Straightforward transparent banking

Annual Report & Accounts 2020

Secure Trust Bank

About us

Secure Trust Bank ('STB') is an award-winning UK retail bank, providing savings accounts and lending services to over one and a half million customers.

Born in 1952 in the West Midlands, we've had plenty of time to hone our craft.

Supportive. Specialist. Diversified.
A bank with ambition.

www.securetrustbank.com

We are a well-funded and capitalised UK bank, with a track record of successful performance across a diverse lending portfolio.

We use our market awareness and strong risk management discipline to grow, supporting our retail and business customers in attractive markets.

Profit before tax

£20.1m

2019: £38.7 million

Total assets

£2,664.1m

2019: £2,682.8 million

Pages 2 to 61 form the Strategic Report. It includes our business model, economic and regulatory environment, strategy, financial review and a business review for each of the lines of business. Pages 98 to 101 form the Directors' Report.

Contents

Strategic Report

Corporate Governance Report

Financial statements

Measuring performance
Key performance indicators

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

The Remuneration Report, starting on page 83, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics. Certain KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on page 183. In the narrative of the financial review, KPIs are identified by being in bold font. Further explanation of the non-financial KPIs is provided in the Managing our business responsibly section on page 52. Adjustments to profit have been removed for 2020, so key performance indicators which were based on adjusted profit have been removed. Return metrics for both 2020 and 2019 are now stated on a statutory rather than adjusted basis.

Margin ratios

Net interest margin %

Why we measure this

Shows the interest margin earned on the Group's loan books, net of funding costs

Net revenue margin %

Why we measure this

Shows the overall net margin earned on the Group's loan books, including fees and commissions

Gross revenue margin %

Why we measure this

Shows the yield of the Group's loan books, including fee and commission income

Cost ratios

Cost of funds %

Why we measure this

Measures the cost of the Group's customer deposits and other funding sources

Cost to income ratio %

Why we measure this

Measures how efficiently the Group utilises its cost base to produce income

Cost of risk %

Why we measure this

Measures how effectively the Group manages the credit risk of its lending portfolios

Delivering

Loans

Loans and advances to customers £m

Why we measure this

Shows the growth in the Group's lending balances, which generate income

Loan to deposit ratio %

Why we measure this

Measures the adequacy of liquidity by comparing loan balances to customer deposits

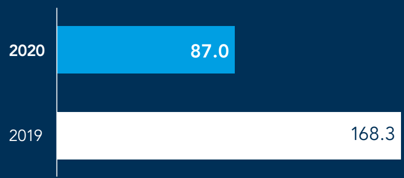
Total funding ratio %

Why we measure this

Measures the adequacy of liquidity by comparing all funding held by the Group to loan balances

EPS

Basic earnings per share pence



Why we measure this

Demonstrates the earnings attributable to each shareholder

Capital

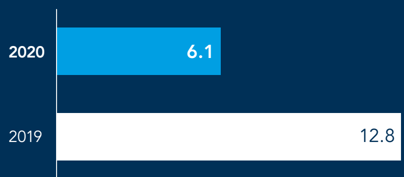
CET1 Ratio %

Why we measure this

The Common Equity Tier 1 ('CET1') ratio demonstrates the Group's capital strength

Return ratios

Return on average equity %



Why we measure this

Measures the Group's ability to generate profit from the equity available to it

Return on required equity %

Why we measure this

Relates profitability to the capital that the Group is required to hold

Return on average assets %

Why we measure this

Demonstrates how profitable the Group's assets are in generating revenue

Non-financial KPIs

Customer FEEFO ratings Stars

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

Why we measure this

Indicator of customer satisfaction with the Group's products and services

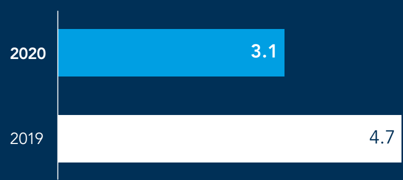
Employee survey trust index score %

(based on 2020 all staff survey)

Why we measure this

Indicator of employee engagement and satisfaction

Environmental intensity indicator



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

Why we measure this

Indicator of the Group's impact on the environment.

Chairman's statement

Well-positioned to take advantage of recovery

Profitable and resilient

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

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

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

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

Dividends

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

Changing of the guard

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

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

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

Looking forward

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

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

Lord Forsyth
Chairman
24 March 2021

"We can embrace the future with optimism."

Chief Executive's statement

A resilient performance Growth opportunities ahead

Resilient performance

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

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

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

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

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

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

Improved capital and liquidity positions

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

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

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

Customer service

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

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

> "We have risen to the challenge of maintaining our customer service levels throughout this difficult period."

Chief Executive's statement continued

Edwards Court: luxury housing from RAP Developments, funded by Secure Trust Bank Real Estate Finance

"Our divisions have had to adapt quickly to the new environment."

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

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

Customer lending activities

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

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

Business Finance

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

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

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

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

Consumer Finance

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

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

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

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

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

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

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

Case study

We continued our investment in the Motor Transformation Programme throughout the pandemic, with new product offerings and related system infrastructure now ready. Although the potential economic consequences of the pandemic dampened our appetite for growth in 2020, we can now push forward with growing our Motor Finance book as the COVID crisis recedes.

> "Retail Finance was well-placed to adapt quickly to the crisis."

Chief Executive's statement continued

Case study

To allow us to continue to lend responsibly in these extreme economic conditions, we supplemented our automated credit assessment processes with additional manual underwriting during the year. We tightened credit criteria, which reduced growth in our lending balances but maintained the credit quality.

"Strong growth potential for all of our key Business Units."

Savings

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

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

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

Our strategic priorities remain unchanged

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

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

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

Outlook

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

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

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

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

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

David McCreadie
Chief Executive Officer
24 March 2021

Case study

With the majority of our employees working from home throughout the pandemic, and office life very different for those working from our sites, we were delighted with the Your Voice employee feedback received at the end of 2020. As well as the increased Trust Index score noted on page 53, 84% of respondents said that STB is a great place to work. This is not only our highest score since we started partnering with Great Place to Work®, but it also puts us on a par with the UK's very Best Workplaces™. Our overall scores have improved on last year in nearly all areas.

Your Voice employee feedback

84%

of respondents said STB is a great place to work

Our business model
How Secure Trust Bank does what it does

We lend to business and personal customers, funded primarily by customer deposits.

8 offices across the UK

1 Solihull
2 Cardiff
3 Manchester
4 Birmingham
5 Rotherham
6 Leeds
7 London
8 Reading

Our business units

Business Finance

Read more on pages **14 to 17**

Secured lending to businesses, relatively lower yield and lower risk.

Lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in lending policies.

Real estate
Support to small and medium-sized enterprises ('SMEs') in providing finance principally for residential development and residential investment.

Commercial
A full range of invoice financing solutions to UK businesses including invoice discounting and factoring.

Asset
Funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

Asset Finance is currently closed to new business

Consumer Finance

Read more on pages **18 to 22**

Secured and unsecured lending, ranging from low to higher yield and risk.

Underwriting technology is used to make lending decisions quickly, resulting in high customer satisfaction scores while using strong risk management to minimise bad debt.

Retail
Lending products for in-store and online retailers to enable consumer purchases.

Debt management
Collection of debt on behalf of a range of clients as well as for Group companies.

Motor
Fixed rate, fixed term hire purchase arrangements, predominantly on used cars.

Mortgages
Lending to individuals who wish to purchase a property or remortgage their current property.

Consumer Mortgages is currently closed to new business

Savings

Read more on pages **24 to 27**

Savings
Deposits from personal customers, available online and serviced using internet banking.

Deposit accounts are promoted to meet funding needs and to broadly match the maturity profiles of lending.

Deposits range from instant access to seven-year bonds, including Cash ISAs.

Read more about how each of our divisions operate in our divisional reviews on pages **14 to 27**

What STB needs to operate

Our people

The Group had 1,003 employees (full-time equivalent) at 31 December 2020, (31 December 2019: 1,017) most of whom are based at the head office in Solihull, West Midlands.

Read more about our people on pages **52 to 55**

Capital and liquidity

We need to ensure we have sufficient levels of capital and liquidity resources to support our growth and satisfy regulatory requirements.

Read more on pages **34 to 37**

Risk management

Risk management is key to our success. As well as strong management of credit risk and of capital and liquidity resources, we closely manage market risk, operational risk, conduct risk and regulatory risk.

Read more on pages **38 to 49**

Market awareness

We have built product teams with significant experience in our chosen markets as well as the wider macroeconomic and regulatory environment.

Read more on pages **64 to 66**

Our Banking licence

As a bank, we can raise deposits from customers, providing a flexible and accessible source of funding for our lending businesses. We can offer competitive deposit interest rates and have been successful in attracting deposits from a wide range of customers.

Read more on pages **24 to 27**

Flexible business model

We have grown our lending portfolio across a diverse range of sectors, allowing us to be flexible and focus growth in the most attractive areas.

Read more on page **4**

How STB connects with customers

Phone

UK-based customer support is available for our lending and savings customers.

Internet

Our savings products are applied for and serviced through a highly commended online banking service.

Business partners

Motor lending is provided via UK motor dealers, brokers and internet introducers.

Real Estate and Commercial Finance business is sourced and supported both directly and via introducers.

Retailers

We operate an online e-commerce service to retailers, providing finance to customers of those retailers through the V12 Retail Finance brand.

Read more about how we connect with our customers in our divisional reviews on pages **14 to 27**

The value we create for our stakeholders

Our shareholders

We deliver returns to shareholders by:

- Earning interest, fee and commission income from our lending businesses
- Maintaining efficient funding and operational cost levels
- Actively managing loan impairment levels through robust credit risk management

Read more in our Financial Review on pages **30 to 38**

Business and retail

We make available a range of lending options to meet the demands of UK business, particularly from businesses needing working capital, house builders and motor dealers.

Our Retail Finance products enable retailers to offer credit facilities both in-store and online.

Private consumers

Across all products, we aim to deliver high levels of customer satisfaction.

Lending products are designed to meet the needs of the consumer, be affordable and easy to apply for.

The savings range offers competitive, simple products covered by the Financial Services Compensation Scheme up to the specified limits.

Wider stakeholders

The Group operates as a responsible business that benefits a wide range of stakeholders. Further details are provided in the Section 172 Statement.

Read more on pages **56 to 61**

Business review

Business Finance

Real Estate Finance

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

Commercial Finance

Provision of invoice discounting and factoring to UK businesses.

Supporting UK property development

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

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

Michael Malski, managing director at MEG Developments, said: "We were able to secure both land and development loans simultaneously with STB REF, removing any uncertainty regarding the construction phase of the site. We are grateful to the team for their seamless and speedy response to our requirement."

2020 Performance

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

2020 Total Business Finance Lending

£1,293.0m

2019: £1,241.6 million

Increase in Business Finance Lending

4.1%

2019: 20.9%

> We are grateful for the financial support from Secure Trust Bank, which has helped us to firstly acquire the site and will provide the working capital to see it through to practical completion."

Gary Durden
Director of Portdevon, Real Estate Finance Customer

Business review

Business Finance continued

Real Estate Finance

What we do: Residential Development

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

Residential Investment

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

Other lending

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

How we do it

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

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

2020 performance

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

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

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

Looking forward

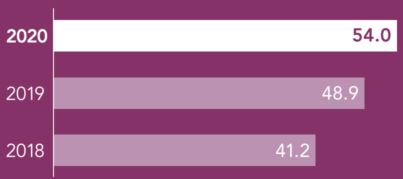
The immediate focus of the business will remain on effective risk management, and ensuring that we continue to support our customers.

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

> "The COVID-19 pandemic has created additional challenges for residential developers, but throughout the crisis we have received excellent support from Secure Trust Bank."
>
> **Michael McCarthy**
> Hatherley Investments

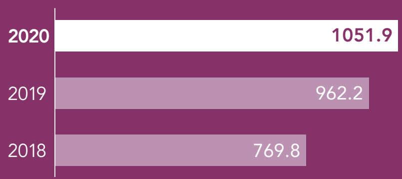
Revenue and lending performance vs prior years

Lending revenue



Impairment charge

Lending balance



Commercial Finance

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

What we do

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

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

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

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

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

How we do it

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

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

2020 performance

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

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

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

Looking forward

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

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

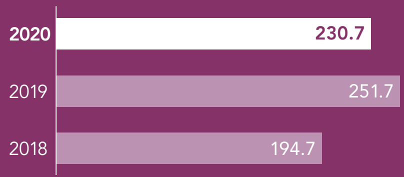
> "We had such a positive experience with Secure Trust Bank earlier this year that when COVID-19 hit we felt absolutely confident in discussing our concerns and options with the team."
>
> **George Paul**
> Director, Bradburys Cheese

Revenue and lending performance vs prior years

Lending revenue

Impairment charge

Lending balance



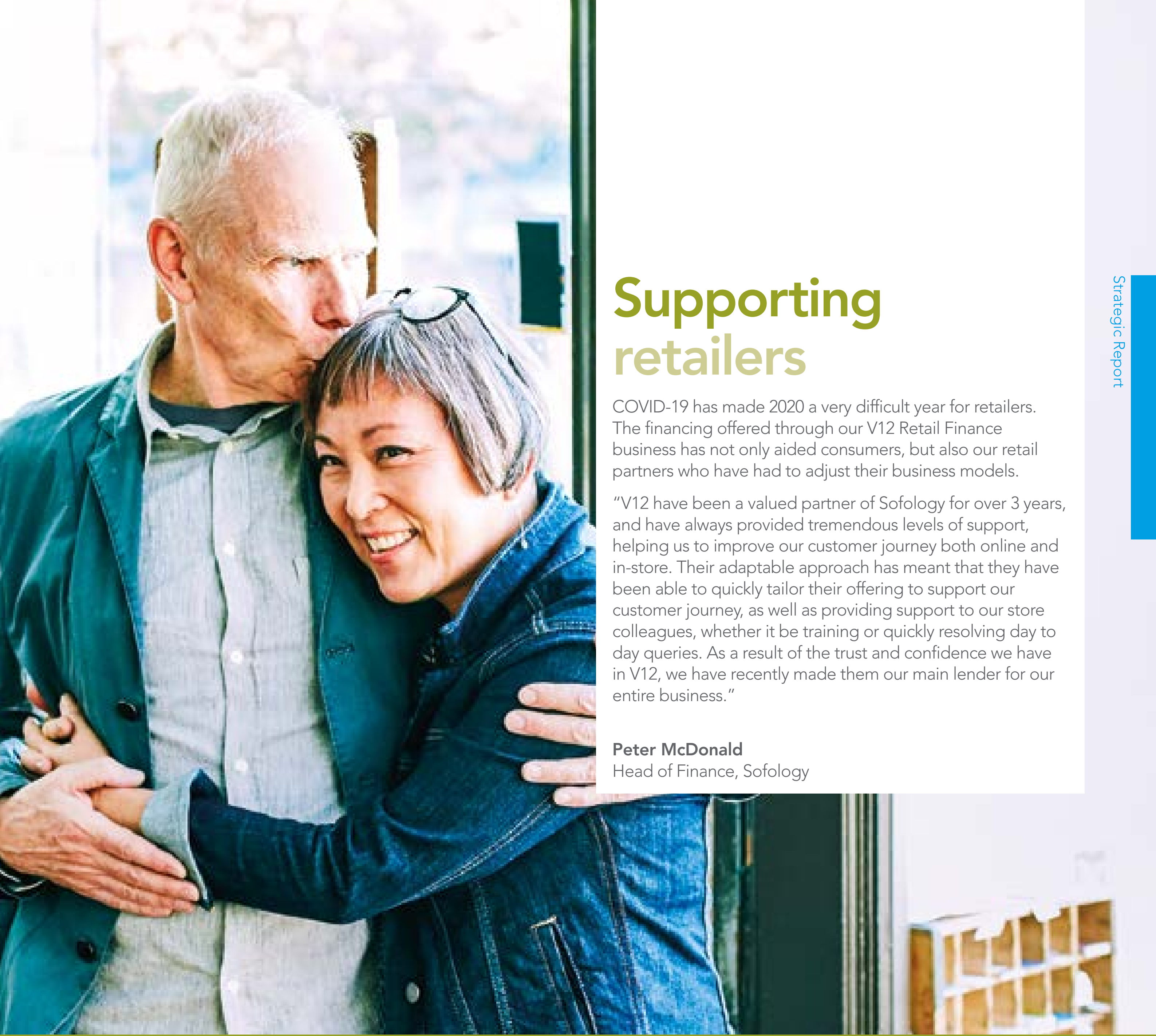
Business review

Consumer Finance

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

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

Debt Management
Debt collection for the Group and external clients.



Supporting retailers

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

"V12 have been a valued partner of Sofology for over 3 years, and have always provided tremendous levels of support, helping us to improve our customer journey both online and in-store. Their adaptable approach has meant that they have been able to quickly tailor their offering to support our customer journey, as well as providing support to our store colleagues, whether it be training or quickly resolving day to day queries. As a result of the trust and confidence we have in V12, we have recently made them our main lender for our entire business."

Peter McDonald
Head of Finance, Sofology

2020 Performance

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

2020 Total Consumer Finance Lending

£1,061.8m

2019: £1,200.9 million

Reduction in Consumer Finance Lending

11.6%

2019: 21.3% increase

"Excellent service, quick, easy to follow and outstanding customer service."

Customer feedback
from Trustpilot on V12 Retail Finance, 2020

Business review

Consumer Finance continued

Retail Finance

What we do

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

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

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

How we do it

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

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

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

2020 performance

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

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

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

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

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

Looking forward

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

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

Revenue and lending performance vs prior years

Lending revenue

Impairment charge

Lending balance

Motor Finance

What we do

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

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

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

How we do it

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

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

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

2020 performance

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

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

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

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

Looking forward

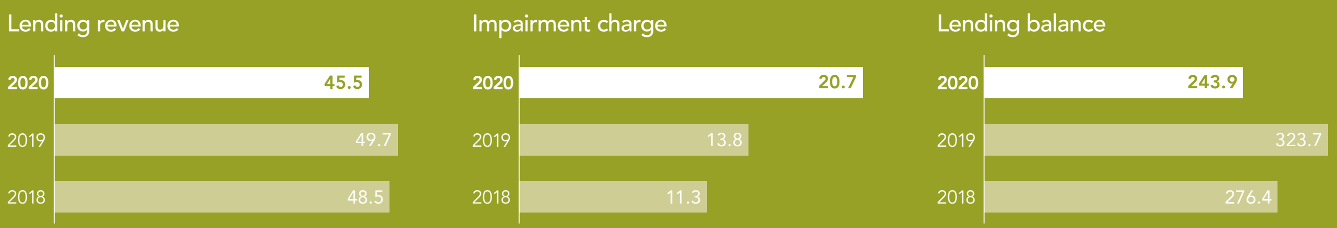
We expect to continue to apply restricted lending criteria to near-prime lending over the initial part of 2021, with those criteria being eased as the economic outlook becomes more certain.

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

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

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

Lending performance v prior years



Business review

Consumer Finance continued

Debt Management

What we do

Debt Managers (Services) Limited ('DMS') is the Group's debt collection business. DMS collects debt on behalf of a range of clients as well as for Group companies. It also selectively invests in purchased debt portfolios from fellow subsidiary undertakings and external third parties.

How we do it

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

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

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

2020 performance

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

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

Looking forward

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

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

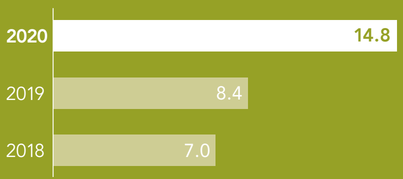
We will continue to invest in improving our digital offering to customers to improve the customer experience and reduce our cost to collect.

> "The agent never judged, she understood my situation and I went away feeling hopeful and reassured."

Customer feedback
from DMS customer, 2020

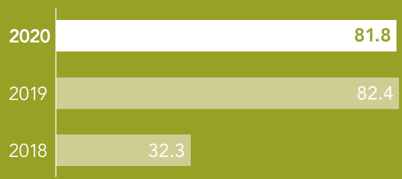
Revenue and lending performance vs prior years

Lending revenue



Impairment charge

Lending balance



Non-core lending

Asset Finance

What we do

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

How we do it

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

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

2020 performance

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

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

Looking forward

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

Consumer Mortgages

What we do

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

2019 performance

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

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

Looking forward

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

Business review

Savings

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

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

Maintaining high levels of customer service

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

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

"The world of finance is strange to many but STB help novice investors through the process. Returns are very competitive, payment is prompt and there is an overall ethos of clarity and fairness with nothing hidden."

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

2020 Total customer deposits

£1,992.5m

2019: £2,020.3 million

Reduction in total customer deposits

1.4%

2019: 9.3% increase

"

Excellent, seamless, great communication, no issues – exactly what you want from a bank!"

