average price of 71 pence, realizing a profit of £343,000. The AFS reserve balance of £2.8 million, which had arisen due to previous movements in the NSF share price, was reclassified from other comprehensive income to the income statement.

9. Due to banks

	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Amounts due to other credit institutions	63.0	15.0	70.0

Amounts due to banks for the current period represent £15 million (2016: £15 million) arising from the sale and repurchase of drawings under the Funding for Lending Scheme and drawings of £48 million (2016: nil) under the Bank of England Term Funding Scheme. The Funding for Lending scheme drawings are due for repayment in September 2017 and the Term Funding scheme drawings in 2021.

10. Deposits from customers

	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Current/demand accounts	16.0	34.8	15.2
Term deposits	1,309.8	1,007.8	1,136.6
	1,325.8	1,042.6	1,151.8

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

11. Provisions for liabilities and charges

Customer redress provision

Details of the provision for outstanding potential customer redress claims are as follows:

	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Balance at 1 January	1.3	2.0	2.0
Charged to Statement of Comprehensive Income	0.2	0.1	0.4
Utilised	(0.3)	(0.8)	(1.1)
	1.2	**1.3**	**1.3**

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

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

12. Commitments

The Group's off-balance sheet exposure to undrawn loan commitments at 30 June 2017 was £177.5 million (30 June 2016: £124.2 million, 31 December 2016: £178.0 million).

13. Capital risk

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

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

	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Tier 1			
Share capital	7.4	7.3	7.4
Share premium	81.2	79.3	81.2
Retained earnings	138.2	138.9	149.0
Revaluation reserve	1.2	0.2	1.2
Available-for-sale reserve	-	(2.1)	(2.8)
Goodwill	(1.0)	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(8.5)	(5.5)	(7.6)
CET1 capital	**218.5**	**217.1**	**227.4**
Tier 2			
Collective allowance for impairment of loans and advances	5.3	3.0	5.3
Total Tier 2 capital	**5.3**	**3.0**	**5.3**
Own Funds	**223.8**	**220.1**	**232.7**
Reconciliation to total equity:			
Goodwill and other intangible assets net of attributable deferred tax	9.5	6.5	8.6
Collective allowance for impairment of loans and advances	(5.2)	(3.0)	(5.3)
Profits yet to be certified	11.2	4.8	-
Total equity	**239.3**	**228.4**	**236.0**

Retained earnings within CET 1 Capital are reported on a certified basis and therefore do not include uncertified earnings of £11.2 million for the period ended 30 June 2017 (30 June 2016: £4.8 million).

The Tier 2 Capital at 30 June 2017 does not include uncertified adjustments for the period ended 30 June 2017.

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

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

	Total carrying amount 30 June 2017 £million	Fair value 30 June 2017 £million	Total carrying amount 30 June 2016 £million	Fair value 30 June 2016 £million	Total carrying amount 31 December 2016 £million	Fair value 31 December 2016 £million
Loans and advances to customers	1,509.6	1,607.5	1,128.3	1,234.1	1,321.0	1,399.8
Deposits from customers	1,325.8	1,323.2	1,042.6	1,061.8	1,151.8	1,160.9

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

During the period, the underlying methodology used to calculate the fair values of loans and advances to customers has been enhanced to calculate fair values on an individual business segment basis. Accordingly the comparatives as at 31 December 2016 and 30 June 2016 have been re-presented on this basis.

15. Share based payments

At 30 June 2017, the Group had three share based payment schemes in operation:

- Equity settled share option scheme
- Equity settled long term incentive plan
- Cash settled 'phantom' share option scheme

Two further schemes, the 2017 sharesave scheme and the 2017 deferred bonus plan, have been approved by shareholders but have not yet been launched.

Equity settled Share option scheme

On 17 October 2011, the Group established the Share Option Scheme entitling three directors and certain senior employees to purchase shares in the Company.

On 2 November 2011, 934,998 share options were granted at an exercise price of £7.20 per share. Approximately half of the share options vested and were exercised on 2 November 2014, with the remainder vesting and becoming exercisable on 2 November 2016. The bulk of the remainder were exercised on 7 November 2016, leaving 177,084 share options unexercised at 30 June 2017.The Share Option Scheme is an equity settled scheme. The original grant date valuation was determined to be £1.69 per option and this valuation has been used in the calculation. The Company incurred an expense in relation to share based payments of £nil (30 June 2016: £nil, 31 December 2016: £0.1 million).