Customer feedback
from Feefo on Deposits, 2020

Business review

Savings continued

Savings

What we do

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

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

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

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

How we do it

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

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

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

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

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

2020 performance

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

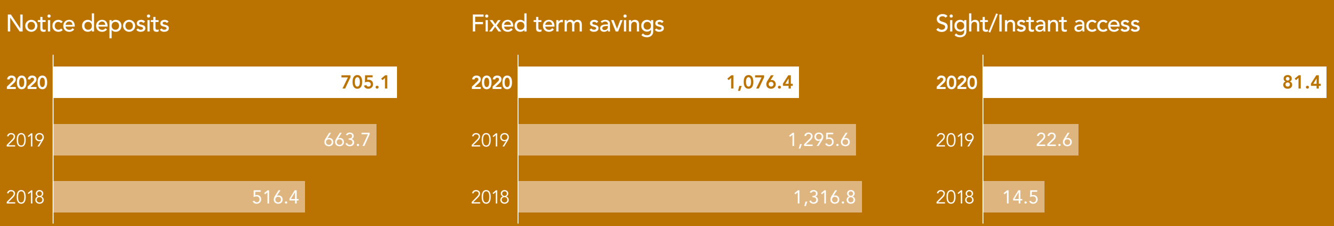
During 2020 we have observed an atypical savings market in terms of changes in customer demand, relative interest rates across products and ongoing fluctuations in competition. Our wider range of products has enabled us to maintain the Group's access to liquidity in a changing environment.

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

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

Reductions in the Bank of England Base Rate to 0.1% in March and further falls in market savings rates in second half of the year have required us to regularly review and reprice our variable rate book during 2020. We have sought to balance offering fair and competitive rates of interest to existing customers, whilst reflecting reductions in market-wide funding costs.

Savings balances vs prior years



This approach has ensured funding continues to be stable and helped to reduce the Group's cost of funds.

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

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

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

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

We have continued to focus on our customers during 2020 and won numerous independent awards, including being named 'Best Savings Provider for Existing Customers' by Savings Champion.

We were highly commended for the 'Best Savings Provider' award by the Savings Champion Awards and have been shortlisted for 'Online Service Provider of the Year' in the Moneyfacts Consumer Awards 2021. Moneyfacts have also awarded a number of 'Excellent' product ratings and positions in the Best Buy Charts for Notice Accounts and Fixed Rate Bonds which we have launched during 2020.

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

Looking forward

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

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

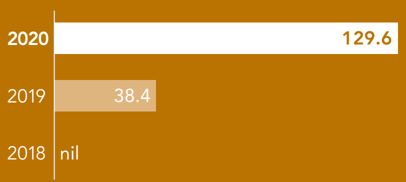
This investment, alongside continued digitisation of customer communications, should improve customer experience, enhance straight through processing and support a lower interest expense.

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

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

> "It was such a joy to bank with STB. Very helpful staff and clear communications throughout."
>
> **Customer feedback**
> from Feefo on Deposits, 2020

Individual savings accounts



Total savings

Impact of COVID-19
Economic and regulatory environment

A new global environment

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

Macroeconomic

Recent developments

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

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

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

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

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

Outlook

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

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

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

Government and regulatory response

Recent developments

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

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

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

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

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

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

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

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

Outlook

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

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

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

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

Financial review

Maintaining our financial integrity

Income statement	2020 Total £million	2019 Total £million	Movement %
Interest income and similar income	192.5	191.4	0.6
Interest expense and similar charges	(41.6)	(46.0)	(9.6)
Net interest income	**150.9**	145.4	3.8
Fee and commission income	16.0	20.9	(23.4)
Fee and commission expense	(0.8)	(0.8)	–
Net fee and commission income	**15.2**	20.1	(24.4)
Operating income	**166.1**	165.5	0.4
Net impairment charge on loans and advances to customers	(51.3)	(32.6)	(57.4)
Losses on modification of financial assets	(3.1)	–	–
Operating expenses	(91.6)	(94.2)	2.8
Profit before income tax	**20.1**	38.7	(48.1)
Income tax expense	(3.9)	(7.6)	48.7
Profit for the year	**16.2**	31.1	(47.9)
Basic earnings per share (pence)	87.0	168.3	(48.3)
Selected Key Performance Indicators			
Net interest margin	6.3%	6.5%	(3.1)
Cost of funds	1.7%	2.0%	(15.0)
Cost to income ratio	55.1%	56.9%	(3.2)
Cost of risk	2.3%	1.4%	64.3
Return on average equity	6.1%	12.8%	(52.3)
Return on average assets	0.6%	1.2%	(50.0)
CET1 ratio	14.2%	12.7%	11.8
Total capital ratio	16.4%	15.0%	9.3

Certain KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Annual Report on page 181. In the narrative of this financial review, KPIs are identified by being in bold font. Further explanation of the non-financial KPIs is provided in the Managing our business responsibility section on page 52.

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

Profit and earnings

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

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

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

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

Impact of payment holidays

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

Net interest income

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

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

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

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

Financial review
continued

Net fee and commission income

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

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

Impairment charge

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

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

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

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

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

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

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

Operating expenses

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

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

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

Distributions to shareholders

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

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

Taxation

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

The tax rate reflects Bank Corporation Tax Surcharge of 8% on any taxable profits of Secure Trust Bank PLC in excess of £25.0 million in an accounting period. The government is proposing to increase the main corporation tax rate to 25% from 1 April 2023, however, also intends to review the bank surcharge in Autumn 2021, to ensure the UK's banking tax regime remains competitive.

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

Summarised balance sheet

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

Balance sheet

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

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

Loans and advances to customers

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

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

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

Real Estate Finance	**£189.5m**
Asset Finance	**£nil**
Commercial Finance	**£126.1m**
Retail Finance	**£614.5m**
Motor Finance	**£78.6m**
Debt Management	**£20.5m**
Consumer Mortgages	**£nil**
Other	**£1.0m**
Total:	**£1,030.2m**

New business volumes

£1,030.2m

2019: £1,413.0 million

Real Estate Finance	**£1,051.9m**
Asset Finance	**£10.4m**
Commercial Finance	**£230.7m**
Retail Finance	**£658.4m**
Motor Finance	**£243.9m**
Debt Management	**£81.8m**
Consumer Mortgages	**£77.7m**
Other	**£4.1m**
Total:	**£2,358.9m**

Loans and advances to customers

£2,358.9m

2019: £2,450.1 million

Financial review
continued

Debt Securities

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

Due to banks

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

Deposits from customers

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

Tier 2 subordinated liabilities

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

Management of capital

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

Key factors influencing the management of capital include:

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

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

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

Capital resources

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

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

Capital requirements

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

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

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

Capital

	2020 £million	2019 £million
Capital		
CET1 capital	**291.9**	268.0
Total Tier 2 capital	**45.1**	50.0
Total capital	**337.0**	318.0
Proposed dividend	**8.2**	–
Total capital after proposed dividend	**328.8**	318.0
Total Risk Exposure	**2,001.5**	2,118.1

	2020 %	2019 %
CRD IV ratios – excluding proposed dividend		
CET1 capital ratio	**14.6**	12.7
Total capital ratio	**16.8**	15.0
CRR Leverage ratio	**10.7**	9.8
CRD IV ratios – after proposed dividend		
CET1 capital ratio	**14.2**	12.7
Total capital ratio	**16.4**	15.0
CRR Leverage ratio	**10.4**	9.8

Typical risk weighting

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

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

Financial review
continued

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

The Group's regulatory capital is divided into:

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

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

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

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

Capital requirements

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

Liquidity

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

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

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

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

Liquid assets

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

Customer deposits

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

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

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

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

Principal risks and uncertainties

Risk Management within Secure Trust Bank

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

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

Risk Appetite

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

Governance

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

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

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

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

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

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

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

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

Summary of changes to risk profile

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

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

Risk overview

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

Principal Risk	Movement in 2020
Credit Risk The risk that a counterparty will be unable to pay amounts in full when due.	↑
Liquidity and Funding Risk The risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost.	↓
Operational Risk The risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above.	↔
Capital Risk The risk that the Group will have insufficient capital resources to support the business.	↔
Market Risk The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates.	↔
Conduct Risk The potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff.	↔
Regulatory Risk The risk that the Group fails to be compliant with all relevant regulatory requirements.	↔

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

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

Key to symbols

↓ Improved

↔ Stable

↑ Worsened

Principal risks and uncertainties continued

Credit Risk – WORSENED

Description

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

Mitigation

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

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

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

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

Forbearance

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

Change

Consumer Finance Credit Risk

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

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

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

Business Finance Credit Risk

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

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

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

Change continued

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

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

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

Model risk and the impact of IFRS 9

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

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

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

Overall assessment

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

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

Principal risks and uncertainties continued

Liquidity and Funding Risk – IMPROVED

Description

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

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

Mitigation

Risk tolerance

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

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

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

The Group's Liquidity Risk Appetite and Funding Risk Appetite is approved by the Board:

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

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

Structure and responsibilities for liquidity risk management

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

Internal liquidity reporting

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

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

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

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

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

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

Liquidity and funding risk management framework

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

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

Stress-testing

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

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

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

Contingency funding plans

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

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

Change

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

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

Principal risks and uncertainties continued

Operational Risk – STABLE

Description

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

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

Mitigation

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

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

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

Change

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

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

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

Key risk themes of operational risk focus in 2020 include:

- **COVID-19 (Business disruption)** – The pandemic has materially increased the inherent risks faced by our business across a number of operational risk categories, and our prime focus over 2020 has been managing these potential risks and ensuring the operational effects of the pandemic are minimised. Our Crisis Management Team, with representation from all key areas of the Business and our Risk function, have successfully minimised the operational implications through changes to our operating practices and the introduction of a robust suite of additional controls. This will continue to be a key area of focus whilst the pandemic remains active across the UK.
- **Supplier management** – The Group uses a number of third parties to support its IT and operational processes. The Group recognises that it is important to effectively manage these suppliers and has embedded a suite of standard controls for all its material suppliers to reduce the risk of operational impacts on these critical services. This has been particularly important during the pandemic, so we have remained in regular contact with our key suppliers and gained assurances over their ongoing ability to support our operations. Further tools have been developed, and are being rolled out, to help understand the quality of the resilience controls in operation at our critical suppliers. We have also enhanced our assurance capability with the recruitment of a dedicate resource in this area. This will continue to be an area of focus for 2021.
- **Operational and IT resilience** – Many elements of the Operational Risk Framework support the ongoing resilience of the Group's operational and IT services, including business continuity management, disaster recovery, incident management, process management and the cyber strategy. The Group has defined a plan to be able to respond to proposals put forward by the PRA and FCA in their Operational Resilience consultation, and this remains a key priority in 2021.
- **Information security and cyber risk** – The Group has paid considerable attention to risks arising from a failure or breach of its IT systems that could result in customer exposure, business disruption, financial losses, or reputational damage.
- **Employment practices and workplace safety** – Given the enhanced risks associated, this has been of paramount importance during the pandemic. The Group quickly introduced all the required new working practices and protocols to protect our people and ensure the continued effective operations of our businesses. This will continue to be a key priority whilst we manage the implications of the pandemic.
- **Change management** – The effective delivery of change management programmes plays an important role in meeting the Group's regulatory requirements, improving services and implementing strategic decisions. Ineffective change management processes could lead to poor customer outcomes, business disruption, financial loss and regulatory breaches. Change management processes and governance are defined and embedded within the Group.

Overall assessment

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

Capital Risk – STABLE

Description

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

Mitigation

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

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

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

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

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

Change

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

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

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

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

Principal risks and uncertainties continued

Market Risk – STABLE

Description

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

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

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

Mitigation

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

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

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

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

The Group also measures exposure to basis risk and optionality.

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

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

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

Change

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

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

Conduct Risk – STABLE

Description

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

Mitigation

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

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

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

Change

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

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

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

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

Regulatory Risk – STABLE

Description

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

Mitigation

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

Change

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

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

Principal risks and uncertainties continued

Strategic and emerging risks

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

Macroeconomic environment and market conditions

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

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

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

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

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

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

UK withdrawal from European Union

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

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

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

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

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

Climate change

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Appetite

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

Strategic response to climate change risk

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

Viability and going concern

Going concern

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

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

Business viability

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

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

The Directors have based the assessment on the following:

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

Stress-testing

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

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

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

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

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

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

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

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

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

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

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

Managing our business responsibly

Behaving responsibly for all stakeholders

Our strategic commitment remains unchanged, to "make this a great Bank for customers and colleagues" by pursuing our promise of delivering straightforward and transparent banking. We are proud to say that right through the COVID-19 crisis, we have sustained our core values and behaviours and that these have ensured that we remain on track to developing a truly responsible business.

Responsible business strategy

In 2020 work continued on the development of our responsible business strategy. We are following the 'gold standard' process as set out by Business in the Community ('BiTC'), the Responsible Business Network set up by HRH The Prince of Wales. During 2020 this has involved extensive research and engagement with a wide range of internal and external stakeholders to ensure that the final strategy has high relevance to and resonance with a broad audience.

Acting responsibly to our customers

We remain committed to acting responsibly to our customers and treating our customers fairly. The strategy is designed to focus continually on achieving good customer outcomes, whilst making sure that products and services are sustainable whilst safeguarding and maintaining a profitable business.

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

The customer is considered at every point in the design process for products and services. We regularly seek customer opinion on new initiatives before promoting these to the wider population and the customer design approval process makes sure that we can provide strong evidence that customer needs have been considered before a new product is launched.

Throughout the pandemic we have placed particular focus on maintaining positive customer experience. For example, we have recently enhanced our application processes by creating contactless applications for customers in-store, so they no longer have to handle the retailer's device and they can serve themselves. We also moved the deposit fixed rate bond maturities process online and, for existing Savings customers, we created a short form application to make it quicker to apply for a new account.

Customer feedback

Listening to our customers is paramount. We continue to use Feefo as an independent source of customer feedback, providing valuable insight into our customer relationships. In addition, our customers are able to use Trustpilot to share their views about the Group.

Our average Feefo rating for 2020, based on 1,466 reviews was 4.7 out of 5 (2019: 4.7 from 1,754 reviews). The average Trustpilot rating for 2020, based on 2,624 reviews was 4.6 out of 5 (2019: 4.6 from 2,100 reviews). When poor feedback is received we treat each case individually and attempt to resolve the issue with the customer. This feedback is monitored alongside complaints data and where emerging trends are noted we seek to design and implement solutions to fix the problem.

Customer service awards

For the eighth successive year, the Group has been accredited with the government backed Customer Service Excellence quality mark. This follows an in-depth external assessment against criteria which research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and staff attitude. The standard puts an emphasis on developing customer insight, understanding the user's experience and robust measurement of service satisfaction and is designed to offer organisations a practical tool for driving customer-focused change.

The final written report was very positive, particularly in relation to the Group's response to the COVID-19 crisis, as demonstrated by this short excerpt:

"The effect of the pandemic on customers and their livelihoods being adversely affected by potential furlough, job losses and other hardships resulted in a huge increase in calls being received by STB, many of these being stressful and distressing for both customer and staff alike. STB were able to demonstrate that staff continued to be helpful, supportive, polite and friendly during this difficult time."

Feefo Trusted Awards

We also continue to be recognised through the Feefo Trusted Awards. In January 2020 it was announced that the Group had once again gained Trusted Service awards across all its businesses that collect Feefo reviews. The Vehicle Finance and V12 Retail Finance businesses both achieved a Platinum award whilst the Savings business achieved a Trusted Service award.

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

Employee voice

We firmly believe that effective two-way communication contributes towards innovation and the achievement of organisational goals resulting in increased job satisfaction, greater influence and better opportunities for the development of teams and individuals.

We continue to operate Employee Councils in each of our businesses, consisting of department representatives elected by their colleagues. The Councils meet on a regular basis and encourage a two-way process of communication between employees and senior managers.

In addition we have a Group Employee Council that meets with the Chief Executive Officer, HR Director and a Board nominated independent Non-Executive Director; and this has been continued in 2020. The aim of the Employee Councils is to promote further employee engagement and provide a structured forum for teams to share their views, enabling colleagues to provide insight, feedback and suggestions to make Secure Trust Bank Group a great place to work.

We complete an annual 'Your Voice' employee survey conducted by the Great Place to Work® ('GPTW®') Institute. This comprehensive survey explored the levels of trust and employee engagement across the Group. As a specialist in workplace culture, partnering with over 10,000 organisations annually, GPTW® enabled benchmarking of Secure Trust Bank's employee experience against many of the most progressive workplaces in the UK.

In November 2020 the Group completed the survey for the third time and we were extremely proud to achieve an increase in the Trust Index from 79% in 2019 to 82%. This was based on a response rate of 83%, with 84% of respondents stating that 'Secure Trust Bank is a great place to work' compared to 82% previously. The Trust Index is the average of the core survey statements and used as the Group's key performance indicator in respect of employee satisfaction. Given the challenging year due to COVID-19, and as this was an area of focus from our previous survey, we were particularly proud to be awarded 'Excellence in Wellbeing'.

We were delighted to be recognised at the Best Workplace awards in May 2020, being ranked 28th in the UK Best Workplaces Large category and 16th in the UK Best Workplaces for Women category.

Employee development

Employee development remains a priority and we have a comprehensive induction programme for new employees, a wide range of specialist professional qualifications and numerous other development opportunities. These include a comprehensive four-level leadership academy and 'ICE' our Individual Contributor Excellence Programme for those in specialist and non-leadership roles.

In 2020 we launched our brand new personal growth programme sponsored by our Non-Executive Director Baroness Lucy Neville-Rolfe. This programme has been designed to help colleagues to build confidence, plan their progression and make it happen. The programme includes a variety of external speakers and was over-subscribed at launch. Despite the challenges presented in 2020 we were

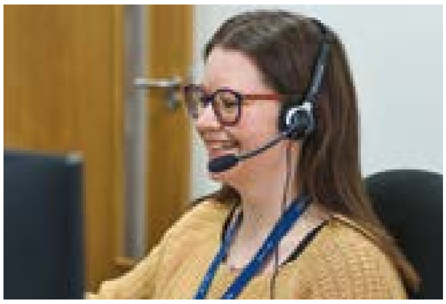
Trusted Service Award 2021 feefo

Feefo rating

4.7 stars

Average Feefo rating for 2020
2019: 4.7 stars

Feefo ratings and comments can be found on our websites:
www.securetrustbank.com
www.moneyway.co.uk
www.v12retailfinance.com



Customer Service Excellence

8th year

Trust Index score

82%

From 2020 all employee survey
2019: 79%

Best Workplaces Large Organisations Great Place To Work UK 2020

Best Workplaces Large Category

28th

in the UK

Best Workplaces for Women Category

16th

in the UK

Managing our business responsibly continued

delighted that 73 of our existing employees secured a new role within the Group which is testament to both the development and opportunities available.

Employee engagement and recognition

Research has consistently shown a clear link between enhanced levels of performance and teams that are fully engaged and share the values of the organisation that they work for. To ensure that colleagues are recognised for their contribution, there are a number of schemes in place to celebrate exceptional performance and behaviours. These range from simple e-thank you cards to the Group's annual Outstanding Achievers awards, where 30 winners are selected by a panel of judges.

These schemes together with our annual incentive programme continue to help embed excellence within the culture. As the majority of employees were working from home for much of the year, we adapted our processes to ensure that our teams were still recognised for their contributions during this time.

Employee wellbeing

Given the significant change that the pandemic and lockdowns has brought to our ways of working, we have focused on ensuring that the wellbeing of our employees is maintained, including specific initiatives in respect of mental health.

As well as ensuring that our existing communication channels were maintained, we developed new ones, including 'STBG Radio', a weekly podcast to keep our teams informed and engaged during the lockdown periods. This included regular contributions from Exco and Board members.

Our employees completed a specific Pulse survey on the crisis. This was conducted by GPTW® and provided feedback from our teams on how they have felt supported during this time.

Gender diversity

In 2020, we published our third Gender Pay Report and supporting commentary. We are committed to diversity in the workplace at all levels and the actions outlined in the report will continue to develop this further, particularly to improve the position at senior manager level.

We continue to work closely with Everywoman in progressing our Inclusion Agenda with the HR Director and Sales Director in the Vehicle Finance Division having been previously appointed as Everywoman Ambassadors.

Our partnership with the Employer Network for Equality and Inclusion ('ENEI') remains pivotal in progressing plans through the completion of its TIDE diversity benchmarking tool to identify areas of focus. In 2020 we were delighted to be awarded the bronze standard for our approach to and progress on diversity and inclusion. The results of the evaluation have shown an increase in our score to 60% from 41% in the previous year.

Given the diverse nature of the Group, which includes a high number of unique roles with specialist skills, the Board was delighted that of the 78 employees that secured a new role within the Group in 2020, 63% were filled by female employees.

Responsibility to the environment

We continue to recognise the importance of acting responsibly in relation to the environment and our Responsible Business Strategy includes a new environmental policy. This policy provides an assessment of our impact on the environment and sets goals and objectives for managing this.

As a financial services provider, our operations do not have a significant direct impact on the environment. The Group's report on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 is set out below. We now consistently report information under the Regulation and only emission sources where accurate and consistent data is available for the complete reporting period have been included.

Scope 1 emissions resulting from the combustion of natural gas for heating buildings and fuel for business mileage, and Scope 2 and 3 emissions associated with the consumption of purchased electricity are included within the greenhouse gas ('GHG') report. Consistent with prior years, all Scope 3 sources, except for purchased electricity transmission, distribution emissions and grey fleet have been excluded from this report. We set 2017 as the GHG baseline year and subsequent reports show emissions for the current year and for each subsequent year following the baseline year.

In compiling this GHG report, we have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and energy supplier invoice data. Greenhouse gas emissions are reported as a single total, by converting them to the

Greenhouse gas emissions

	2020 Carbon dioxide (tonnes)	2019 Carbon dioxide (tonnes)
Scope 1 – direct emissions from combustion of fuel	**118.2**	223.7
Scope 2 – indirect emissions from electricity purchased	**327.1**	421.5
Scope 3 – other indirect emissions from purchased electricity transmission and distribution	**62.6**	124.5
Total scope 1 to 3 emissions	**507.9**	769.7
Environmental intensity indicator (tonnes carbon dioxide per £1 million Group income)	**3.1**	4.7

The information detailed in the table above was prepared using the reporting period 1 January – 31 December in each reporting year.

equivalent amount of CO_2 using emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2017. The Group's greenhouse gas emissions are shown at the foot of the previous page.

Carbon dioxide emissions and the environmental intensity indicator have reduced by approximately one third year-on-year. This reduction has primarily been driven by the COVID-19 crisis. Specifically, the travel restrictions introduced in March 2020 reduced the Group's lease car and grey fleet mileage. In addition, the working-from-home measures also introduced in March 2020 reduced the Group's electricity consumption.

Social responsibility

We remain mindful of our need to act responsibly in society. In part we meet these requirements by complying with the wide range of laws and regulations which are applied to financial services companies in the UK. The Group has a governance framework and range of policies which are designed to ensure that we meet these responsibilities and adhere to the highest professional and ethical standards when dealing with customers, suppliers, employees, local communities and other stakeholders. The scope of our Group-wide policies and regulations includes:

- Anti-bribery and corruption
- Anti-money laundering
- Employment health and safety
- Whistleblowing
- Human rights and tackling modern slavery

All staff are required to complete the relevant regulatory training on an annual basis with further training offered when required.

Our established community-focused schemes remain in place and our charity committees continue to empower colleagues from different business areas to drive forward charitable activities. Although fundraising activity has been adversely impacted by the COVID-19 crisis, in 2020 we supported ten charities and raised over £24,000 for good causes. Unfortunately, the STBG Volunteers Scheme, which entitles all colleagues to use one paid day to make a difference in their local area, had to be suspended owing to the COVID-19 crisis. We encouraged colleagues to volunteer to their support to the NHS GoodSAM Scheme as an alternative way to support local communities.

We are proud of the work done to date in this area and we fully anticipate that our ongoing partnership with Business in the Community will allow us to identify and positively address additional social issues that are of high importance to our stakeholders.

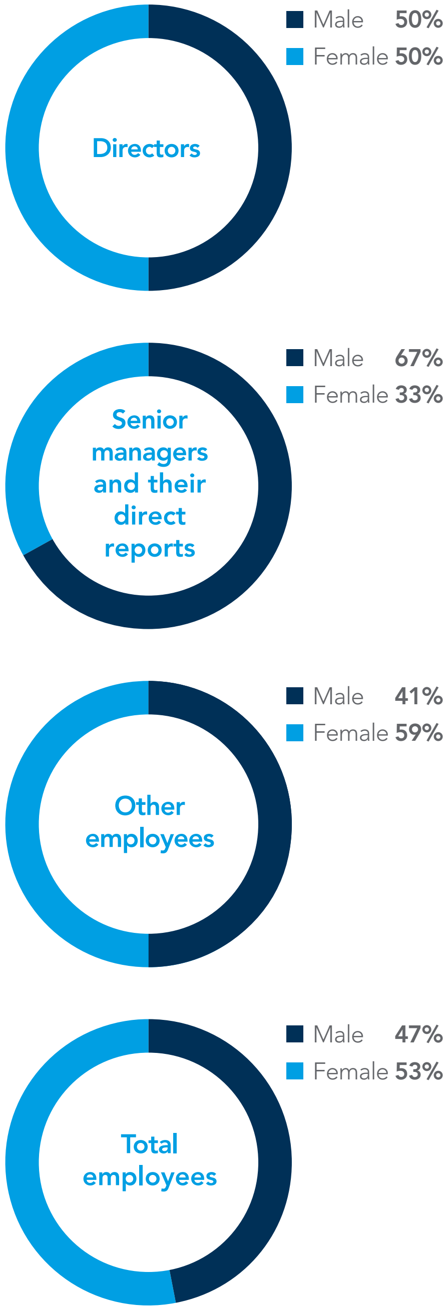
Non-financial information statement

The Group complies with the non-financial information reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. This is intended to help stakeholders understand the Group's position on key non-financial information.

Information regarding environmental matters, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters are included in this 'Managing our business responsibly' section.

The location of the other information required is set out in the table below:

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



Reporting Requirement	Section	Page
Policy embedding, due diligence and outcomes	Principal risks and uncertainties	38
Description of principal risks and impact of business activity	Principal risks and uncertainties	38
Description of the business model	Our business model	12
Non-financial key performance indicators	Key performance indicators	3

Managing our business responsibly
Our Section 172 Statement

Our Section 172 Statement

This section of the Strategic Report describes how the Directors perform their duty under Section 172 ('S172') of the Companies Act 2006 to act in a way that they consider would be most likely to promote the long term success of the Company for the benefit of its members as a whole, having regard to a range of stakeholders. In performing this duty, the Directors must have regard to specified matters and this section of the Strategic Report describes ways in which this is done. The Board discharges this duty through its decision making at meetings and by other means detailed in the table below. Further details of how the Directors' duties are discharged are included in the Governance section on pages 62 to 102.

Long-term

The Board approves a long-term strategic plan and considers consequences of decisions in the long term as set out in our Viability Statement on page 50. Investment decisions are made on the basis of establishing a long-term sustainable business.

Our key stakeholders

Consideration is given by the Board and by management acting under authority delegated from the Board to impacts on our customers, workforce, wider society and the environment. In many ways the requirements of our regulators also support the need to address the matters required to be taken into account in performing the S172 duty, for example the way in which the requirements of the Senior Managers and Certification Regime support the maintenance of high standards of business conduct. The table below identifies key stakeholders and how we engage with them. That engagement is shaped by the Board and is taken into account by the Board in the performance of its role.

Customers

Strategic link: Love

Why we engage:

Our customers are at the heart of everything we do. We listen to them so we can better understand how our products and services can meet their needs.

Link to long term success:

Knowing the needs of our customers allows us to adapt our services offered so that we can adjust our operating model to meet their changing needs.

How we engage:

To foster relationships with our customers we:

Formal – ask for customer feedback on a continuous basis via the Feefo scoring system, the results of which are presented to the Board. We are committed to constantly improving our products and services and accordingly the Risk Committee, on behalf of the Board, receives updates on complaints received. This allows us to ensure that our operating model has no systemic issues.

Informal – receive feedback direct from customers via our customer support centre and feedback via managerial reporting lines.

Key topics:

- Meeting the needs of our customers (for example, those most vulnerable)
- Adapting to the changing needs of customers during 2020
- Lending products

Output:

Following feedback from customers, we have invested in our existing technology which allows our V12 Retail and V12 Motor customers to access more of our products online and to self-serve. This allows us to offer an enhanced customer experience, with a 24/7 self-service option and help to ensure that our customers continue to deal with us.

Our COVID-19 response and principal decisions:

The needs of our customers were at the forefront of our decision-making for changes to our business model and services. In view of the financial uncertainty faced by many of our customers we agreed to introduce payment holidays like many of our peers. However, what differentiates us is that we have made the conscious decision to pause the charging of interest during the payment holiday period for our V12 Motor and V12 Retail customers.

As a provider of financial services, STB were designated as an essential service during lockdown and have been able to remain open. Whilst we wanted to maintain high standards of customer service, we also had an imperative to ensure the safety and wellbeing of our people. Consequently, we reduced the number of employees in our dedicated customer call centres whilst also providing customers with more self-service options through our website. This has ensured that the customer experience has been impacted minimally following the change in our operating model.

Shareholders

Strategic link:

Grow

Why we engage:

The views of those who back us are important as they provide us with the capital we use to run our business.

Link to long term success:

The views of shareholders provide us with the long term view and help us shape strategic decisions.

How we engage:

To ensure we act fairly between the members of our company we:

Formal – seek engagement from our principal shareholders via our Chairman, CEO and CFO.
The committee chairs, as well as the Senior Independent Director, are available to meet with shareholders on request and all seek engagement.

Executive Directors hold investor presentations following financial results announcements.

Informal – receive updates from the Company Secretary on correspondence received from shareholders throughout the year.

Key topics:

- Dividends
- Directors' Remuneration Policy
- AGM planning and engagement

Outcomes:

Prior to proposing the Directors' Remuneration Policy for approval at the 2020 AGM, principal shareholders were consulted for their input. This has helped us shape our reward structures for our Executive Directors with the views from our most prominent shareholders.

In 2020, an Investor Perception Audit was conducted with assistance from Tulchan Communications LLP to understand Investors' priorities and views of STB as well as understanding areas where the Board could improve its messaging and communication. Following feedback received, the Board has adopted a number of actions which will be implemented during 2021 and beyond.

By bringing executive remuneration into line with market expectations and ensuring the Board is aware of shareholder priorities during decision making, we hope to retain the confidence of our shareholder base and maintain the value of STB.

Our COVID-19 response and principal decisions:

In response to the government's stay at home measures and considering the health and wellbeing of our shareholders and our Board, physical attendance from shareholders at the 2020 AGM was not possible to facilitate. To ensure that our shareholders' voices were heard we engaged with our largest shareholders ahead of the meeting on an individual basis. Given the scale of the pandemic at the time of writing, it is likely that we will need to follow the same process for the forthcoming AGM however the Board looks forward to resuming physical events once it is safe to do so.

Due to the uncertainty regarding the impact of the pandemic on the UK economy and to protect the long term interest of the stakeholders, the Board made the decision in 2020 to suspend the final 2019 and the 2020 interim dividends. The Board has reviewed the position and is recommending a final dividend of 44 pence per share in respect of the financial year 2020. Further details can be found on page 32.

Managing our business responsibly
Our Section 172 Statement continued

Our People

Strategic link: Love

Why we engage:

The strength of our service is set by our people.

Link to long term success:

Having a talented, diverse family of individuals who are engaged in their roles is essential to bringing the STB vision of straightforward transparent banking to life and fundamental to the long-term success of the Group. By protecting mental health and listening to employee feedback and implementing ideas for improvements, we stand the best chance of maintaining morale, boosting productivity and retaining the individuals that make STB work on a day-to-day basis.

How we engage:

To ensure that we have regard to the interests of our employees we:

Formal – Baroness Neville Rolfe, the Non-Executive Director designated for workforce engagement, chairs the meetings of the Group Employee Council. She provides an update to the Board following each meeting and ensures that the employee voice is heard by the Board.

Formal whistleblowing reporting processes. Ann Berresford, the Chair of the Audit Committee, is the appointed Whistleblowers' Champion.

Annual 'Your Voice' employee opinion survey held with Great Place to Work®. Results are disaggregated in many ways including on a gender, sexual orientation, race and disability basis to ensure that the views of different internal stakeholder groups are heard by the Board.

Informal – employees are encouraged to provide feedback direct to managers. Comments are filtered up reporting lines to the CEO and form part of the regular Board briefings on employee sentiment.

Key topics:

- Changing needs of employees as a result of changes to the working environment via reporting from the Group Employee Council
- Whistleblowing reports
- Diversity
- 'Your Voice' results
- CEO briefings
- Learning & development initiatives

Outcomes:

Following feedback received in 2019 from the Group Employee Council, various employee wellbeing initiatives have been rolled out such as wellness action plans developed in conjunction with mental health charity Mind, and learning-hub resources for all employees. The virtual wellness café was launched during the year as well as mental health training for managers and first aiders. The Group continues to operate its counselling hotline for all staff.

In response to diversity points raised in the 2019 'Your Voice' survey, STB has approved the launch of the 'Blazing my trail' programme which is specifically designed to encourage leadership in women and people of colour.

The Board welcomes the result of STB increasing its ranking to 28th best place to work in the Great Place to Work® Large Company category.

We have provided our employees with access to a wide range of training for personal and professional development. Following the transition to large scale remote working during the pandemic, this has included specific modules on challenges and development in a remote environment to best equip our people for this. The Bank supports our staff in achieving recognised qualifications from the London Institute of Banking and Finance Banking Certification.

Our COVID-19 response and principal decisions:

Balancing the needs of our customers with the safety of our people was a challenge. As an essential service, STB maintained a skeleton presence in one of its office locations. For those in the office, enhanced social distancing measures were put in place beyond the government minimum guidelines and, at the request of our people, revised rotas to allow non-essential staff the opportunity to work some days from the operational office locations were agreed but not implemented due to a change in government guidelines. Not all of our people were used to working from home, so to ensure that they were able to adapt to the remote working model as quickly and efficiently as possible, STB provided all employees with the equipment and training required to allow them to work from home with minimal disruption to the customer experience.

Maintaining the STB culture whilst working remotely was a known challenge. Along with the various wellness initiatives, the Board also agreed to initiatives such as the implementation of a weekly podcast which spotlighted different individuals in the team and shared good news stories. Distribution of an STB magazine to all employee homes to help maintain the collegiate style working ethos was also completed. Virtual team calls and the creation of internal communities (e.g. Parents) for support within the workforce were also encouraged.

Enhancements were made to employee benefits, including the extension of sick pay to cover those unable to work through shielding where it was also not possible for them to work remotely.

Regulators

Strategic link: Sustain

Why we engage:

We have a duty to ensure that we engage transparently and proactively with our regulators.

Link to long term success:

By taking part in these initiatives and having transparent communication with our regulators we are able to understand the key drivers for regulatory change. It also provides us with a platform to provide input into the regulatory environment in which we operate.

By supporting the regulatory regime in which we have been granted a licence to operate, we ensure, collectively with our peers, continued customer confidence in the industry.

How we engage:

To ensure that we maintain a reputation for high standards of business conduct we:

Formal – interact with our regulators through meetings with our Directors and senior management. Engagement is also conducted through thematic reviews in which the Group participates.

Informal – give regular consideration to correspondence and publications from the regulatory sphere. Engagement is often conducted through UK Finance, the relevant trade body.

Key topics:

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

Outcomes:

Participation in thematic reviews allows us to understand where key risks may be within the industry and allows us to learn from our peers on industry-wide challenges. This enables us to evolve our business processes to become more resilient and to serve our customers in the best way we can.

Our COVID-19 response and principal decisions:

We have built on our existing relationships we have with our regulators through increased communication. As with many of our peers, STB engaged in fortnightly meetings with the PRA during the pandemic to discuss topics including operational resilience, credit trends and, latterly, payment holidays. As the pandemic transitioned from management of new challenges to normal operations over time, as with many of our peers, these meetings have reduced in frequency. Having an open and positive dialogue has allowed us insights into how to maintain the same customer service levels whilst changing our operating model.

Managing our business responsibly
Our Section 172 Statement continued

Wider Society

Strategic link: Love, Grow

Why we engage:
We want to be a good corporate citizen, in doing so we need to take into consideration our impact on our society.

Link to long term success:
Knowing our impact on society helps us to identify our purpose. Being clear on our purpose helps to promote the long-term success of STB.

How we engage:
To ensure that we have regard to the impact of our operations on the community we:

Formal – approve and receive updates on various engagement activities undertaken by employees across the Group.

Informal – encourage employees to engage with their local communities and to give back where they can.

Key topics:
- Fundraising initiatives
- Charitable partnerships
- Mentoring

Outcomes:
The community engagement initiatives were well-received by our employees and have helped us to make a positive impact on society as well as retain our people.

Mentoring with local schools has been paused during the COVID-19 pandemic to ensure the physical safety of both mentors and mentees. We look forward to returning to this relationship and hope to offer it more widely when it is safe to do so.

Our COVID-19 response and principal decisions:
The Board was keen to maintain the charitable relationships it had in place, therefore, fundraising initiatives continued throughout lockdown. These included quiz nights, video calls, sponsored walks around the UK and donations made by STB to charities chosen by our people.

Suppliers

Strategic link: Love, Grow

Why we engage:
Our suppliers support a wide range of services and systems on which STB delivers our vision of straightforward, transparent banking to our stakeholders.

Link to long term success:
Delivery of our vision of straightforward transparent banking relies, in part, on ensuring the continuity of our services.

How we engage:
STB has a structured supplier governance framework operated by executive management to manage material suppliers.

Key topics:
- Delivery of continuity of service
- Operational resilience of material suppliers

Outcomes:
The Board and Risk Committee have considered resilience of all of our outsourced IT services and are content with provision of services and diligence undertaken by management in assessing the continuity of services.

Environment

Strategic link:

Love

Grow

Why we engage:

Recognising our impact on the environment is crucial to our legacy.

Link to long term success:

Being accountable for direct and indirect actions of the business and making decisions which help improve our impact on the environment are essential to understanding the sustainability of the business as well as enabling STB's priorities in meeting the expectations of future generations of customers.

How we engage:

To ensure we have regard to the impact of our operations on the environment we:

Formal – monitor our emissions and recognise STB's impact on the environment.

Review the business model to assess the indirect impact the financing of certain industries, such as motor, can have on the environment.
In developing strategy, the Board ensures that environmental impact is a key feature of discussion.

Informal – receive updates from the CEO on initiatives being taken by the Company.

Key topics:

- Emissions
- Operating model
- Carbon neutrality

Outcomes:

Through the implementation of the remote working model, a number of our offices have not been fully occupied since March 2020, as such our emissions are lower than previous years as outlined on page 54.

The Board continues to be mindful of its indirect impact on the environment and is developing a strategy to offset its environmental impact. In doing so, the Board has received specific training on climate change risk and environmental, social, and governance ('ESG').

Our COVID-19 response and principal decisions:

STB was already working on various remote working models to help minimise its employees' carbon footprint before COVID-19. This meant moving to the remote working model was a relatively seamless and quick transition which has had a positive impact on the environment through reduced office emissions. Whilst this is not something we are able to measure, as a significant number of our people are no longer travelling in to our offices each day, we anticipate that carbon emissions related to commuting will also have reduced. Disclosures concerning our business travel, including the GHG CO_2 emissions are set out page 54.

Approved by the Board and signed on its behalf.

David McCreadie
Chief Executive Officer

24 March 2021

Board leadership
Chairman's introduction

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

The Code sets out principles relating to good governance of companies with a premium listing. The Code is available at **www.frc.org.uk**

Throughout the period under review, the Company was subject to the Code.

The Board confirms that from 1 January 2020 to the date of this report the Group has complied with the principles of the Code.

The following sections of this report describe how the Board has applied the principles of the Code and describes the Group's governance arrangements.

Applying the principles of good governance

On behalf of the Board I am pleased to introduce our report on Corporate Governance. This explains the Group's governance arrangements and how the Group has applied the principles of the 2018 UK Corporate Governance Code (the 'Code') during the year ended 31 December 2020.

The impact of COVID-19 necessitated a pragmatic and swift approach to the oversight of your Company. As the global pandemic emerged and then developed into a global economic recession your Board and its Committees were required to meet more frequently and to take advantage of the technological solutions available to exercise oversight. I am grateful for the flexibility and support of the Board in rising to those challenges and for the assistance of our late General Counsel Alan Karter, the Company Secretarial team and the Risk and Finance functions in facilitating and providing the information for those. I am pleased to report that our operational resilience enabled the workforce to continue in their roles and that our governance framework proved to be sufficiently robust to adapt as new requirements evolved throughout 2020.

In addition to the challenges presented by COVID-19, 2020 also saw further changes and developments in the Corporate Governance of the Group including:

- **Composition:** There have been significant changes to the Board with a new Chairman of the Risk Committee taking on the role from the end of March 2020, a new Chief Financial Officer Rachel Lawrence joining in September 2020 and David McCreadie transitioning to CEO in January 2021. The Board continues to keep its composition under review so that there is an appropriate and diverse mix of skills and experience and has embarked on the search for a further independent Non-Executive Director.
- **Culture:** Our strategy is supported by our culture, which has proved to be resilient throughout the pandemic. In 2019 the Board agreed that the Group's culture should be one where there is a caring environment for all colleagues and customers; diversity, integrity, personal development and team working are central to the way in which the Group operates; change is openly embraced; and individuals share in the success of the Group. We are delighted to have been ranked 28th Best Place to Work in the Great Place to Work® Large Company category and 16th Best Place to Work for Women, Large Company category, improving our positioning from 2019 despite the challenges of COVID-19.
- **Strategy:** Further changes were made to the approach to the strategy of the Group throughout 2020 and the Board and its Committees supported and challenged management as we looked at the impact of the economic environment on our risk appetites and business operations. Further details can be found on pages 79 to 82.
  The strategy for 2021–2022 was approved at the Board Strategy Away Day in September 2020 and was reviewed again in February 2021 in the light of management changes and the rollout of the various COVID-19 vaccines in the United Kingdom.
- **Oversight:** We have reviewed and adapted the oversight exercised by the Board including in relation to the information provided to the Board and its Committees.

In the Corporate Governance Report

Board leadership
Board of Directors

Strong leadership

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

Appointed to the Board on 1 March 2014 as an Independent Non-Executive Director and appointed Chairman of the Company on 19 October 2016. Chair of the Nomination Committee and member of the Remuneration Committee.

Skills and experience
Lord Forsyth is a former Chairman of Hyperion Insurance Group, and former Deputy Chairman of JP Morgan UK and Evercore Partners International. He was appointed to the Privy Council in 1995, knighted in 1997, and joined the House of Lords in 1999. He was a member of the House of Commons for 14 years and served in government for 10 years, latterly as a Cabinet Minister. His background in the public and private sectors has given Lord Forsyth a broad experience of matters relevant to the business of the Group including strategy, governance, operations, marketing, risk and human capital.