The value of the share options and number of option holders as at 31 June 2017 remains unchanged from the position as at 31 December 2016.

	30 June 2016 No. of option holders	30 June 2016 £	31 December 2016 No. of option holders	31 December 2016 £
Directors	3	318,751	2	177,084
Senior management	5	141,668	-	-
Share options in issue	8	460,419	2	177,084
Exercise price (£)		7.20		7.20
Grant date value per option (£)		1.69		1.69
Fair value of share options, if all share options were exercised (£million)		**0.8**		**0.3**
Probability of pay-out		100%		-
Assumed value of share options on exercise date (£million)		**0.8**		**0.3**
Value of share options at end of period		**0.7**		**0.3**

Equity settled long term incentive plan

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

The awards are subject to three performance conditions, which are based on:

- Annual compound growth in Earnings per share over the performance period.
- Rank of the total shareholder return over the performance period against the total shareholder return of the comparator group of peer group companies.
- Maintaining appropriate risk practices over the performance period reflecting the longer term strategic risk management of the Group.

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

The awards have a performance term of 3 years. Those awards granted to the Executive Directors are subject to a holding period of 2 years following the vesting date. Those awards not subject to a holding period will be released to the participants on the vesting date.

On 1 June 2017, 67,992 share options were granted at an exercise price of 40 pence per share.

The Long Term Incentive Plan is an equity settled scheme. The original grant date valuation was determined to be £12.19 for those awards that are subject to a holding period, and £14.82 for those awards not subject to a holding period, and these valuations have been used in the calculation. The Company incurred an expense in relation to share based payments of £nil as the scheme is only one month old resulting in no material charge as at 30 June 2017.

	30 June 2017 No. of option holders	Grant date value per option £	30 June 2017 £
Directors	2	12.19	33,467
Senior management	35	14.82	34,525
Share options in issue	37		67,992
Exercise price (£)			0.40
Fair value of share options, if all share options were exercised (£million)			**0.9**
Behavioural assumption (attrition)			10%
Probability of pay-out			100%
Assumed value of share options on exercise date (£million)			**0.8**
Value of share options at 30 June 2017			-

Cash settled ‘phantom’ share option scheme

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

As at 30 June 2017, 30 June 2016 and 31 December 2016 312,917 share options remained outstanding.

As at 30 June 2017, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	30 June 2016	30 June 2015	31 December 2016
Expected stock price volatility	24.6%	47.00%	40.00%
Expected dividend yield	3.8%	2.09%	3.40%
Risk free interest rate	0.56%	0.72%	0.06%
Average expected life (years)	1.35	2.35	1.84

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

	30 June 2017 £million	30 June 2016 £million	31 December 2016 £million
Liability at 1 January	0.6	1.2	1.2
Charge for the year	(0.3)	-	(0.6)
Liability at end of period	**0.3**	**1.2**	**0.6**
Intrinsic value	-	0.5	-

16. Related party transactions

There were no changes to the nature of the related party transactions during the period to 30 June 2017 that would materially affect the position or performance of the Group. Details of the transactions for the year ended 31 December 2016 can be found in the 2016 Annual Report.

17. Credit risk

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

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

Impairment provisions are provided for losses that have been incurred at the Statement of Financial Position date. Significant changes in the economy could result in losses that are different from those provided for at the Statement of Financial Position date. Management therefore carefully manages its exposures to credit risk as they consider this to be the most significant risk to the business.