Other appointments include:
Lord Forsyth is a Director of J&J Denholm Limited and Denholm Logistics Group Limited and Chairman of the House of Lords Economic Affairs Committee.

David McCreadie FCBI
Chief Executive Officer

Appointed to the Board on 17 December 2019 and appointed CEO, subject to regulatory approval on 5 January 2021.

Skills and experience
David McCreadie has many years of banking experience and is a Fellow of the Chartered Banking Institute. He spent 22 years at The Royal Bank of Scotland ('RBS') holding roles in Branch Banking, Consumer Finance and several Group central functions. From 2004 to 2008 David was appointed the Chief Executive Officer of Kroger Personal Finance, a joint venture between RBS and Kroger Co, based in Cincinnati, USA. David joined Tesco Personal Finance in 2008 and was a member of the executive team that built Tesco Bank. David was an Executive Director and Managing Director of Tesco Bank, with a responsibility for the banking and insurance businesses, from 2015 to 2019. His experience includes banking, risk management, governance, consumer facing businesses and retailing.

Rachel Lawrence
Chief Financial Officer

Appointed to the Board and as CFO on 23 September 2020.

Skills and experience
Rachel has considerable experience in financial services gained from a career spanning more than 20 years. She has held senior finance roles in Metro Bank where she was part of the original team that set up the bank and Shawbrook Bank where she was part of the successful Initial Public Offering. Prior to joining STB Rachel was Chief Financial Officer at AIB Group (UK) plc. She brings a wealth of banking experience focused on high growth start up organisations and wider financial services experience gained in asset management, life, pensions and general insurance. She is a qualified chartered management accountant.

Ann Berresford ACA

Senior Independent Director

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

Skills and experience

Ann Berresford is a Chartered Accountant with a background in the financial services and energy sectors. She has held positions at Bath Building Society, the Pensions Regulator, Hyperion Insurance Group, Triodos Renewables plc, the Pension Protection Fund, Bank of Ireland Group, Clyde Petroleum plc and Grant Thornton. Her career has given Ann experience in mortgages, pensions, operations, accounting, finance and risk.

Other appointments include:

Ann is the Senior Independent Director and Chairman of the Remuneration Committee of Albion Venture Capital Trust PLC.

Victoria Stewart

Independent Non-Executive Director

Appointed to the Board on 22 November 2016. Appointed Chairman of the Remuneration Committee on 21 July 2017. Member of the Nomination Committee. Victoria was appointed to the Audit Committee on 1 January 2020.

Skills and experience

Victoria Stewart has over 25 years' experience in the financial services sector and was for many years a fund manager and investor in UK small companies. Victoria has knowledge of corporate structures and capital markets with particular experience in smaller companies listed on the Main Market and AIM. She has held a number of positions at Royal London Group and Chiswell Associates (formerly Cantrade Investment Management Limited and now part of Sarasin & Partners). Her background has given Victoria experience in remuneration, governance, corporate strategy, investor relations, accounting, finance and risk.

Other appointments include:

Member of the ICAEW Corporate Governance Committee and Investment Committee.

Victoria is a Non-Executive Director of Artemis Alpha Trust PLC and JP Morgan Claverhouse Investment Trust PLC.

Paul Myers ACIB

Independent Non-Executive Director

Appointed to the Board on 28 November 2018. Appointed Chairman of the Risk Committee on 31 March 2020. Member of the Remuneration and Nomination Committees.

Skills and experience

Paul Myers has many years of banking experience, gained initially in Barclays where he spent 24 years in a variety of retail banking roles. He was part of the small team that founded and built Aldermore Bank, where he served as Chief Operating Officer, Corporate Development Director and on the Board as an Executive Director. Paul had a wide range of responsibilities at Aldermore, including IT, operations, transformation, marketing and digital as well as building and developing the retail and SME savings operations. Paul is an Associate of the Chartered Institute of Bankers.

Paul was, until February 2019, the Chief Executive Officer and an Executive Director of GKBK Limited, a new banking venture that has developed a digital banking proposition, utilising data and AI to offer lending solutions to under-served customers.

Other appointments include:

Paul is now acting as an advisor to Ashman Finance, a prospective bank SME property lender. Paul is an Associate of the Chartered Institute of Bankers.

Board leadership
Board of Directors continued

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

Appointed to the Board on 28 November 2018. Member of the Audit and Nomination Committees. Lucy was appointed as the Non-Executive Director designated for workforce engagement and Chairman of the Employee Council following the close of the Annual General Meeting on 24 June 2020.

Skills and experience
Baroness (Lucy) Neville Rolfe DBE CMG has had a distinguished career in business and in public service. She became a member of the House of Lords in 2013 and was a minister in the Business and Culture Departments and in HM Treasury from 2014–2017. In the period 2010–14 she was a Non-Executive Director of ITV plc, of Metro AG, of 2 Sisters Food Group, of PwC's Advisory Board and Chairman of EuroCommerce in Brussels. Earlier in her career she was a civil servant in No 10 Downing Street and the director of the Deregulation Unit in the Cabinet Office. Lucy was an executive at Tesco plc for 15 years including serving for over six years on the main Board. Her experience includes customer facing businesses and financial services, communications, corporate strategy and mergers and acquisitions, economic issues, regulation and governance experience as a company secretary and a non-executive director and Chairman.

Other appointments include:
Lucy is currently a Non-Executive Director of Capita plc and of Health Data Research UK. She is also a director and Trustee of Thomson Reuters Founders Share Company Limited.

Lucy is the Chairman of the UK-ASEAN Business Council and Chairman of Crown Agents Limited.

Former directors who served during the year.

Paul Marrow ACIB
Independent Non-Executive Director (Senior Independent Director)

Paul Lynam ACIB, AMCT, Fifs
Chief Executive Officer

Corporate Governance Report

Board leadership and Company Culture

The corporate purpose, values and strategy of Secure Trust Bank have been developed and adopted by the Board. The Board recognises the importance of our people, at every level, embodying STB's values and ensuring that this is reflected in our culture and therefore the way in which we operate. All of our people are set objectives aligned to our 'Grow, Sustain, Love' framework to further our common aims, from the CEO through the remainder of the organisation. The Board is satisfied that the purpose, values and strategy are aligned with our culture.

In addition, each year, STB conducts an all employee staff opinion survey to measure our culture and to understand our workforce's cultural alignment to our purpose, values and strategy.

Following the receipt of the conclusions of the survey, conducted by Great Place to Work® in 2020, together with other routine assessments on culture, the Board is confident that the practices and policies in place to promote the culture in the organisation are aligned with the STB purpose, values and strategy.

The Board acknowledges the importance of our employees and the wider workforce to be able to raise concerns in confidence and, if they wish, anonymously.

Further detail on our Whistleblowing arrangements and how our Group Employee Council operates can be found on page 78 and 58 respectively.

The Company, through the Chairman, Senior Independent Director ('SID'), the Non-Executive Director designated for workforce engagement and each of the Committee Chairmen ensure that there is regular interaction with our key stakeholders, designed to ensure that stakeholder impact is fully embedded as a cornerstone of Board discussions on proposals. Further information on this can be found in our Section 172 Statement on page 56 and elsewhere in this report.

The Chairman of the Board and CEO regularly meet with investors to understand their views on strategy and corporate governance and this is reported back to the Board. The Committee chairmen engage as appropriate with shareholders on significant matters relating to their areas of responsibility.

Further detail on this can be found in each of the Committee reports and in our S172 Statement.

The Board has delegated authority to executive management to run the business and to implement the strategy set by the Board. A brief description of the responsibilities of the Executive Committee and a description of the governance framework can be found on the Company's website. Until 5 January 2021, two members of executive management, the CEO and the CFO, were members of the Board. The CEO, Mr Paul Lynam, resigned from the Board with effect from 5 January 2021. Mr David McCreadie has been appointed as his successor.

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

The Board meets regularly and, both as a Board and through its committees, provides oversight of and direction to management, providing constructive challenge, strategic guidance and specialist advice.

Division of responsibilities

The Board is led by the Chairman who leads the Board and is responsible for its overall effectiveness and who encourages a culture of openness and debate. The Board provides strategic leadership to the Group, sets the Group's long-term strategic objectives and exercises oversight over the implementation of the strategy and the activities of management. The Board is responsible to shareholders, for whom the Company generates value, for promoting the long-term sustainable success of the Group and enabling the Bank's continued contribution to the wider society in which we operate.

The 2018 Code recommends that the Board should appoint one of the independent Non-Executive Directors as Senior Independent Director. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve or for which such contact is inappropriate. Following the AGM in 2020 at which Paul Marrow stepped down from his responsibilities at STB, Ann Berresford succeeded him as the Senior Independent Director and fulfilled this role in the second half of 2020.

The responsibilities of the Chairman, Chief Executive Officer and Senior Independent Director are outlined in writing and a brief summary of their roles can be found on the Company's website. The Board has delegated specific authorities to its committees, as set out in each committee's terms of reference, which are each available on the Company's website. There is a schedule of matters reserved for consideration by the Board. Matters reserved for exclusive determination by the Board include, amongst other matters, the determination of dividends, material acquisitions or disposals and the issue of new shares. The Board exercises oversight of the work of its Committees and receives updates on the work of each committee at Board meetings. There is a clear division of responsibilities between the leadership of the Board and the executive leadership of the Company.

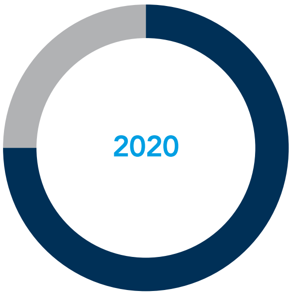
Internal processes are in place to enable the Board to have access to necessary information and resources to function effectively, including the maintenance of online portals of up-to-date company policies, timely dissemination of information and access to independent professional advice at the expense of the Company. All Directors have access to the Company Secretary's advice and services. During the COVID-19 crisis, and as in 2019, Directors have continued to have access to the necessary information and resources to be able to effectively discharge their responsibilities.

The Company Secretary provides support and acts as a first point of contact for the Chairman and Non-Executive Directors. The Company Secretary is also responsible for the induction of new independent Non-Executive Directors.

Corporate Governance Report
continued

Board membership and meetings

Composition as at 31 December 2020



iNED	6
NED	0
ED	2

Board attendance

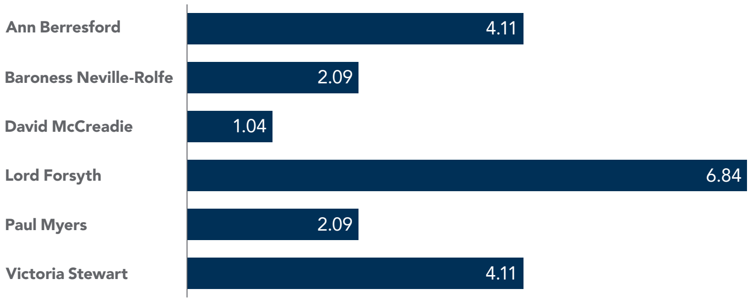
	Board Committee	Eligible to attend
Number of scheduled meetings during 2020	**13**	
Lord Forsyth[1]	13	13
Paul Lynam	13	13
Paul Marrow	6	6
Ann Berresford	13	13
Victoria Stewart	13	13
Baroness Neville-Rolfe	13	13
Paul Myers	13	13
David McCreadie	13	13
Rachel Lawrence	3	3

1 Lord Forsyth was appointed as a director on 1 March 2014 and was appointed as Chairman on 19 October 2016

Composition, succession and evaluation

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

Years tenure (to 31 December 2020)



The length of service for each Non-Executive Director as at 31 December 2020 is outlined above. David McCreadie was appointed CEO on 5 January 2021 and is no longer a Non-Executive Director. The Nomination Committee gave consideration to the membership and tenure of the Board as a whole and considered proposals for refreshing membership when evaluating the Board composition. Further information about the role of the Nomination Committee is available on pages 70 to 73.

Audit, Risk and Internal Control

Information on our Audit, Risk and Internal Control practices and how we have complied with the Code can be found in the reports of the Audit Committee and Risk Committee on pages 74 (Audit) and 79 (Risk).

Conflicts of interest

All Directors are required to disclose to the Board any outside interests which may pose a conflict with their duties to the Group. The Board is required to approve any actual or potential conflicts of interest. On appointment new Directors are required to disclose their other interests. Conflicts of interest are also governed by the Articles of Association of the Company and company law. Directors are under a continuing obligation to disclose external appointments and to confirm that they continue to have sufficient time to discharge their duties to the Group. An internal schedule of conflicts is maintained.

Financial reporting

A description of the responsibilities of the Directors in relation to the preparation of the Annual Report and Accounts is set out on page 102.

The approach taken by the Board to ensuring that the Annual Report and Accounts are fair, balanced and understandable is set out on page 76 and the information necessary for shareholders to assess the Company's position and performance is set out in the Strategic Report starting on page 2.

An explanation of the business model and the strategy for delivering the objectives of the Company are set out on pages 12 and 13 respectively.

A statement of the responsibility of the external auditors in relation to the Annual Report and Accounts is set out on page 109.

The basis on which the Board reached its decision to adopt the going concern basis of accounting is described on page 50.

Internal control

The Board has overall responsibility for the Group's system of internal control, including financial, operational and compliance controls, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against the risk of material misstatement or loss. The systems of internal control were in place throughout the year in review and up to the date of the approval of the Annual Report and Accounts and were reviewed by the Board and its Committees.

The Board, through the Risk Committee, confirms that in reviewing the Annual Report it has completed a robust assessment of the Group's emerging and principal risks and has included a description of its principal risks as set out on pages 38 to 49.

The Board has adopted a Group risk appetite statement which sets out the Board's attitude to risk and internal control. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board and are also reviewed by the Risk Committee at its meetings. Key business risks are also identified, evaluated and managed on an ongoing basis by management. The Board and the Risk Committee also receive regular reports on any material risk matters. Significant risks identified in connection with the development of new activities are considered by the Board and the Risk Committee in conjunction with the approval of any such new activity.

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

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

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

The Group's policies and procedures are reviewed and regularly updated and a training programme applies in relation to the rollout of policies.

Remuneration

Information on our remuneration practices and how we have complied with the Code can be found in the report of the Remuneration Committee.

Statement by the Chairman of the Nomination Committee

Lord Forsyth
Chairman of the Nomination Committee

"The Board's assessment has concluded it is both performing well and is effective."

I am pleased to present the report of the Nomination Committee in respect of the year ended 31 December 2020 in what has been an unforgettable year for the Company and a busy year for the Committee.

A key focus for the Committee during the year has been the recruitment of executive directors and the recalibration of the executive and senior management succession planning. Rachel Lawrence was welcomed to the Board in September 2020 as the new Chief Financial Officer. This followed a rigorous process conducted virtually due to the COVID-19 restrictions. We announced in January 2021 that, after more than 10 years leading STB, Paul Lynam had decided to take up a new challenge and in line with our succession plan David McCreadie was appointed as his successor.

Paul Marrow retired from the STB Board after more than nine years service at the 2020 AGM. His role as Senior Independent Director was taken up by Ann Berresford, that of Chairman of the Risk Committee by Paul Myers and as Non-Executive Director designated for workforce engagement by Lucy Neville-Rolfe. The Committee is currently conducting a search for a replacement Non-Executive Director to serve as a member of the Risk Committee following David McCreadie's appointment as CEO.

The changes to Board membership have built on STB's ambition to increase diversity throughout the organisation. We reached gender parity on our Board during Q3 2020. We do not set targets for our Board in any area of diversity, seeking first the best candidates to meet our business needs.

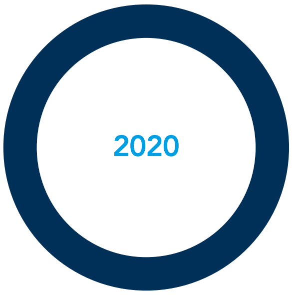
In accordance with the 2018 UK Corporate Governance Code ('the Code'), an assessment of the effectiveness and composition of the Board and its committees was undertaken during the year. The effectiveness evaluation helped identify areas where we are performing effectively as well as those where improvement is needed. I conducted individual evaluations with each of the Non-Executive Directors; and Ann Berresford, as Senior Independent Director, undertook an evaluation of me as Chairman, seeking feedback from both the Executive and Non-Executive Directors. I am pleased to report that it was concluded that the Board is performing well and its membership is effective. Further information on the evaluations can be found on page 71, together with information on the activities of the Committee throughout 2020.

Lord Forsyth
Chairman of the Nomination Committee

Nomination Committee report

Nomination Committee membership and meetings

Composition



iNED	6
NED	0
ED	0

Meeting attendance

The number of planned meetings held during 2020 and the attending members are shown in the table below:

	Nomination Committee	Eligible to attend
Number of meetings during 2020	**4**	
Lord Forsyth	4	4
Ann Berresford	4	4
Paul Marrow	2	2
Paul Myers	4	4
Baroness Neville-Rolfe	4	4
Victoria Stewart	4	4
David McCreadie	4	4

Membership and meetings

As at 31 December 2020 the Nomination Committee comprised six members, as set out in the attendance table to the left, and was compliant with the Code provision regarding its composition throughout 2020. Following David McCreadie stepping into the role of CEO, he has ceased to be a member of the Committee.

The Committee meets as frequently as its Chairman may require and also at regular intervals to deal with routine matters and in any event not less than twice in each financial year. The Committee held four meetings during 2020 and was supported by sub-committee meetings during the appointment process for each of the Executive Directors.

The Company Secretary acts as Secretary to the Committee. Others attend at the request of the Committee Chairman. During the year the Chief Executive Officer and the Chief Financial Officer attended meetings by invitation.

The Chairman of the Committee reports to the Board on the outcome of Committee meetings and any recommendations made by the Committee.

Role and activities of the Nomination Committee

The Nomination Committee is responsible for considering the size, composition and balance of the Board; the retirement and appointment of Directors; succession planning for the Board and senior management, focused on the development of a diverse succession pipeline; and making recommendations to the Board on these matters.

The Committee's roles and responsibilities are covered in its terms of reference which were reviewed and updated during the year and are available on our corporate website **www.securetrustbank.com**

Succession planning

With the changes in Executive leadership, the Nomination Committee has considered the Company's succession plans, both at Board and at Senior Manager level, and will continue to focus on this in the year ahead. The plans identify potential internal candidates, short-term solutions in the event of unanticipated changes in circumstances and external recruitment, as well as reallocating regulatory responsibilities as required. The need for regulatory approval of the persons performing Senior Manager Functions under the Senior Managers Regime is incorporated into the suggestions of proposed individuals outlined in the succession plan.

The Committee, when considering the succession plans for individuals on the Board and in Senior Management, reviews the contingency (immediate), medium (one to two year) and longer-term (two to three year) proposals.
The Committee also receives updates on the mentoring programmes and gives consideration to developing internal talent and capability in the corporate pipeline in the medium to long term. More information on developing a diverse talent pipeline can be found on pages 53 and 54.

The Committee utilised the succession plan in the appointment of Stephen Heeley as Interim CFO following the resignation of Neeraj Kapur, the distribution of roles to the Non-Executive Directors in May 2020 following the retirement of Paul Marrow and had identified David McCreadie as a potential successor to Paul Lynam upon David's appointment. The Nomination Committee also conducted a detailed review of the Senior Management succession during the year and provided guidance to the Management team on how to further develop a diverse pipeline within the organisation.

Nomination Committee report continued

Executive recruitment

Chief Financial Officer Recruitment

Following the resignation of Neeraj Kapur at the end of 2019, a process was launched to recruit a new CFO. The Board identified the key skills and capabilities that the prospective candidate should have, which factored in skillsets of other Board members, and developed a role profile which was then reviewed for unconscious bias in line with STB standard practice. A tender process was conducted to appoint a recruitment consultant with input from the Committee and other senior stakeholders at STB. Ridgeway Partners were appointed and successfully led the search in a manner which mitigated existing conflicts of interest. Neither the Directors or the Company had an existing relationship with Ridgeway Partners. STB simultaneously ran open advertising externally and advertised the role internally. Ridgeway Partners produced a diverse initial longlist of both internal and external candidates which a sub-committee reviewed and narrowed down to a shortlist. The shortlisted candidates were interviewed by the sub-committee consisting of the Chairman, SID, Chairman of the Audit Committee and CEO with the output presented to the Committee for discussion. Having identified Rachel Lawrence as the preferred candidate, the Committee recommended her appointment to the Board and Rachel Lawrence was appointed to the Board on 23 September 2020.

CEO Recruitment

Following the resignation of Paul Lynam as CEO, the Committee, having conducted a detailed review of the succession plan during the year, determined that David McCreadie was a suitable successor without the need to conduct any further recruitment process. The Committee identified that David possessed the key skills that were needed from a new CEO in line with the evolving Board dynamic, the mix of Board skills and experience, the existing strategy and the external environment. The sub-committee created to oversee the process, consisting of the Chairman, SID and Chairman of the Remuneration Committee, recommended that David McCreadie be appointed as CEO, which the Committee and Board approved; and David McCreadie was appointed CEO from 5 January 2021.

Non-Executive Director

The Committee, having reviewed the succession plan and the mix of the Board's skills and experience, decided that a further Non-Executive Director should be recruited during the course of 2021 to supplement the Committee's skills following the transfer of David McCreadie from Non-Executive to CEO. A broad candidate profile has been determined, which incorporates feedback received from each Committee as part of its own effectiveness review, and the overall mix of skills and experience within the Board. The successful candidate will join the Risk Committee.

Ridgeway Partners have been engaged to conduct this search which is expected will conclude in the first half of 2021.

Board policy on diversity

The Board appointment process and composition of the Board is overseen by the Nomination Committee. The Committee conducted the annual review of the Board Policy on Diversity, which outlines the Group's commitment to providing equal opportunities and the Board's belief that diversity includes gender, race, ethnicity, age, disability, religious belief, sexual orientation, marital status, gender identity and pregnancy (together 'diversity'). A copy of the Board policy on diversity is available on our Company website.

Any appointments made to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board. Appointments to the Board are made having regard to the balance of knowledge, skills, diversity and experience of the Board at the time of the appointment and having regard to long-term planning in relation to Board composition and strategy. The Committee has not set quotas or targets for the Board's composition. The Board currently has a majority of female directors, which is in excess of the 33% target set by the Hampton-Alexander review.

Board effectiveness and Non-Executive Director evaluation

During 2020 the Board conducted an internally facilitated review of the effectiveness of the Board, its Committees and Directors using a combination of questionnaires and virtual face-to-face meetings. The Committee reviewed the results of the effectiveness reviews and a report by the Chairman on the individual Directors' performance evaluations when assessing the composition of the Board Committees and the contribution made by the individual Directors. The Committee concluded that the Board effectiveness review highlighted that the Board was performing well and exercising the right level of judgement with due regard to the duties placed on Directors under company law, including section 172 of the Companies Act 2006. The Committee acknowledged that the Directors had been mindful of the provisions of the Code and their responsibilities as Directors and, where applicable, as senior managers under the Senior Managers Regime when reaching their assessment of Board effectiveness and individual Director contributions.

The 2020 Board effectiveness review highlighted that, building on the work already undertaken in this area, information provided could be further refined to improve the quality, timeliness and consistency provided to the Board and its Committees. The Board also highlighted their current approach to communicating with shareholders as an area for improvement, a view that was confirmed as part of the investor perception audit undertaken during the year and which was reported to the Board in January 2021.

Composition and independence

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

The Committee reviewed the composition during 2020 and concluded that the Board had the right balance of skills, knowledge and experience. The Committee continues to be mindful of the composition of each of the Board Committees and the Board has continued to have at least half of the Board members as independent non-executive directors, in line with the Code. Following changes to the Board composition the Committee reassessed the balance of skills and experience and determined that a further Non-Executive Director should be recruited as detailed above.

Board training and development

The Board receives detailed reports from executive management on the performance of the Group at its meetings. Updates are provided on relevant legal, corporate governance and financial reporting developments. In addition, the Board, upon the recommendation of the Committee, adopted a training programme during 2020 and received training on strategic, regulatory and technology matters. Due to restrictions from COVID-19, there has been limited scope for in-person training and most training has been delivered online. David McCreadie received a comprehensive induction programme when he joined the Board as a Non-Executive Director in 2019 which has provided him with a thorough understanding of STB and which was supplemented when he transitioned to the role of CEO. Rachel Lawrence also received a comprehensive induction programme upon her appointment in 2020.

Directors are also encouraged to attend external seminars on areas of relevance to their role and to keep a record of their external training. A training plan for 2021 and its rollout are being considered in line with COVID-19 restrictions.

Statement by the Chairman of the Audit Committee

Ann Berresford
Chairman of the Audit Committee

"Our focus has been on understanding the impact of the pandemic."

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2020. The Committee had a busy year, holding six meetings, and this report sets out some of the key matters on our agenda over that period.

One of our most significant priorities has been to assess, on a continuing basis over the year, the consequences and financial and accounting impact of COVID-19. Last year I reported on our involvement in going concern and viability assessments referenced in the 2019 Annual Report. This year, as events unfolded, our focus has been on understanding the impact of the pandemic on our customers and, in consequence, on modelled credit losses and accounting judgments, provisions and disclosures. We also considered the consequences of the COVID-19 pandemic on changes to working practices and internal controls, and retained oversight of important developments in the Group's approach to Regulatory Reporting.

The Committee receives an update at every meeting on internal audit activity and I met with the Chief Internal Auditor every month to receive an update on progress against the plan. I also met regularly with the Chief Risk Officer throughout the year to understand his perspectives. The internal audit team made some adjustments to the plan in response to external and internal factors and the Committee received reports on activity they undertook in response to risks that arose from changes in working practices.

I have also continued to meet with the external audit partner on a regular basis. The Committee has assessed the quality and effectiveness of the external audit process and remain satisfied, as Deloitte approach the conclusion of their third year of appointment, that the external audit process is effective. On this basis we have recommended to the Board the appointment of Deloitte as auditors for 2021 at the 2021 AGM.

The Committee benefited from the skills, knowledge and experience of Paul Marrow until the AGM held in June 2020 when he retired from the Board of STB and from the Committee. I would like to thank Paul for his contribution during his tenure. In January 2020, we welcomed Victoria Stewart to the Committee and have benefitted from her insights and support during this challenging period.

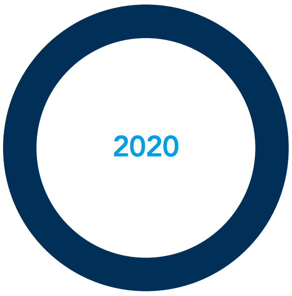
Further information on the activities of the Audit Committee is provided in the following report.

Ann Berresford
Chairman of the Audit Committee

Audit Committee report

Audit Committee membership and meetings

Composition



iNED	3
NED	0
ED	0

Meeting attendance

The number of planned meetings held during 2020 and the attending members are shown in the table below:

	Audit Committee	Eligible to attend
Number of meetings during 2020	**6**	
Ann Berresford	6	6
Paul Marrow	2	2
Baroness Neville-Rolfe	6	6
Victoria Stewart	6	6

The Audit Committee met six times during the year. Members' attendance is summarised in the table to the left.

The Chief Executive Officer, Chief Internal Auditor, Interim Chief Financial Officer and, following receipt of regulatory approval, the Chief Financial Officer, as well as the external audit partner and other members of the Board, all routinely attended meetings of the Committee. The Committee maintains a close dialogue with the external auditor and internal auditor and has a private session with them both following every Committee meeting.

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

The Code provides that for smaller companies, such as the Company, the Board should establish an Audit Committee of at least two independent Non-Executive Directors. The Chairman of the Company may not be a member of the Committee. The Company considers that it has complied with this provision throughout 2020. Ann Berresford is considered by the Board to have recent and relevant financial experience and the Audit Committee as a whole has competence relevant to the sector in which the Group operates.

Role of the Audit Committee

The Audit Committee assists the Board in, amongst other matters, discharging its responsibilities with regard to regulatory reporting, financial reporting, including monitoring and reviewing the integrity of the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment, reappointment, removal and independence of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly report remains with the Board. The Board ensures the Annual Report, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. The Audit Committee assists the Board in reaching those conclusions, including reviewing significant financial reporting judgements and assessing that the narrative reporting in the front of the Annual Report accurately reflects the financial statements in the back. The Audit Committee is supported in this assessment by an effective external audit, the assessment of internal controls by internal audit and by challenging management on the integrity of financial and narrative statements.

The terms of reference for the Audit Committee are published on the Group's website.

Matters discussed at Audit Committee meetings since 1 January 2020

The Audit Committee has a schedule of meetings with standing agenda items. Meetings are planned to coincide with key dates in the Group's financial reporting cycle, enabling the Committee to deal with matters on a timely basis over the course of the year. In addition to standing agenda items the Committee also deals with other matters as they arise including, in 2020, the impact of COVID-19 on expected credit losses and other relevant estimates.

The Audit Committee reviewed and approved for recommendation to the Board its terms of reference, the schedule of standing agenda items, the Internal Audit Charter and the engagement contract with the external auditors. Other principal matters considered are set out on pages 76 to 78.

Audit Committee report continued

Financial and regulatory reporting

The Audit Committee has reviewed the following matters in connection with the annual and half-year financial statements and considers that the Company has adopted appropriate accounting policies and made appropriate estimates and judgements:

Subject area	Matters considered
Accounting policies, key judgements and assumptions used in preparing interim and annual financial statements.	The Audit Committee reviewed the key accounting judgements made by management in preparing the financial statements for the year ended 31 December 2020, the interim financial statements for the six months ended 30 June 2020, and the press releases and investor presentations that accompany those statements. In a rapidly evolving external environment, the Committee spent considerable time during 2020 considering management's accounting judgements supporting the quantum and rationale for impairment provisions, the valuation of the DMS portfolio, effective interest rate accounting and the expected value of share option schemes. In relation to impairment provisions the Committee considered the adequacy of provision cover for expected credit losses across all loan portfolios including factors relevant to the probability of default and loss given default assumptions used for Consumer Finance products and expert credit judgments exercised in respect of modelled provisions. This involved assessing key assumptions affecting model outputs such as macroeconomic factors and probability weightings, the anticipated recovery rates of vehicles in the loss given default model, and the valuation of the DMS portfolio. Adjustments to modelled provisions in respect of certain Business Finance loans were also considered. The Committee also assessed the accounting treatment of modification of contractual cash flows in relation to payment holidays. The Committee also considered the treatment of a specific VAT reclaim in respect of hire purchase overheads. External factors have continued to evolve over the course of the pandemic and the Committee has considered updates to judgements and assumptions to take account of developments such as the extension of government support to individuals and progress with the COVID-19 vaccination programme. In making its recommendations to the Board to approve the annual and interim financial statements the Committee has considered matters raised by the external auditor on matters of judgement.
Use of the going concern basis in preparing the financial statements and long-term viability of the group	The financial statements are prepared on the basis that the Group and Company are each a going concern. The Audit Committee has reviewed management's explanations as to the appropriateness of the going concern basis in preparing the Group and Company financial statements and has not identified any material uncertainties as to the Company's ability to continue as a going concern for a period of at least 12 months from the approval of the Annual Report and Accounts. The Audit Committee has reviewed and challenged the basis for assessing long-term viability, including the period by reference to which viability is assessed, the principal risks to long-term viability and actions taken or planned to manage those risks. This included consideration of specific stress tests and combined risks related to the ongoing COVID-19 pandemic, assessing capital and liquidity requirements in relation to the Bank's financial plan including the modelling of severe but plausible stresses and the Committee's conclusions are taken in to account in the Board's viability statement on page 50.
Presentation of a fair, balanced and understandable Annual Report and Accounts	The Audit Committee, having reviewed the content of the Annual Report and considering relevant matters including the presentation of material sensitive items, the representation of significant issues, the consistency of the narrative disclosures in the 'front half' with the financial statements, the overall structure of the Annual Report and the steps taken to ensure the completeness and accuracy of the matters included, has advised the Board that the 2020 Annual Report and Accounts include a 'fair, balanced and understandable' assessment of the Group and Company's businesses.
Regulatory Reporting	The Committee has monitored regulatory reporting processes and oversees developments in the overall control environment for regulatory reporting.

The table above is not a complete list of matters considered by the Committee but highlights the most significant matters for the period in the opinion of the Audit Committee.

External audit

Deloitte LLP has been external auditor, and Matthew Perkins has been in post as the external audit partner, since their appointment in May 2018. During the year the Committee reviewed and approved the external audit terms of engagement, the scope of the external audit, timetable, materiality, audit strategy and fees.

The Audit Committee reviews written reports prepared by the external auditors setting out their audit approach and conclusions on matters of judgement impacting the financial statements, any internal control findings identified during the external audit and their independence, including the approval of additional services and related fees.

During 2020 the Committee assessed the effectiveness of the external audit process for 2019, considering the capabilities of the external audit team, their independence and challenge of management, the scope of the work, the quality of their communications, and fees.

The assessment also took into account the views of the finance team. The Committee concluded that the external audit process was satisfactory and that the auditors are performing well. A further review will be conducted in 2021 regarding the 2020 external audit process and a resolution to reappoint Deloitte as external auditor will be proposed to shareholders at the 2021 AGM.

The Audit Committee agreed an enhanced fee with the external auditors in 2020, reflecting the additional work required as a consequence of COVID-19. The Committee was satisfied that the level of audit fees payable in respect of the audit services provided, being £483,000 (2019: £355,000) was appropriate and that an effective audit could be conducted for such a fee. The fee has been reviewed to safeguard that, following the pandemic, additional costs are removed. The existing authority for the Audit Committee to determine the current remuneration of the external auditors is derived from shareholder approval granted at the AGM held in June 2020 and a similar resolution is proposed at the AGM to be held in May 2021.

Independence of the external auditor, fees and non-audit services

Deloitte has confirmed to the Audit Committee that it has policies and procedures in place to satisfy the required standards of objectivity, independence, and integrity, and that these comply with the Financial Reporting Council's Ethical Standards for Auditors.

The Audit Committee has considered matters that might impair the independence of the external auditor, including the non-audit fees paid to the external auditor, and has confirmed that it was satisfied as to the independence of the external audit firm Deloitte.

The Group has agreed a policy on the provision of non-audit services by its external auditor. The policy ensures that the engagement of the external auditor for such services requires pre-approval by appropriate levels of management or the Audit Committee and does not impair the independence of the external auditor, and that such engagements are reported to the Audit Committee on a regular basis.

The external auditor will only be selected for such services when they are best suited to undertake the work and there is no conflict of interest.

The provision of any non-audit services provided by the external auditors requires prior approval from the Audit Committee.

The total of audit and non-audit fees paid to Deloitte during the period is set out in Note 7 on page 138. The non-audit services fee of £58,000 (2019: £69,000) was in respect of, but not limited to, the interim review and profit verification. In the case of each engagement, management considered it appropriate to engage Deloitte for the work because of their existing knowledge and experience of the organisation. Non-audit fees represented 10.7% of audit fees in 2020.

Internal audit

The Group has an independent Internal Audit function led by the Chief Internal Auditor, augmented by external subject matter experts from a panel of internal audit co-source providers. The Chief Internal Auditor reports to the Chairman of the Audit Committee and they meet each month.

The primary role of the Internal Audit function is to help the Board and Executives protect the assets, reputation and sustainability of the Group, by providing independent and objective assurance on the design and operating effectiveness of the Group's governance, risk management and control framework and processes, following a risk-based approach.

The Committee reviewed and approved the 2020 internal audit plan and has overseen internal audit activity throughout the year, including adjustments to the plan to respond to external and internal factors arising from the pandemic. In approving the plan the Committee was satisfied that the team has the appropriate resources to deliver their plans.

	Approval required
Services not previously pre-approved regardless of fee	**Audit Committee**
Any engagement > £100,000	**Audit Committee**
Pre-approved services < £100,000	**CEO or CFO**

Audit Committee report continued

The Committee received and considered all reports issued by the internal audit team. Key themes addressed in 2020 included:

- A risk-based 'Targeted Controls Assurance' approach in response to key risks, including those arising from changes to working practices, relating to the COVID-19 outbreak
- Prudential matters, with the ICAAP in focus in 2020
- A group-wide review of controls relating to collections activities
- The effectiveness of governance, with particular focus in 2020 on information security and operational risk management

Internal Audit Quality and Independence

During the year the Committee reviewed the performance of the Internal Audit function taking into account an updated 'Quality and Improvement' evaluation carried out by the Chief Internal Auditor which incorporated stakeholder feedback and the Committee's own evaluation of the function's effectiveness and was satisfied as to the effectiveness, quality, experience, expertise and independence of the function. An external quality assessment is scheduled for 2021.

Internal controls and risk management

The Audit Committee monitors the effectiveness of the Group's governance, risk, and control framework. A statement approved by the Committee regarding the operation of the risk and control framework is set out on page 69.

During 2020 the Committee reviewed the procedures for detecting fraud affecting financial reporting, and a report from the Chief Compliance Officer on the systems and controls for the prevention of bribery.

Whistleblowing

Following the conclusion of the 2020 AGM, the Audit Committee assumed responsibility from the Risk Committee for reviewing the adequacy and security of the Company's whistleblowing arrangements and the Chairman of the Audit Committee became Whistleblowers' Champion. The Committee ensured that the effectiveness of whistleblowing arrangements was reviewed by the Chief Compliance Officer during the year and it receives a quarterly report on any issues raised in the period. The Board have retained ultimate responsibility for whistleblowing and receive an annual report on the operation and effectiveness of STB's systems and controls for whistleblowing.

Audit Committee effectiveness

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

Looking ahead

The Committee's priorities for 2021 will include a continuing focus on financial reporting as the impact of the pandemic on the Group's customers and activities continues to emerge, along with the finance team's progress in developing regulatory reporting, the impact of the Motor Finance Transformation Programme, as well as developments in relation to the UK Government's consultation and proposals for the future of the UK external audit market.

Statement by the Chairman of the Risk Committee

Paul Myers
Chairman of the Risk Committee

Management of Risk is a key part of what the Group does."

I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2020. This is my first report as Risk Committee Chairman and reflects a period of significant challenge for the UK economy, STB's business and the Risk Committee as a result of the COVID-19 pandemic. This has required careful monitoring as events have developed and as responses have been required.

The Group has had separate Audit and Risk Committees since 2011 and both Committees continue to oversee the development and evolution of the risk management and internal control frameworks in 2020 as they have done since inception.

In response to COVID-19, the number of Risk Committee meetings held over the year increased to nine, from the original six scheduled. As a Committee we have monitored both the impact of COVID-19 on our operational resilience and business continuity plans, and the risks arising from the pandemic evolving into an economic crisis. We have discussed the impact on capital, our credit risk profile and challenged the assumptions used in our models to enable the Board, upon the recommendation of the Audit Committee, to assess the going concern and viability statements of the Group and to agree the principal risks to our business.

Management of risk is a key part of what the Group does. As a Committee, we have been involved in assessing the principal risks that impact the Group at a macroeconomic and strategic level and also in assessing risk at an individual business unit level when the Group seeks to develop new business opportunities or products. Throughout 2020, the Committee continued to focus on the Motor Transformation Programme with additional focus directed to the Financial Crime Transformation Project. In early 2020 the Board received a training and update session on anti-money laundering and counter-terrorist financing, which supplemented the Committee's understanding of the ongoing and emerging regulatory requirements in this area.

Throughout 2020 we have also considered the risks and opportunities arising from Brexit and any actions the Group needed to take, noting the limited direct impact of Brexit on STB's largely UK-focused business.

We have continued our close scrutiny of operational resilience, including cyber and information data security, especially with a large part of our workforce working from home. Throughout the year, STB has continued to adopt a proactive approach to evolve and enhance its practices and protections in these areas, building on lessons learned both internally and from the external market. STB participates in the Bank of England's CQUEST initiative, the findings of which are reported to the Committee. STB's capabilities continue to be developed, building on the good progress already made. The Committee continues to review STB's current practices and policies to ensure that we are abreast of challenges in a radically changing threat landscape, scrutinising publicised external incidents to ensure that the Group is protected against similar threats and to confirm that potential weaknesses are identified and addressed.

In early 2021 the Board received specific training on the risks arising from climate change and how we might as a Committee monitor and review the Group's exposure in this area.

During the year we also reviewed the assumptions in our Recovery Plan, ICAAP and ILAAP documents, with particular emphasis on confirming that scenarios used for all calculations aligned both for the modelled 'event' and the expected outcome. These have been updated to reflect our experiences and assumptions arising from COVID-19.

The Risk and Compliance teams continue to provide the Committee with effective oversight of the risk landscape within the Group despite the backdrop of ever-changing regulation. We have also considered regulatory updates through regular reporting which includes the outputs of the Compliance monitoring programme and emerging regulatory requirements.

Finally I would like to thank Paul Marrow, the previous committee chairman, for his leadership during his tenure, and David McCreadie for his membership during 2020. David joined the Risk Committee on 1 January 2020 and remained a member throughout the year. His significant experience in banking, including risk management and governance, made him a valued contributor and his appointment further enhanced the collective experience and skillset of the Committee. I am delighted that he has been appointed CEO in January 2021 and look forward to working with him in that capacity. It was appropriate that he should relinquish his membership of the Committee upon becoming CEO and the Nomination Committee is conducting a search for a further Non-Executive Director as detailed on page 72. It is contemplated that the new appointee will also join the Risk Committee.

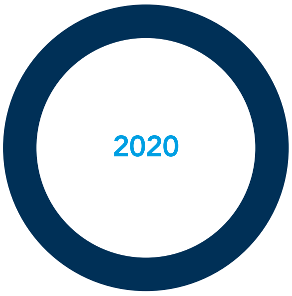
Further information on the activities of the Committee during the year is provided in the following report and further information about risk-related matters can be found in the sections of the report and accounts on pages 38 to 49.

Paul Myers
Chairman of the Risk Committee

Risk Committee report

Risk Committee membership and meetings

Composition



iNED	3
NED	0
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Meeting attendance

The number of planned meetings held during 2020 and the attending members are shown in the table below:

	Risk Committee	Eligible to attend
Number of meetings during 2020	**9**	
Paul Myers	9	9
Ann Berresford	9	9
David McCreadie	9	9
Paul Marrow	2	2

Composition

At the start of 2020 the Risk Committee was comprised of four members (as set out in the graph to the left) and was chaired by Paul Marrow. Paul Myers replaced Paul Marrow as Chairman of the Committee effective from 31 March 2020 and David McCreadie relinquished his role on the Committee in January 2021, following his appointment as CEO.

The Code provides that where a company has a separate risk committee it should be comprised of independent non-executive directors. The Company considers that it has complied with this provision during 2020.