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

Notes to the interim report

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

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

The maximum exposure to credit risk for the Company and the Group was as follows:

	30 June 2017 £million	30 June 2016 Restated £million	31 December 2016 Restated £million
Cash and balances at central banks	114.0	141.8	112.0
Loans and advances to banks	25.5	19.1	18.2
Loan and advances to customers	1,509.6	1,128.3	1,321.0
Debt securities held-to-maturity	-	19.8	20.0
Trade receivables	2.4	2.8	0.7
Credit risk exposures relating to off-balance sheet assets are as follows:			
Loan commitments	177.5	124.2	178.0
At end of period	**1,829.0**	**1,436.0**	**1,649.9**

The above table represents the maximum credit risk exposure (net of impairment) to the Group without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

The table below further summarises loans and advances to customers as follows:

	30 June 2017 £million	30 June 2017 %	30 June 2016 Restated £million	30 June 2016 Restated %	31 December 2016 Restated £million	31 December 2016 Restated %
Neither past due nor impaired	1,457.6	94.3%	1,089.2	93.8%	1,246.2	92.4%
Not past due but impaired	0.6	0.0%	-	0.0%	0.6	0.0%
Past due but not impaired	5.3	0.4%	7.6	0.7%	12.4	0.9%
Past due up to 90 days and impaired	43.5	2.8%	34.0	2.9%	59.7	4.4%
Past due after 90 days and impaired	38.2	2.5%	30.7	2.6%	30.5	2.3%
Gross	1,545.2	100%	1,161.5	100.0%	1,349.4	100.0%
Less: allowance for impairment	(35.6)		(33.2)		(28.4)	
Net loan and advances to customers	**1,509.6**		**1,128.3**		**1,321.0**	

The restatement is due to a change in accounting policy for debt sold to Debt Managers (Services) Limited as explained in Note 7.

Notes to the interim report

Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations the directors consider the lending operations of the Group as a whole to be well diversified. The increase in lending balances and loan commitments in the London region is principally due to the increase in Real Estate Finance activities during the year. The concentration by product and location of the Group and Company's lending to customers and loan commitments are detailed below:

	Loans and advances to customers			Loan commitments		
	30 June 2017	30 June 2016 Restated	31 December 2016 Restated	30 June 2017	30 June 2016	31 December 2016
	£million	£million	£million	£million	£million	£million
Concentration by product						
Business Finance:						
Real Estate Finance	541.4	361.7	451.0	109.5	92.0	99.4
Asset Finance	111.5	112.3	117.2	17.9	24.1	19.5
Commercial Finance	94.2	54.5	62.8	28.4	7.2	28.9
Consumer Finance:						
Personal Lending	48.5	64.6	65.5	-	-	-
Motor	258.4	205.6	236.2	0.6	0.8	0.6
Retail	394.3	271.7	325.9	20.5	-	28.6
Other	61.3	57.9	62.4	0.5	0.1	1.0
Total	**1,509.6**	**1,128.3**	**1,321.0**	**177.4**	**124.2**	**178.0**
Concentration by region:						
East Anglia	105.0	100.4	113.1	33.8	22.3	19.7
East Midlands	60.1	48.2	52.3	3.4	1.6	3.0
London	532.3	365.7	415.3	76.2	27.1	61.3
North East	42.3	33.4	37.4	1.7	1.4	2.2
North West	127.5	96.7	120.8	15.5	10.3	17.0
Northern Ireland	14.8	10.9	12.5	0.5	-	0.4
Scotland	98.4	73.9	90.3	6.6	10.3	10.6
South East	230.1	147.1	205.0	21.6	31.2	35.0
South West	68.1	53.8	62.6	7.2	7.3	12.1
Wales	51.1	41.6	46.8	2.1	3.4	4.2
West Midlands	85.2	73.0	80.5	4.4	3.6	5.5
Yorkshire and the Humber	78.8	64.7	69.1	2.9	2.1	3.9
Overseas	15.9	18.9	15.3	1.5	3.5	3.1
Total	**1,509.6**	**1,128.3**	**1,321.0**	**177.4**	**124.2**	**178.0**

The above table relates to the location of the borrower. The majority of the overseas borrowers are Real Estate Finance clients. All of the property secured against Real Estate Finance loans is based in the United Kingdom.

IFRS 9

The Group has now built the majority of the expected credit loss models that will be used to measure impairment in accordance with IFRS 9. The testing and validation of these models will be concluded early in the second half of the year, with the models then being run alongside the Group's existing provision models to allow the impact of IFRS 9 on the Group's results to be fully assessed.

The models are being run on the Group's existing systems and IT architecture has been developed to allow the efficient loading of data into the models and extract of outputs from them to support accounting disclosure and management information. No significant gaps in the data required to operate the models have thus far been identified.