The Risk Committee meets formally at least four times a year and otherwise as required. The Committee had six planned meetings and additionally three ad hoc meetings were held (attendance of the Directors shown in the table to the left).

The Company Secretary or their alternate acts as Secretary to the Risk Committee. Other individuals attend at the request of the Risk Committee Chairman. During the year the Chief Executive Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Group Head of Operational Risk, Chief Information Security Officer, Group Treasurer, Head of Financial Crime and other senior managers attended meetings to present their reports and answer questions from the Committee.

The Chairman of the Risk Committee reports to the Board on the outcome of Committee meetings and any recommendations arising from the Committee.

Role of the Risk Committee

The Risk Committee reviews the design and implementation of risk management policies and systems as well as risk-related strategies and the procedures for monitoring the adequacy and effectiveness of this process; considers the Group's risk appetite in relation to the current and future strategy of the Group; oversees the Group's Recovery Plan, ICAAP and ILAAP processes and outputs from these; and exercises oversight of the risk and credit exposures of the Group.

The Committee exercises its internal control and risk management role through the reports it receives from the Assets and Liability Committee, the Model Governance Committee, the Chief Risk Officer, the Chief Internal Auditor, the Chief Executive Officer, the Chief Financial Officer and other members of management and its engagement with executive management, internal and external auditors and consultants.

Other matters within the remit of the Committee are the risk profile of the Group, risk appetite frameworks and limits, the risk management operating model, risk architecture, the technology infrastructure supporting the risk management framework, operational risk, conduct risk, credit risk, financial risk and regulatory and compliance matters. The Committee continued to assess emerging trends impacting the Group's inherent risks with particular focus directed toward the outbreak of COVID-19, resulting pandemic and economic disruption, plus the ongoing impact of climate change.

Matters discussed at Risk Committee meetings since 1 January 2020

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

Items on the 2020 standing agenda included operational resilience, the Financial Crime Transformation Project and the Motor Transformation Programme. In addition to standing agenda items, the Committee also deals with other matters that arise during the year. In 2020 this included emerging risks such as the impact of COVID-19 on the Group's operations, any consequences for the Group's businesses following agreement of the UK-EU Free Trade Agreement and the potential impacts of climate change.

STB's operational resilience was a key area of focus and the Company's ability to implement its business continuity plans at pace and its ability to adapt the operating model a recurring discussion point.

COVID-19 provided a real-world test of the Group's operating resilience and the Committee reviewed closely the impacts and outcomes. Lessons learned will be leveraged as the Group's operating model evolves. Discussions have also focused on the changing key risks, key risk profiles and the ongoing development of the Group's MI and early warning indicators.

During the year and as a consequence of a desire to support V12 Motor and V12 Retail customers through the COVID-19 pandemic, STB introduced payment holidays with no interest charged during the 'holiday' period.

This was a conscious decision which differentiates us from many of our competitors. Before doing so, the Committee considered the risks attached with the initiative and considered it in line with STB's risk appetite and customer-focused principles.

During the year the Risk Committee reviewed its terms of reference and a range of key documents, policies and plans, including the Recovery Plan, ICAAP and ILAAP, the Compliance Monitoring Plan for 2020 and 2021, the Business Continuity Plan and the Operational Risk Management Policy. The Committee also reviewed and approved a range of changes to credit policies and mandates across the various STB lines of business.

The principal matters discussed during the year and up to the date of this report were:

Subject area	Matters considered
Group risk appetite statement and key risk indicators	The Group's key risk appetite metrics, which are reviewed annually and recommended for approval to the Board. The Committee reviews performance against agreed risk appetites by reference to the key risk indicator metrics and supporting management information provided to each meeting.
Strategic risks	Strategic risks (those arising from the internal environment and the external environment that could have an effect on management's ability to deliver on the Group strategic plan) are discussed and challenged on an annual basis as well as in each meeting as they pertain to the items raised on the agenda.
COVID-19	Review and approval of the assumptions and methodology adopted in specific stress-testing. This has enabled the Board, on the recommendation of the Audit and Risk Committees, to assess and conclude on the going concern and viability statements in the light of the pandemic. The Committee received regular reports on operational resilience and considered the risks arising from the pandemic alongside the Group's key risk profile and other areas such as credit risk. The Committee also maintained oversight on any temporary changes that were necessary in the Group's risk and control frameworks to enable effective ongoing service to be provided to customers throughout the period.
Credit risk	Credit risk performance for all businesses and 'deep dive' reviews on status and plans for individual account balances or portfolios that warrant specific focus. The Committee has a mandate to approve some Group-wide mandates and policies including single counterparty limits and credit risk policies set for individual business areas. The approaches to provisioning were considered in light of the changing economic background of 2020. Previous decisions taken prior to 2020 to de-risk the balance sheet by reducing lending in certain risk categories meant STB's business lines were well-positioned to adapt to the emerging economic impacts.
Operational Resilience and risk, including Cyber, Information Security Resilience risk and Business Continuity	Oversight of the operational risk policy including metrics and KPI reporting and business unit management risk and control self-assessment. Complaints data, governance, including review of the Group Governance Manual. Oversight of the changing operating model and the changing key risk profile. Oversight of the rollout of the Business Continuity Plan during Q1 2020 and the creation of a new Business Continuity Plan following lessons learned from the Company's response to a pandemic, as well as flooding and other natural events, and other operational resilience reporting/KPIs. Oversight of the annual Operational Risk and Control Self-Assessments. The strategies undertaken within the Group to understand, identify, monitor and respond to cyber threats including the current state and planned activity. Development of the reporting profile for risks under the Motor Transformation Programme. Elements of the programme have now been completed which focused on moving the business online and supporting the writing of higher quality business, including a specific product targeting clients with a 'prime' credit rating. Close monitoring will be maintained over future phases of the Programme. Development of the Operational Resilience Plan and frameworks using information sourced from initiatives such as CQUEST. Development of the Group's strategic approach to manage the business and financial risks arising from climate change.
Capital and liquidity risk	The Committee has primary responsibility for reviewing and making a recommendation to the Board on the Group's ICAAP and ILAAP and the Resolution and Recovery Plans. Specific matters such as the Pillar 2A and Pillar 2B capital requirement, Pillar 3 disclosures and the results of stress-testing were reviewed and debated.
Regulatory and conduct risk	The Committee receives regular reports on the key risk indicators for regulatory, reputational and conduct risk. The Committee reviews the regulatory risk assessment on an annual basis and approves the annual compliance monitoring programme.

This table is not a complete list of matters considered by the Committee but highlights the most significant matters for the period in the opinion of the Risk Committee.

Risk Committee report continued

Regulatory, compliance and conduct risk monitoring

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

The Committee receives regular reports on key risk indicators for regulatory, reputational and conduct risk, regulatory incidents and key advisory activity of note, horizon scanning and actions to implement new and revised regulations or legislation, and the outputs of the Compliance Monitoring Programme. The Committee reviews the Regulatory Risk Assessment on an annual basis and approves the annual Compliance Monitoring Programme.

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

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

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

Strategic and operational risk

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

To assist in understanding how the risk framework is embedded within the Group and to challenge the effectiveness of the risk management function, the Committee receives a quarterly review of material operational risk events/losses, performance against the key Operational Risk Appetite Metrics, together with the key findings from annual Risk and Control Self Assessments. This includes a key focus on the effectiveness of the Operational Resilience control framework and plan.

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

In assessing strategic risk, the Committee has regard to the identified strategic risks, which the Committee reviews annually.

When reviewing the strategic and operational risks the Committee also gives consideration to emerging risks, including the likelihood and impact upon the Group. Where appropriate, these emerging risks are identified through our Operational Risk Management Framework and our Risk and Controls Self Assessment and reported to the Committee. More information on this process can be found on page 44 and in the Internal Control section on page 69.

In assessing strategic risks, the Committee has due regard to the existing process and internal controls in operation and reviews the recommendations from the Risk and Compliance functions on how to adapt the controls to mitigate those risks.

Credit risk

The Committee receives reports on key risk indicators for credit risk, together with quarterly assessments of each portfolio's credit profile including impairments, bad debts, watch-lists, collections data and any policy exceptions. These assessments are underpinned by the associated credit risk policies which, together with the Responsible Lending Policy, set out the credit risk framework which is reviewed by the Committee at least annually.

Risk committee effectiveness

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

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

Directors' Remuneration Report
Statement by the Chairman of the Remuneration Committee

Victoria Stewart
Chairman of the
Remuneration Committee

The Committee is satisfied that our Remuneration policy remains appropriate and that our management team is aptly incentivised and retained."

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial period which ended on 31 December 2020. The report is split into two sections:

- This Annual Statement summarising the work of the Committee in the year and showing the wider context of remuneration at Secure Trust Bank; and
- The Annual Report on Remuneration, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Committee intends to implement our Directors' Remuneration Policy ('Policy') in 2021.

The Directors' Remuneration Policy was approved at our 2020 AGM by over 98.5% of our shareholders voting, and we thank our shareholders for this continued support. A full version of the Directors' Remuneration Policy can be found within our 2019 Annual Report which is available at **www.securetrustbank.com/investors**

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

Executive Remuneration in 2020

Our work as a Committee in 2020 reflected three main contexts.

1. The impact of COVID-19

First, following the onset of the COVID-19 crisis in late Q1 2020, the Committee supported the actions taken by our Board to ensure the resilience of our business and the protection of shareholders' best interests.

- We supported fully the steps taken to promote the welfare of our employees as we switched to a predominantly homeworking model. The Board and management team focused on ensuring that employees continued to feel engaged, positive and part of a team throughout the lockdowns of 2020. Staff engagement scores remained high during the year.
- This in turn has contributed to the business's robust performance in challenging circumstances. The financial performance achieved is more fully detailed in the Financial Review, and our consistently high customer ratings on Feefo are a feature which the Remuneration Committee regards as especially commendable.

As a business, we did not furlough any staff during the switch to homeworking, and no other assistance under government support programmes (such as business rates relief or deferment of tax payments) was sought. In fact, the business contributed positively to the national response to COVID-19 by (1) providing financing support to other businesses under the CBILS and CLBILS programmes, and (2) supporting customers seeking payment deferrals in the Motor Finance and Retail Finance businesses.

In these circumstances, the Committee approved management's proposal to pay a modest staff-wide bonus for 2020 (average outcome 4.6% of base salary). As detailed further below, no Executive Director received an annual bonus for 2020's performance.

An initial step which we took in 2020 was to suspend the grant of our normal annual LTIP awards. We made these awards later in 2020 but only after a thorough review of the appropriateness of making these awards in the year. The awards made in October 2020 have features which seek to safeguard shareholders' best interests:

- the share price used to calibrate the awards was a year-to-date average share price (980p) rather than the share price at the time of award (732p);
- TSR represents 75% of the performance condition weighting, and within this we have three separate TSR metrics so that 25% of the total award is measured respectively as (1) TSR relative to selected peer companies, (2) TSR relative to the constituents of the FTSE SmallCap (ex IT), and (3) Absolute TSR growth of 20% CAGR to 40% CAGR, which directly targets a restoration of shareholder value to pre-pandemic levels. Any material vesting outcome under these measures would accordingly require strong TSR performance against

Directors' Remuneration Report continued

peers, strong TSR performance against the wider stock market and demanding absolute TSR growth, and so the balance between all three elements serves to provide an inherent protection against potential "windfall" gains from a generalised market recovery. Additionally, an underpin requires the Committee to consider a range of factors (financial performance, risk management, strategic markers, including customer satisfaction) before confirming any vesting; and
- as in past years, the final 25% of the 2020 LTIP awards is measured against risk management performance.

Whilst not including a financial growth metric, such as EPS, within the performance conditions for 2020 LTIPs was not a step which the Committee undertook lightly, a heavier use of TSR than has been the case in prior years seemed better for our shareholders than using a profits-based metric which could, due to continuing economic uncertainties from COVID-19, be made to seem irrelevant early in the performance cycle.

2. Changes within our Executive Director team

As is more fully detailed in the Chairman's Statement introducing the Annual Report, we start 2021 with a new Executive Director team at Secure Trust Bank:

- David McCreadie was appointed as our new CEO from 5 January 2021; and
- Rachel Lawrence was appointed as our new CFO on 23 September 2020.

Details of David's and Rachel's remuneration arrangements are summarised in the short table following this Annual Statement, together with details of the remuneration arrangements for our former CEO, Paul Lynam, following Paul's resignation on 5 January 2021. We would, however, ask shareholders to note that:

- when setting executive remuneration for new executive directors, consideration was given to the views of shareholders and industry benchmarks. Both David and Rachel have base salaries that are lower than the salaries of the prior holders of their roles (David, £250,000 lower than our former CEO; Rachel, £25,000 lower than our former CFO);
- both David and Rachel have pension contribution rates of c5% of base salary, which aligns to the salary contribution rate for the majority of employees at Secure Trust Bank;
- all of Paul's unvested share awards lapsed on this resignation; and
- neither Paul nor Rachel received an annual bonus for 2020's performance.

3. The impact of CRD V

From 28 December 2020, the UK's Prudential Regulation Authority adopted the EU's Capital Requirements Directive V. In the context of remuneration, the key implication from this regulatory change was that the accepted doctrine of "proportionality" no longer applies to exempt smaller banks, including Secure Trust Bank, from the need to maintain a ratio between non-variable (or fixed) remuneration and variable (or incentive) remuneration for senior people at the bank.

As a business which has always taken a measured approach on incentive pay quantum, the need to apply a fixed to variable pay ratio does not impact Secure Trust Bank materially. The maximum ratio allowed by CRD V is a ratio of 2:1 between variable and non-variable remuneration, and that accords with the terms of the Directors' Remuneration Policy approved by our shareholders at the 2020 AGM. Under our current policy, the maximum annual bonus for executive directors can be 100% of base salary in any year and the maximum annual LTIP award in any year can be an award over shares worth 100% of base salary (as at the date of award). Accordingly, our current policy effectively has a 2:1 ratio built in (100% salary bonus plus 100% salary LTIP as variable pay, as against 100% base salary as fixed pay).

However, CRD V requires that as a technical matter, Secure Trust Bank must obtain specific approval from its shareholders to operate a 2:1 ratio of variable to non-variable remuneration for CRD V purposes, and so an appropriate resolution to this effect will be brought forward for shareholders' approval at the 2021 AGM.

Use of discretion during 2020

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

Implementing the Policy for 2021

A summary of the approach to the implementation of the Remuneration Policy from 1 January 2021 is as follows:

- No changes will be made to the CEO base salary for 2021; any change to base salary levels in 2021 for the CFO will be in line with employee level increases only (review date is 1 April 2021).
- The CEO and CFO will continue to receive a pension allowance of c5% of salary and no changes will be made to benefit provision.
- Annual bonus maximum will be 100% of base salary for our CEO and CFO, with the metrics balanced between financial metrics (including risk) at 65% weighting and strategic initiatives at 35% weighting.
- LTIP awards will be made in line with our shareholders' approved policy. Our intention is to again use the performance conditions applied for our October 2020 LTIP awards given that these were seen to be balanced and providing appropriate protections for our shareholders. Further details on the performance conditions can be found on page 97. Many of the same considerations as applied when setting the performance conditions for the LTIP awards made in October 2020 continue to be relevant for new LTIP awards to be made in 2021.

Concluding thoughts

As Secure Trust Bank continues to execute our strategy, the Committee is satisfied that our Remuneration Policy, remains appropriate and that our management team is aptly incentivised and retained. That said, the Committee welcomes all input on remuneration, and if you have any comments or questions on any element of the report, please email us care of Mark Stevens, Group Company Secretary, at companysecretariat@securetrustbank.co.uk

Finally, I would like to thank our shareholders, and I hope we can continue to rely on their support at our AGM on 12 May 2021.

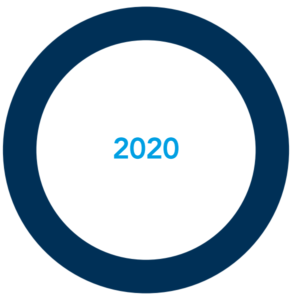
Victoria Stewart
Chairman of the
Remuneration Committee

Executive Directors: Summary of Recruitment and Termination Arrangements

Executive Director	Recruitment and Termination Arrangement
David McCreadie Appointed CEO 5 January 2021	• Base salary – £650,000 per annum • Pension contribution – 5% base salary • Annual bonus – 100% base salary maximum bonus for 2021 • LTIP – to participate in 2021 LTIP; annual award 100% base salary • Buy-outs on appointment – none
Rachel Lawrence Appointed CFO 7 September 2020	• Base salary – £400,000 • Pension contribution – 5% base salary • Annual bonus –100% base salary maximum bonus for 2021; no annual bonus entitlement for FY2020 • LTIP – to participate in 2021 LTIP; annual award 100% base salary. Received a pro-rata LTIP award for 2020 (25% base salary) • Buy-outs on appointment – none
Paul Lynam Resigned as CEO 5 January 2021	• To receive only contractual base salary, benefits (including payment in lieu of accrued holidays) and pension contributions until 31 March 2021 when employment within the Group will cease • No annual bonus entitlement for FY2020 and no participation in annual bonus for 2021 • All unvested share awards lapsed on resignation. Mr Lynam retains the right to exercise his vested but unexercised 2017 LTIP awards (3,950 shares) which vested in April 2020 and are subject to a two year holding period until 25 April 2022.

Remuneration Committee membership and meetings

Composition



iNED	3
NED	0
ED	0

Meeting attendance

The number of planned meetings held during 2020 and the attending members are shown in the table below:

	Remuneration Committee	Eligible to attend
Number of meetings during 2020	**6**	
Victoria Stewart	6	6
Lord Forsyth	6	6
Paul Marrow	3	3
Paul Myers	6	6

As at 31 December 2020 the Remuneration Committee comprised three members and was compliant with the Code provision regarding the composition of the Remuneration Committee throughout 2020. The Code contemplates that, in relation to the Company, the Board should establish a Remuneration Committee of at least two independent Non-Executive Directors. The Company Chairman may also be a member of the Committee where, as is the case with STB, he was considered independent on appointment as Chairman.

The Remuneration Committee meets at least twice and ordinarily four times a year and when required to address non-routine matters. The Committee had four scheduled and two ad hoc meetings during the course of 2020.

The Company Secretary or their alternate acts as Secretary to the Remuneration Committee. Other individuals attend at the request of the Remuneration Committee Chairman and during the year the Chief Executive Officer, HR Director, Chief Internal Auditor, other senior managers and the Remuneration Consultant attended meetings to report to or advise the Committee.

The Chairman of the Remuneration Committee reports to the Board on the outcome of Committee meetings and any recommendations arising from the Committee.

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

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

Role of the Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, determining the policy for individual remuneration and benefits packages of the Executive Directors and the senior management below Board level. The Committee reviews workforce remuneration, related policies and how executive and wider workforce pay are aligned and with regard to the culture of STB.

Directors' Remuneration Report
continued

Key matters considered by the Committee from 1 January 2020 to 31 December 2020

Item	Comment
Executive Directors' variable pay	In March 2020 the Committee reviewed the proposed Group Bonus Pool to be paid in April 2020 in respect of performance for the 2019 Financial Year. The Board, having regard to the emerging pandemic and the guidance from the PRA as well as the review of the Going Concern and Viability statements conducted by the Audit and Risk Committees, concluded that the payment of a bonus to all staff was appropriate and in the best interests of the Company notwithstanding the uncertainties an unprecedented pandemic could bring. The Committee, noting the recommendation of the Board, reviewed and agreed management's recommendation concerning the distribution and quantum of the Group Bonus Pool. In that context the Committee considered the bonus arrangements for the Executive Directors for their performance in 2019 and 2020 in accordance with the Directors' Remuneration Policy and the targets set as part of a balanced business scorecard. In doing so the Remuneration Committee took into account the financial performance of the Group, personal performance and the external environment, particularly in the wider context of COVID-19. A bonus was paid to the former CEO in April 2020 and no annual bonus has been paid to any Executive Director in respect of 2020. Please see page 90 for more detail. The Chairman of the Group Employee Council explained the operation of the variable remuneration of each of the Executive Directors to the Group Employee Council following the announcements of the annual results in 2020. The Committee considered the impact of CRD V on the ratio of 2:1 variable and non-variable remuneration alongside STB's Directors' Remuneration Policy ('DRP'), the LTIP and annual bonus structures contained therein. The policy, which received strong support at the 2020 AGM, allows for a 2:1 ratio within it and therefore the Committee concluded that it would be appropriate to obtain shareholder approval at the forthcoming AGM, noting that the resolution would not extend the scope of the existing DRP and would be proposed purely for technical compliance with CRD V. The Committee reviewed the performance metrics for the 2017 LTIP grant, which matured with a 15% vesting. The Committee elected not to utilise its discretion to modify the formulaic outcome of the vesting of the awards. Further details can be found on page 92. The Committee updated the metrics for the 2020 LTIP grant to reflect the market conditions of 2020 and likely for a significant proportion of the performance period. The Committee considered that the revised performance metrics for the 2020 LTIP grant were appropriate, given the market conditions at the time of grant, as well as continuing to be stretching and safeguard shareholders' best interests in light of the impact of COVID-19, please see page 97 for more detail. The rescheduling of the LTIP grant was discussed in light of COVID-19 uncertainties with awards being granted in October 2020 and vesting in October 2023. Malus and clawback provisions were reviewed and clauses approved for inclusion in all LTIP and DBP standard documentation. The Committee also discussed alternative share-based models widely used within the Market. Consideration of the appropriateness of adopting one of these models continued to be a focus for the Committee in 2021 culminating in the use of "restricted stock" in selected cases below Board level. Further details are set out on page 84.
Chairman and Executive Director remuneration	The Committee considered the Chairman's fee during the year. The Chairman received an increase in line with the all-employee population and other Non-Executive Directors. A mechanical process was implemented in 2019 to increase the Chairman's and Non-Executive Director fees in line with employees' average salary increases in the prior year. The Committee decided, after consideration, not to deviate from this process in the current year. The Chairman of the Group Employee Council explained the operation of the fixed remuneration of each of the Directors to the Group Employee Council following the announcements of the annual results in 2020. The Committee reviewed the terms of the service agreements for both the incoming CFO and CEO. The Committee also determined the terms of the termination arrangements for the outgoing CFO and CEO. Benchmarking for each incoming role was conducted as part of the exercise. Information made available pursuant to section 430(2B) Company Act 2006 in relation to Neeraj Kapur, Paul Marrow and Paul Lynam is available on the Company Website. Please see page 96 for more detail. Following first publication in 2020, the CEO pay ratio against the wider workforce was also considered during the year with an improvement in the ratio being evident following the voluntary reduction of Paul Lynam's salary. STB's CEO pay ratio will continue to evolve in 2021 with the negotiation of David McCreadie's salary and an increase to the STB Group's minimum salary.

Item	Comment
Wider workforce remuneration	The Committee reviewed the dashboard information, process and guidelines for annual remuneration for the entire employee workforce including the compliance and risk functions. The Committee identified and approved individual remuneration for Material Risk Takers and assessed and approved employee participants, including the quantum of their awards, for the LTIP and DBP grants. The Committee also reviewed the outcomes of STB's gender pay gap reporting which, whilst not where we would seek to be, has improved with each year. The Committee has reviewed and approved the All-Employee Remuneration Policy as well as other work force policies including the Remuneration Policy Statement, Application of Proportionality and Material Risk Takers policies.
Approval of the Directors' Remuneration Policy ('DRP') 2020	Ahead of the 2020 AGM, the Committee engaged with significant shareholders to get their insight into the proposals made under the Directors' Remuneration Policy. After a successful process which took place despite restrictions with COVID-19, and taking into account feedback received, the Committee recommended the DRP be presented to the Board to resolve to recommend the approval of the policy at the AGM. The DRP was approved at the 2020 AGM with 98.57% of the shareholder votes lodged in favour.
Directors' Remuneration Report ('DRR') and other disclosures in the Annual Report and Accounts	The Committee considered the disclosures required in the Annual Report and Accounts. The Committee received advice from the Company Secretary, HR Director and FIT Remuneration Consultants when compiling the DRR and the additional disclosures in the Notes.
All-Employee All Employee Sharesave plan and dilution	The Committee reviewed and approved the 2020 Sharesave invite to all employees. In recognition of how all staff were continuing to strive to drive STB forward during the pandemic, the Committee elected to relax the eligibility criteria to participate in the SAYE from one year's service to three months. When the SAYE launch was considered by the Committee, it was initially proposed to cap the total number of options granted to circa 1% of the issued share capital however, upon receipt of the applications, it became clear how many employees wished to invest in the future success of STB and the corresponding positive impact upon staff retention and engagement. The Committee, taking into consideration dilutive impact of issuing the shares, elected to not apply a cap in 2020.
Governance matters	The Committee reviewed its terms of reference and approved these for recommendation to the Board. The Committee considered and evaluated its performance by way of a questionnaire of the Committee members and executive attendees. The result of the evaluation was that the Committee considered it was performing effectively with actions having been adopted in areas it feels it could further improve. The Committee agreed a standing agenda and calendar of meetings for 2021. Four meetings are planned to be held in 2021 to address routine matters. Following AON's exit from the remuneration advice market, the Committee conducted a tender for remuneration consultant services during the year. A sub-committee, with input from internal executive stakeholders interviewed a shortlist of providers and after thorough deliberation FIT were considered the best advisers for STB, see page 88 for more detail.

This table is not a complete list of matters considered by the Committee but highlights the most significant matters for the period in the opinion of the Remuneration Committee.

Directors' Remuneration Report continued

Remuneration Consultant and Committee advice

During the year, the Committee received external advice from both the Executive Compensation advice practice of Aon plc ('Aon') and from FIT Remuneration Consultants LLP ('FIT').

FIT were appointed after Aon closed its UK practice during 2020; the appointment of FIT to advise the Committee was made in September 2020 following a competitive tender process.

Neither Aon nor FIT has any other significant connection with the Group or its Directors other than the provision of advice on executive and employee remuneration, and related matters. Both Aon and FIT are members of the Remuneration Consultants' Group, and abide by its code of conduct that requires remuneration advice to be given objectively and independently. The total fees paid for the provision of advice to the Committee during the year were £72,988 (excluding VAT) paid to Aon and £45,037 (excluding VAT) paid to FIT. Both Aon and FIT also provided support to the HR and Legal teams on remuneration implementation. The Committee is satisfied that the advice provided in the year by both Aon and FIT on remuneration matters is objective and independent.

The Committee received advice on specific matters from internal advisers and management, including the Group HR Director and the Company Secretary.

The Committee is satisfied that the Committee has exercised independent judgement when evaluating the advice received from all its advisors.

Directors' Remuneration Report

The information contained in the Directors' Remuneration Report is subject to audit, where indicated in the Report, in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

The Directors' Remuneration Report contains the Annual Remuneration Report which explains the operation of remuneration-related arrangements for 2020.

Directors' Remuneration Policy

The Directors' Remuneration Policy for Executive and Non-Executive Directors for the period 2020–2022, which was approved by shareholders at the 2020 Annual General Meeting, can be found within the Annual Report and Accounts for 2019 which are available on the Company's website at **www.securetrustbank.com**

How we link executive remuneration to our strategy

The key principles behind the Group's Remuneration Policy are:

- to be simple and transparent in order to reflect the Group's mission statement of straightforward, transparent banking
- to promote the long term success of the Group, with transparent and demanding performance conditions
- to provide alignment between executive reward and the Group's values, risk appetite and shareholder returns
- to have a competitive mix of base salary and short- and long-term incentives, with an appropriate proportion of the package linked to the delivery of sustainable long-term growth

In developing and implementing the Remuneration Policy we have also had regard to regulatory requirements for senior managers under the Senior Manager Regime. The Group is currently a Level 3 firm within the classifications applied by the financial regulators for regulated entities. That means that the Group is not required to satisfy in full all elements of the remuneration codes.

Notwithstanding this, in formulating and applying the Remuneration Policy the Committee has had regard to the remuneration codes when looking at existing and proposed remuneration.

The Committee has been compliant with the Directors' Remuneration Policy approved by shareholders at the 2020 Annual General Meeting and Principles P, Q and R of the Code. Within the Directors' Remuneration Policy, the Committee takes account of compliance with remuneration provisions 32–41.

Single figure table (audited information)

The following table sets out total remuneration earned for each Director in respect of the year ended 31 December 2020 and the prior year.

	Salary and fees		Benefits		Annual bonus		Pension		Shares[1]		Total remuneration		Total fixed pay		Total variable pay	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Executive Directors																
P Lynam	975	1,200	32	29	–[5]	540[5]	35	35	3	63[6]	1,045	1,867	1,042	1,264	3	603
R Lawrence[2]	128	–	7	–	–[5]	–	7	–	3	–	145	–	142	–	3	–
Non-Executive Directors																
M Forsyth	211	205	1	1	–	–	–	–	–	–	212	206	212	206	–	–
A Berresford	104	92	1	1	–	–	–	–	–	–	105	93	105	93	–	–
P Marrow[3]	53	116	–	–	–	–	–	–	–	–	53	116	53	116	–	–
D McCreadie[4]	79	3	1	–	–	–	–	–	–	–	80	3	80	3	–	–
P Myers	89	71	–	–	–	–	–	–	–	–	89	71	89	71	–	–
L Neville-Rolfe	77	71	–	–	–	–	–	–	–	–	77	71	77	71	–	–
V Stewart	94	77	1	1	–	–	–	–	–	–	95	78	95	78	–	–
	1,810	**1,835**	**43**	**32**	**–**	**540**	**42**	**35**	**6**	**63**	**1,901**	**2,505**	**1,895**	**1,902**	**6**	**603**

1 Further details of awards made under the LTIP and DBP can be found on page 92. This also includes the value of the sharesave option granted to the Executive Directors on 21 September 2020 (calculated using the number of shares in the option (3,388 shares) multiplied by the difference between the option price (532.1p) and the market value of shares on 21 September 2021 (632p)).

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

3 Paul Marrow stepped down as a Director on 24 June 2020.

4 David McCreadie was appointed to the Board on 17 December 2019.

5 Neither Paul Lynam nor Rachel Lawrence received an annual bonus for 2020.

6 Paul Lynam's 2019 figure has been restated to include the value of his vested 2017 LTIP. This is calculated using the closing share price of 1,600p on 31 December 2019 multiplied by 3,950 shares which vested under the award.

The figures in the single figure tables above are derived from the following:

Salary and fees	The amount of salary/fees received in the year.
Benefits	The taxable value of benefits received in the year. These are principally private medical health insurance, and car and travel allowances.
Annual bonus	The value of the bonus earned in respect of the financial year (including the proportion of the amount earned which is subject to deferral).
Pension	The amount of payments in lieu of Company pension contributions received in the year.
Shares	The value of share options received in the year. These are principally granted under the rules of the Long Term Incentive Plan and the value of Sharesave Scheme options granted during the year. Sharesave Scheme options are valued based on the difference between the market value of the shares at grant and the exercise price. A grant of Sharesave options was made on 21 September 2020.

Additional disclosures in respect of the single figure table (audited information)

Base salary and fees

Base salaries for the Executive Directors in respect of the year ended 31 December 2019 and 31 December 2020 are as follows:

	2020 base salary £'000	2019 base salary £'000
P Lynam	975	1,200
R Lawrence	400	n/a

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

Directors' Remuneration Report continued

Bonus arrangements

For the financial year ended 31 December 2020, Executive Directors were eligible for an annual bonus award of up to 100% of salary; 60% of the bonus was subject to financial metrics and risk performance ('Financial') metrics and 40% of the bonus was subject to a mixture of strategic, customer, operational and staff performance ('Non-financial') metrics.

No bonus was awarded to the Executive Directors for 2020, but we have set out below for information only the financial performance metrics applied in respect of the financial year ended 31 December 2020.

Financial and risk performance metrics

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

					CEO	
Objective	Threshold (0% payable)	On-target (50% payable)	Stretch (100% payable)	Achieved	Weight	Bonus payable
Grow						
Underlying profit before tax	£41.9m	£46.6m	£51.3m	n/a	20%	-%
Adjusted return on average equity	13.4%	14.8%	16.2%	n/a	15%	-%
Sustain						
Underlying cost income ratio as determined by the Board	58.7%	55.9%	53.0%	n/a	10%	-%
Capital ratios					15%	-%
Total					**60%**	**-%**

2018 LTIP awards maturing by reference to 2020 performance

LTIP awards were granted on 20 April 2018 which were capable of vesting by reference to performance conditions measured to 31 December 2020. These performance conditions can be summarised as follows:

Measurement basis and % weighting	Relative TSR vs peer group (40 %)	Absolute EPS growth (40%)	Risk Management (20%)
Target range	Median to upper quartile Peer group is: Arbuthnot Banking Group, Charter Court, Close Brothers, OneSavings Bank, Metro Bank, Paragon Banking Group, Provident Financial, S&U and PCF Group plc	10% to 30% 3-year CAGR	Maintaining appropriate risk practices over the Performance Period reflecting the longer-term strategic risk management of the Group, including consideration of: • the number of customer complaints received • the number and nature of material risk events within the Group • credit losses compared to the Board's assessment of the Group's risk appetite • management of regulatory capital limits

The outcomes for TSR and EPS growth were nil, and for Risk management the determined outcome was 15%.

As noted above, all of Paul Lynam's unvested share plan awards lapsed when he resigned as CEO on 5 January 2021 and accordingly, no current executive director participates in this award.

Awards exercised during the financial year (audited information)

2017 Deferred Bonus Plan ('DBP')

On 24 January 2020 Paul Lynam exercised 141,667 2011 share options at an exercise price of 720 pence and 3,497 Deferred Bonus Plan ('DBP') share options at an exercise price of 40 pence over a total of 145,164 ordinary shares of 40 pence each ('Ordinary Shares'). He used 103,680 Ordinary Shares at a price of 1,550 pence to fund the acquisition of the shares and to cover the tax and national insurance arising from the exercise, with the remaining 41,484 Ordinary Shares from the exercise being retained. Mr Lynam's shareholding in the Group increased from 19,012 shares to 60,496 shares as a result of the transaction, which was consistent with his commitment to build up his shareholding in the Company overtime.

On 23 October 2020 Paul Lynam exercised 9,886 DBP share options at an exercise price of 40 pence over a total of 9,886 Ordinary Shares, retaining all of the shares arising from the exercise, electing to settle the tax and national insurance liabilities rather than sell shares to cover this cost. Mr Lynam's shareholding in the Group subsequently increased to 70,382 shares as a result of this transaction.

Directors' Remuneration Report continued

Awards granted during the financial year (audited information)

2017 Long Term Incentive Plan ('LTIP')

Nominal-cost share options were granted to Executive Directors on 22 October 2020 in accordance with the rules of the LTIP as follows:

Recipient	Date of grant	Basis of award	Number of shares	Face value of award £'000[1]	Performance period
Paul Lynam	22 October 2020	100% of salary	91,837	900	1 October 2020 to 30 September 2023
Rachel Lawrence	22 October 2020	25% of salary	10,204	100	1 October 2020 to 30 September 2023

[1] Based on a share price of 980 pence per share which was the year-to-date average share price to late September when award levels were calibrated.

As noted above, all of Paul Lynam's unvested share plan awards lapsed when he resigned as CEO on 5 January 2021.
Vesting of the share options is subject to a blend of three TSR and risk management performance metrics, assessed over a three-year performance period as summarised below.

Measurement basis and % weighting	Relative TSR vs peer group (25%)	Relative TSR vs FTSE SmallCap (ex. IT) (25%)	Absolute TSR (25%)	Risk Management (25%)
Target range	Median to upper quartile Peer group is: Arbuthnot Banking Group, Close Brothers, OneSavings Bank, Metro Bank, Paragon Banking Group, Provident Financial and S&U.	Median to upper quartile Measured against constituents of FTSE SmallCap (Ex. IT)	20% to 40% 3-year CAGR	Maintaining appropriate risk practices over the performance period reflecting the longer-term strategic risk management of the Group , including consideration of: • the number of customer complaints received • the number and nature of material risk events within the Group • credit losses compared to the Board's assessment of the Group's risk appetite • management of regulatory capital limits
Underpin	Vesting for TSR elements also subject to an underpin as follows: (a) the Board's assessment of the Company's general financial performance and shareholder experience over the performance period (b) the Board's assessment of the Company's risk management performance over the performance period; and (c) the Board's assessment of growth in responsible lending, progress on balance sheet management and customer satisfaction			

For each metric, threshold attainment is 25% of that part, with vesting on a straight-line basis to 100% for max. attainment.

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

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

2017 Deferred Bonus Plan ('DBP')

Nominal-cost share options were granted to Executive Directors on 22 October 2020 in accordance with the rules of the DBP as follows:

Recipient	Date of grant	Number of shares	Tranche 1	Tranche 2	Tranche 3	Face value of award £'000[1]
Paul Lynam	22 October 2020	27,551	9,183	9,183	9,185	270

[1] Based on a share price of 980 pence per share which was the year-to-date average share price to late September when award levels were calibrated.

As noted above, all of Paul Lynam's unvested share plan awards lapsed when he resigned as CEO on 5 January 2021.

Statement of Directors' shareholding and share interests (audited information)

A formal shareholding guideline requires Executive Directors to build up and maintain a shareholding of at least 100% of base salary, over time, by retaining all awards under the LTIP that vest (net of income tax and National Insurance).

The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2020 were as set out below. Any changes to a Director's shareholding are set out in the notes below the table.

Directors' shareholding and share interests

Director	Type	Total as at 1 January 2020	Shares purchased during the year	Options granted during the year	Options (exercised) during the year	Options (lapsed) during the year	Total as at 31 December 2020	Owned outright	Vested but unexercised	Unvested, not subject to performance conditions	Unvested, subject to performance conditions
R Lawrence	2017 LTIP[1]	–	–	10,204	–	–	10,204	–	–	–	10,204
	2017 SAYE[2]	–	–	3,388	–	–	3,388	–	–	3,388	–
M Forsyth	Shares	3,500	1,800[3]	–	–	–	5,300	5,300	–	–	–
A Berresford	Shares	–	–	–	–	–	–	–	–	–	–
P Myers	Shares	3,500	2,000[4]	–	–	–	5,500	5,500	–	–	–
L Neville-Rolfe	Shares	1,271	–	–	–	–	1,271	1,271	–	–	–
V Stewart	Shares	–	–	–	–	–	–	–	–	–	–
D McCreadie	Shares	–	5,000[5]	–	–	–	5,000	5,000	–	–	–
Former Directors											
P Lynam	Shares	19,012	51,370	–	–	–	70,382	70,382	–	–	–
	2011 Share Options	141,667	–	–	(141,667)[6]	–	–	–	–	–	–
	2017 LTIP[1]	85,659	–	91,837	–	(22,385)	155,111	–	3,950	–	151,161[9]
	2017 DBP[1]	29,662	–	27,551	(13,383)[6]	–	43,830	–		43,830[9]	–
	2017 SAYE	1,364	–	3,388[2]	–	(1,364)[2]	3,388	–	–	3,388	–
	Phantom share options[7]	187,500	–	–	–	–	187,500	–	187,500	–	–
		464,864	**51,370**	**122,776**	**(155,050)**	**23,749**	**460,211[8]**	**70,382**	**191,450**	**47,218**	**151,161**
P Marrow	Shares	5,440	–	–	–	–	–	5,440	–	–	–

1 Awards were granted under LTIP and DBP rules on 22 October 2020 as set out on page 92.

2 Each of Paul Lynam and Rachel Lawrence participated in the 2020 SAYE scheme to the maximum monthly saving amount. Paul Lynam cancelled his participation in the 2017 SAYE scheme during 2020 to participate in the 2020 SAYE scheme to the maximum amount.

3 Lord Forsyth purchased 1,800 shares on 6 August 2020.

4 Paul Myers purchased 2,000 shares on 7 September 2020.

5 David McCreadie purchased 5,000 shares on 6 August 2020

6 On 24 January 2020 Paul Lynam exercised 141,667 share options under the 2011 scheme at an exercise price of 720 pence and 3,497 Deferred Bonus Plan ('DBP') share options at an exercise price of 40 pence over a total of 145,164 ordinary shares of 40 pence each ('Ordinary Shares'). He used 103,680 Ordinary Shares at a price of 1,550 pence to fund the acquisition of the shares and to cover the tax and national insurance arising from the exercise, with the remaining 41,484 Ordinary Shares from the exercise being retained. Paul Lynam's shareholding in the Group increased from 19,012 shares to 60,496 shares as a result of this transaction. On 23 October 2020, Paul Lynam exercised 9,886 DBP share options at an exercise price of 40 pence over a total of 9.886 shares. He retained all of the shares arising from the transaction increasing his shareholding from 60,496 shares to 70,382 shares.

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

8 Assuming a full vesting of awards as disclosed in the table above (excluding Phantom Share Options, see 7 above) and a market value as at 31 December 2020 of 875p the value of Paul Lynam's total interest in shares is £2.322 million.

9 Paul Lynam's unvested awards under each of the LTIP and DBP schemes lapsed upon his resignation on 5 January 2021.

10 Executive directors are required to hold shares not purchased on the open market post their employment in line with the minimum shareholding requirements policy.

Directors' Remuneration Report
continued

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

During the year, Neeraj Kapur (former CFO, resigned from Board 9 December 2019) remained as an employee until 31 March 2020, during which period he received base salary, pension contributions and benefits for the period worked in accordance with his service agreement.

Paul Marrow retired from the Board at the AGM held on 24 June 2020 and provided services to the Company until 30 June 2020, during which period he received his Directors' fee in accordance with his service agreement. Otherwise, no payments were made in the year to any former Director of the Company.

On 5 January 2021 Paul Lynam (former CEO) resigned from the Board and remains as an employee until 31 March 2021, during which period he receives base salary, pension contributions and benefits for the period worked in accordance with his service agreement.