Additional governance has been developed around the IFRS 9 impairment process including detailed process and control documentation. An Assumptions Committee has been established, as a sub-committee of ALCO, which has approved the forward looking scenarios that IFRS 9 requires to be built into expected credit loss modelling.

The classification and measurement requirements of IFRS 9 have been assessed and no material changes to the Group's categorisation of its assets and liabilities are expected. Product developments are being scrutinised on an ongoing basis to identify any changes to lending products that could result in a change in categorisation.

The hedge accounting requirements of IFRS 9 are currently not relevant to the Group as no significant hedging is entered into.

18. Discontinued operations and assets and liabilities held-for-sale

On 4 December 2015, the Bank agreed to the conditional sale of its non-standard consumer lending business, ELG, which comprises Everyday Loans Holdings Limited and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to 'NSF. Consideration received on completion comprised £106.9 million in cash and £16.3 million in NSF ordinary shares. The Disposal completed on 13 April 2016, and on completion NSF paid £215.0 million to the Group, being the £106.9 million cash consideration plus repayment of intercompany debt of £108.1 million. Subsequently, NSF took a £30.0 million three year loan from STB. After selling costs of £2.7 million, this resulted in a gain recognised on disposal of £116.8 million. In addition, staff costs of £3.5 million were incurred in respect of the sale, which are included in operating expenses.

Notes to the interim report

Details of the net assets disposed of and consequential gain recognised on disposal and cash flow of discontinued operations is set out below.

	Assets and liabilities sold on 13 April 2016 £million
ASSETS	
Loans and advances to banks	2.4
Loans and advances to customers	117.9
Property, plant and equipment	0.5
Intangible assets	1.2
Deferred tax assets	0.4
Other assets	0.8
Total assets	**123.2**
LIABILITIES	
Current tax liabilities	4.0
Other liabilities	7.4
Total liabilities	**11.4**
Net assets disposed of	**111.8**

Consideration	
Cash (including the settlement of inter-company debt)	215.0
NSF Plc shares	16.3
	231.3
Selling costs	(2.7)
Net assets disposed of	(111.8)
Gain recognised on disposal	**116.8**

Notes to the interim report

The cash flow from the sale of subsidiary undertakings can be analysed as follows:

	£million
Cash consideration (including the settlement of inter-company debt)	215.0
Selling costs	(2.7)
Cash disposed of as part of sale	(2.4)
	209.9

	Six months ended 30 June 2016 £million
Cash flows from discontinued operations	
Cash flows from operating activities	
Profit for the period	2.0
Adjustments for:	
Income tax expense	0.5
Impairment losses on loans and advances to customers	2.6
Cash flows from operating profits before changes in operating assets and liabilities	5.1
Changes in operating assets and liabilities:	
- net increase in loans and advances to customers	(6.2)
- net increase in other assets	(0.3)
- net increase in other liabilities	2.1
Net cash inflow from operating activities	**0.7**
Net increase in cash and cash equivalents	0.7
Cash and cash equivalents at 1 January	1.7
Cash and cash equivalents disposed of	**2.4**

Directors' responsibility statement

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

- the condensed financial statements have been prepared in accordance with International Accounting Standard 34 - 'Interim Financial Reporting', issued by the IASB and as adopted and endorsed by the European Union;
- the Interim business review includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the Interim business review includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so).

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

P A Lynam
Chief Executive Officer

Neeraj Kapur
Chief Financial Officer

21 August 2017

Independent review report to Secure Trust Bank PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Independent review report to Secure Trust Bank PLC

Andrew Walker
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

21 August 2017

Board of Directors

The Rt Hon Lord Forsyth of Drumlean PC, Kt	Non – Executive Chairman
Paul Lynam ACIB, AMCT, Fifs	Chief Executive Officer
Neeraj Kapur BEng, ACGI, FCA, CF, FCIBS	Chief Financial Officer
Sir Henry Angest LLL	Non – Executive Director
Andrew Salmon ACA	Non – Executive Director
Paul Marrow ACIB	Independent Non – Executive Director (Senior Independent Director)
Ann Berresford ACA	Independent Non – Executive Director
Victoria Stewart	Independent Non – Executive Director

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