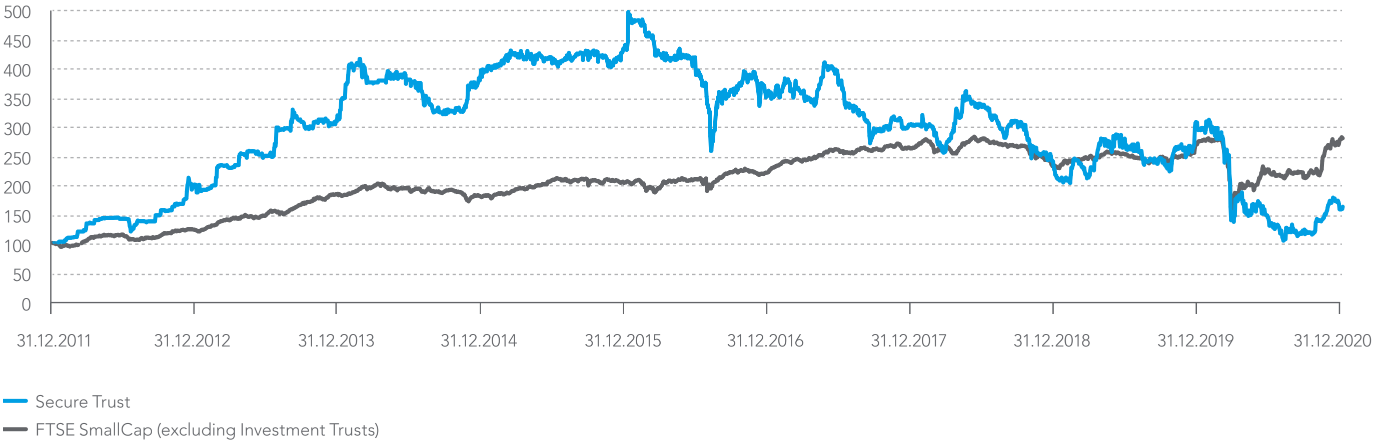
Payments for loss of office made during the year (audited information)

No payments for loss of office were made in the year to any Director of the Company.

Performance graph and historical CEO remuneration outcomes

Total shareholder return

The graph below shows the total shareholder return ('TSR') performance for the Company's shares in comparison to the FTSE SmallCap Index (excluding Investment Trusts) for the period from 2 November 2011 to 31 December 2020. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 31 December 2020, of £100 invested in the Group over the period compared with £100 invested in the FTSE SmallCap Index (excluding Investment Trusts). The FTSE SmallCap Index (excluding Investment Trusts) has been chosen as a comparator as this is the most appropriate reference point given the capitalisation of the Company.



The table below shows details of the total remuneration, bonus and share options vesting (as a percentage of the maximum opportunity) for the CEO over the last nine financial years.

	Total remuneration £'000	Bonus as a % of maximum opportunity[1]	LTIP as a % of maximum opportunity[2]
2020[3]	1,045	nil	nil
2019	1,804	45	15%
2018	1,857	50	N/A
2017	1,657	33.3	N/A
2016	5,542	N/A	100%
2015	1,459	N/A	N/A
2014	3,671	N/A	100%
2013	1,031	N/A	N/A
2012	870	N/A	N/A

1 Pre Main Market admission, bonuses were determined by the Committee on a discretionary basis taking into account Group financial and individual performance during the financial year.

2 No LTIP shares were eligible to vest in respect of the years 2012, 2013, 2015, 2017 and 2018.

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

Directors pay increase in relation to all employees

The table below shows the percentage change in remuneration of the Directors and employees of the business between the 2019 and 2020 financial years.

	Salary or base fee	Benefits	Bonus
Employees[1]	2.9%	1.7%	6.8%
Executive Directors:			
Paul Lynam	(18.8)%[3]	10.3%	(100)%[4]
Rachel Lawrence	N/A	N/A	N/A
Non-Executive Directors:[5]			
Michael Forsyth	2.9%	0%	N/A
A Berresford	2.9%	0%	N/A
P Marrow[6]	2.9%	N/A	N/A
P Myers	2.9%	N/A	N/A
L Neville-Rolfe	2.9%	N/A	N/A
V Stewart	2.9%	0%	N/A
D McCreadie	2.9%	0%	N/A

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

2 Note that calculation is on a FTE basis.

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

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

5 Each of the Non-Executive Directors received a 2.9% increase to their base fee with effect from 1 January 2020. In addition to this increase each Non-Executive Director, except for Paul Marrow, assumed additional responsibilities in 2020, increasing their overall fee as disclosed in the single-figure table on page 89.

6 Paul Marrow stepped down as a Director on 24 June 2020.

2020 CEO pay ratio

Our finalised CEO pay ratio for 2020 is set out in the table below. These figures are on a Group-wide basis, as per the regulations:

Year	Method	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
2020	Option A	47:1	36:1	19:1
2019	Option A	96:1	71:1	36:1

Total UK employee pay and benefits figures used to calculate the CEO pay ratio for 2020:

	Chief Executive	25th Percentile	Median	75th Percentile
Salary	£900K	£18,820	£25,000	£47,285
Total pay and benefits	£1.04m	£19,393	£26,326	£53,634

The Company has chosen Option A methodology to prepare the CEO pay ratio calculation as this is the most statistically robust method and is in line with the general preference of institutional investors. The value of each employee's total pay and benefits, as at 31 December 2020, was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed.

The Committee considers that the median pay ratio for 2020 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

Directors’ Remuneration Report continued

Spend on pay

The following table sets out the percentage change (from the financial year ended 31 December 2019) in dividends and the overall expenditure on pay (as a whole across the organisation). The increase in overall expenditure on pay is driven primarily by the increased size of Group’s workforce, as set out in Note 8.

	2020 £million	2019 £million	Change %
Dividends, excluding special dividends, and share buybacks	8.2	15.5	(47.1%)
Dividends, including special dividends, and share buybacks	8.2	15.5	(47.1%)
Overall expenditure on pay[1]	51.8	51.1	3.3

1 Further information can be found in Note 6 set out on page 144.

Service agreements and letters of appointment

Details of the Directors’ service agreements, letters of appointment and notice periods are set out below:

Name	Commencement of current service agreement/letter of appointment[2,3,4]	Notice period
P Lynam	28 July 2010	12 months
R Lawrence	11 May 2020	12 months
M Forsyth[1]	6 October 2016	6 months
A Berresford	22 November 2016	6 months
P Marrow[1,6]	6 October 2016	6 months
D McCreadie[5]	18 December 2019	6 months
P Myers	28 November 2018	6 months
L Neville-Rolfe	28 November 2018	6 months
V Stewart	22 November 2016	6 months

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

2 Each of the Non-Executive Directors’ letter of appointment was amended in January 2019 by a side letter confirming their respective Committee membership and their total fee. No other changes were made to their existing letter of appointment.

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

4 Those Non-Executive Directors who are members of the Remuneration Committee are set out on page 88.

5 David McCreadie’s service agreement was amended to reflect his appointment as CEO on 5 January 2021. His notice period was extended to 12 months as a consequence.

6 Paul Marrow retired from the Board in June 2020.

Implementation of Directors’ Remuneration Policy for the financial year ending 31 December 2021

Details on how Secure Trust intends to implement the Directors’ Remuneration Policy for the financial year ending 31 December 2021 are set out below.

Salary

David McCreadie will receive an annual base salary of £650,000 p.a. Rachel Lawrence will receive an annual base salary of £400,000 p.a.

The annual salary review date is 1 April 2021, and if any increases are made to the above base salary levels these will be only in line with firm-wide employee level salary increases.

Pensions

David McCreadie and Rachel Lawrence will each receive a c5% of base salary pension contribution, being aligned to the rate of pensions contribution for the majority of group employees.

Implementation of Directors' Remuneration Policy for the financial year ending 31 December 2021 continued

Fees

The following table sets out the Non-Executive Director fee structure effective from 1 January 2021.

Role	2021 fee £'000
Chairman[1]	217
Non-Executive Director (basic fee)[2]	71
Senior Independent Director and Committee Chairman	20
Member of Audit, Risk or Remuneration Committee	5
Designated Non-Executive Director with responsibility for workforce engagement	5

1 The Chairman does not receive any additional fees for his membership of any of the Board's committees.

2 With effect from 2020 the base fee payable to the Chairman and the NEDs increases in line with the average increase of remuneration for staff implemented within the annual review of remuneration in the previous year. The increase takes effect from 1 January each year in respect of the preceding employee level salary increase. For 2021 the increase was 2.9%.

3 Other than the increase to the base fee and the Chairman's fee, there were no other increases to Directors' fees.

Annual bonus

The proposed maximum annual bonus opportunity for the year ending 31 December 2021 will be equal to 100% of salary. The bonus will be subject to stretching performance metrics based on a balanced scorecard. 65% of the bonus will be subject to financial and risk performance metrics and 35% of the bonus will be subject to a mixture of non-financial strategic, customer, operational and staff performance metrics. The financial metrics will include profit before tax (20%), return on average equity (10%), costs (15%) and capital ratios (10%). The risk measures will include compliance with risk appetite (10%). The non-financial metrics will cover a range of specific strategic programmes (35%).

The Committee considers that the targets are commercially sensitive. A description of the performance targets will be disclosed in the Annual Report on Remuneration for the year ending 31 December 2021 or at such time when the targets are no longer considered commercially sensitive.

50% of any bonus earned will be deferred into shares under the Deferred Bonus Plan. Deferred shares will vest in equal tranches after one, two and three years following deferral.

LTIP

The Company proposes to grant LTIP awards to the Executive Directors in the form of nominal share options at the level of up to 100% of salary for the CEO and CFO. The LTIP awards will be subject to the same mix of metrics as applied for the LTIP awards made in October 2020, and as further described on page 92. 75% of awards will be subject to TSR metrics, and 25% will be subject to risk management objectives.

The only change from the metrics for the awards made in October 2020 is that the target range for the Absolute TSR condition will be 10% to 30% CAGR which reflects the recovery in Company share prices since the October 2021 awards, but maintains comparability on target share prices.

Statement of voting at AGM

The Remuneration Policy and Directors' Remuneration Report were approved by shareholders at the AGM in 2020; the votes cast were as detailed below.

Resolution	Proxy votes for	% of proxy votes cast	Proxy votes against	% of proxy votes cast	Votes withheld
To approve the Directors' Remuneration Policy	13,595,855	98.57	197,730	1.43	2,323,180
To receive and approve the Directors' Remuneration Report	13,793,129	99.99	456	0.01	2,323,180

Approval

This Report was approved by the Board on 24 March 2021 and signed on its behalf by:

Victoria Stewart
Chairman of the Remuneration Committee

Directors' Report

The Directors submit their report, the related Strategic Report and Corporate Governance Report, and the audited financial statements of Secure Trust Bank PLC and its subsidiaries (the 'Group') for the year ended 31 December 2020.

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

Item	Page/Note reference	Further detail
Strategic report	Pages 2 to 61	Includes particulars of important events affecting the Company to have occurred since the end of the financial year.
Business review and information about future development	Pages 6 to 27	Describes the principal activity as a bank (including deposit taking and secured and unsecured lending).
Key performance indicators	Page 2	
Principal risks	Pages 38 to 49	
Corporate Governance Report	Pages 62 to 102	Contains information about the Group's corporate governance arrangements.
Statement of compliance with UK Corporate Governance Code in respect of the year	Page 62	
Results	Pages 32 to 37	The Group made a profit for the period of £16.2 million (2019: £31.1 million). The reconciliation of statutory results to adjusted results is set out in the Appendix to the Annual Report. For the purposes of DTR 4.1.5R2 and DTR 4.1.8 this Directors' Report and the Strategic Report on pages 2 to 61 comprise the management report.
Share capital	Note 31, Page 160	Details of the Company's share capital and movements in the Company's issued share capital during the year.
Allotments of cash or equity securities otherwise than to shareholders in proportion to their holdings	Page 99	In accordance with LR 9.8.4R
Share plans	Pages 83 to 97	The Company operates a Long Term Incentive Plan, Sharesave Plan and a Deferred Bonus Share Plan. Upon exercise, shares awarded under these plans have the same rights and rank pari passu with existing ordinary shares.
Details of any long term incentive plans	Pages 83 to 97	In accordance with LR 9.8.4R
Directors in office during the year	Pages 64 to 66	During the year there has been a change in the Executive Directors. Rachel Lawrence joined the Board on 23 September 2020 as Chief Financial Officer and David McCreadie succeeded Paul Lynam as Chief Executive Officer with effect from 5 January 2021. Paul Marrow also retired from the Board at the 2020 AGM following a nine-year term. All Directors will be retiring and standing for either election or re-election at the Annual General Meeting to be held on 12 May 2021.
Directors' interests in share capital	Pages 83 to 97	Including connected persons.
Related party transactions	Note 40, Page 180	
Post balance sheet – COVID-19 impact	Note 43, Page 181	Provides information in respect of the COVID-19 outbreak and its impacts and mitigation, which will impact the Group's results for 2021.
Going concern and viability	Page 50	
Future developments	Page 11	
Financial risk management objectives and policies	Page 38	Financial risk management objectives and policies in relation to the use of financial instruments can be found on the Group's website: **www.securetrustbank.com/our-corporate-information/risk-management**
Greenhouse Gas Emissions from our operations	Page 54	Required under the Companies Act 2006 (Strategic Report and Directors' Report Regulation 2013).

Dividends

The Directors recommended the payment of a final dividend of 44 pence per share which represents total dividends for the year of 44 pence per share (2019: 20 pence per share). The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 21 May 2021 to shareholders on the register at the close of business on 23 April 2021.

Dividend Policy

The Directors are reviewing the dividend policy of the Company and will report to shareholders of any amendment to the dividend policy when announcing the interim results in H2 2021. The policy will continue to take into account the Company's capital requirements, earnings and cash flow in the long term.

The Directors will have regard to current and project capital, liquidity and earnings and market expectations in determining the amount of the dividend. On occasion the Company may declare and pay a special dividend resulting from special circumstances, however no such special dividend is currently envisaged.

Share capital

The share capital of the Company comprises one class of ordinary shares with a nominal value of 40 pence each. As at 31 December 2020 the Company had 18,633,662 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

An additional 156,162 ordinary shares of 40 pence each were issued during 2020 (2019: 2,271). Since 1 January 2021 and until the date of this report there have been no further ordinary shares issued. All the ordinary shares are fully paid and rank equally in all respects and there are no special rights to dividends or in relation to control of the Company.

The powers of the Directors, including in relation to the issue or buyback of the Company's shares are set out in the Companies Act 2006 and the Company's Articles of Association. Shareholders will be asked to grant authority to the Directors to issue and allot shares at the 2021 Annual General Meeting.

Under section 551 of the Companies Act 2006, the Directors may allot equity securities only with the express authorisation of shareholders which may be given in General Meeting, but which cannot last more than five years.

Under section 561 of the Companies Act 2006, the Board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by special resolution of the shareholders.

Resolutions permitting such actions will be proposed at the 2021 Annual General Meeting. Details of the resolutions for such authority are included in the Notice of the 2021 Annual General Meeting and in the related explanatory notes.

Significant shareholders

The Notice of the 2021 Annual General Meeting also includes resolutions specifically relating to the issue of shares associated with an issue of Additional Tier 1 Securities. These resolutions are in a similar form to the resolutions proposed and passed at the 2020 AGM.

Under section 701 of the Companies Act 2006 a company may make a market purchase of its own shares if the purchase has first been authorised by a resolution of the company.

The Company did not repurchase any of the issued ordinary shares during the year or up to the date of this report, although it was granted authority to do so by shareholders at the 2020 Annual General Meeting on 24 June 2020. That authority expires on 24 September 2021 or, if earlier, the conclusion of the 2021 Annual General Meeting.

At the 2021 Annual General Meeting a special resolution will be proposed authorising the Company to make market purchases of ordinary shares within the limits set out in the resolution.

The resolution is in a similar form to that proposed at the 2020 Annual General Meeting. The Directors have no present intention of exercising the authority granted by the resolution but regard it as a useful tool to have available.

On a show of hands, each member has the right to one vote at General Meetings of the Company. On a poll, each member is entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Voting at the 2021 AGM will be conducted on a poll.

There are no specific restrictions on the transfer of the shares in the Company which are governed by the general provisions of the Articles of Association and prevailing legislation.

Directors' Report
continued

Substantial shareholders

In accordance with Disclosure and Transparency Rules DTR5, the Company as at 22 March 2021 (being the latest practicable date before publication of this report), has been notified of disclosable interests in its issued ordinary shares as set out in the table below.

Powers of Directors

The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association.

Changes to the Company's Articles of Association must be approved by shareholders by way of a special resolution and must comply with the provisions of the Companies Act 2006 and the Financial Conduct Authority's Disclosure and Transparency Rules.

Appointment and retirement of Directors

The appointment and retirement of the Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code and the Companies Act 2006. Further details can be found in the explanatory notes included in the Notice of 2021 Annual General Meeting.

Directors' indemnities

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any Director or former Director of the Company or any associated company against any liability and may purchase and maintain for any Director or former Director of the Company or any associated company insurance against any liability.

The Group has maintained directors' and officers' liability insurance throughout 2020.

The letters of appointment of the Non-Executive Directors incorporate by reference the provisions of the Articles of Association in relation to the indemnity of Directors into the contract established by the letter of appointment between the Non-Executive Director and the Company.

Conflicts of interest

Directors are invited to declare new conflicts of interest at each Board meeting and where an actual or potential conflict of interest has been identified appropriate steps are taken to deal with the conflict.

A separate register of Directors' conflicts of interest is maintained by the Company.

Significant contracts

There are no contracts of significance in which a Director is interested.

There are no agreements between any Group company and any of its employees or any Director of any Group company which provide for compensation to be paid to an employee or a Director for termination of employment or for loss of office as a consequence of a takeover of the Company.

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control following a takeover bid for the Company.

Substantial shareholders

	No. of ordinary shares	%
Columbia Threadneedle Investments	**3,216,568**	17.26
Invesco	**1,802,696**	9.7
Arbuthnot Banking Group plc	**1,619,538**	8.69
Unicorn Asset Mgt	**1,520,600**	8.16
Mr Steven A Cohen	**1,510,412**	8.11
Premier Miton Investors	**1,210,182**	6.49
Wellington Mgt Company	**1,187,602**	6.37
Fidelity International	**1,146,304**	6.2
Tellworth Investments	**899,409**	4.8
Ennismore Fund Mgt	**719,065**	3.86
Ruffer	**672,247**	3.61

Employment policies and equal opportunities

The Group is an inclusive and equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities will be considered fairly and if existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

Group policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind is not tolerated. This principle applies to all aspects of employment from recruitment and promotion, through to termination and all other terms and conditions of employment.

The Group has processes in place for communicating with its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage employees to get involved in social or community events.
These communications aim to achieve a common awareness for all employees of the financial and economic factors affecting the performance of the Group. Further information on how the Group communicates with its employees is set out in the 'Managing our business responsibly' section starting on page 52.

Research and development

The Group does not undertake research and development activities.

Political donations and expenditure

The Group made no political donations and incurred no political expenditure during the year (2019: £nil).

Post balance sheet events

There have been no significant events between 31 December 2020 and the date of approval of the financial statements which would require change to the financial statements.

Disclosure of information to auditor

Each Director in office at the date of this Directors' report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Fair, balanced and understandable

The Directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, strategy and business model.

Auditor

Deloitte LLP was reappointed as auditor at the Annual General Meeting held in 2020. As detailed on page 74 in the Audit Committee report, the Board is recommending the reappointment of Deloitte LLP as auditor at the 2021 Annual General Meeting.

Annual General Meeting

The 2021 Annual General Meeting will be held at 10.00 am on 12 May 2021 at One Arleston Way, Shirley, Solihull, West Midlands, B90 4LH. Compulsory government measures remain in force in relation to the pandemic. The health of our shareholders, colleagues and the wider community is of paramount importance to us and so, in light of these measures, the Directors discourage shareholders from attending the AGM in person this year. For more information please see the Chairman's letter and Notice of Meeting for further information.

By order of the Board.

M P D Stevens
Secretary

24 March 2021

Directors' responsibility statement

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

Independent Auditor's report to the members of Secure Trust Bank plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Secure Trust Bank PLC (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company statements of cash flows; and
- the related notes 1 to 43.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in Note 7 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Effective interest rate income recognition; • Impairment of receivables; and • Valuation of externally purchased debt. Within this report, key audit matters are identified as follows: ! Newly identified ↑ Increased level of risk ↔ Similar level of risk
Materiality	The materiality that we used for the Group financial statements and Company financial statements was £1.9 million (2019: £1.9 million) and £1.4 million (2019: £1.4 million) respectively, which was determined using 0.75% of net assets.
Scoping	We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity. Audit testing to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

Independent Auditor's report continued

Significant changes in our approach	We have introduced a new key audit matter this year in relation to the valuation of externally purchased debt accounted for as Purchase of Credit Impaired ('POCI') portfolios. The portfolio carrying values are calculated based on the present value of expected future collections and as a result of the impact of COVID-19 on the future economic outlook, there is an increased level of judgement required in forecasting future cash collections which has a direct impact on the carrying value of the portfolios. We have removed our key audit matter this year in relation to the going concern assessment and related disclosures. This was included in 2019 in direct response to the increase in audit effort to assess the rapid spread and ongoing uncertainty surrounding the impact of COVID-19 on the Directors' assessment of the Group's and Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. Whilst still uncertain, the level of uncertainty has reduced around the Group's ability to forecast the impact of COVID-19 on its profitability, capital, liquidity and operational resilience. Additionally we have amended our materiality benchmark for the FY20 audit process. In previous years we have adopted 5% of profit before tax as the basis for determining materiality, however, we have transitioned to using 0.75% of net assets capped at our prior year materiality level, as our materiality benchmark. Please refer to section 6 for further details.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's going concern assessment, which included specific consideration of the impacts of the COVID-19 pandemic and the Group's operational resilience, in order to understand, challenge and assess the key judgements made by management;
- obtaining an understanding of relevant controls around management's going concern assessment including Board approval;
- supported by our prudential regulation specialists we read the most recent ICAAP and ILAAP, assessed management's capital and liquidity projections, assessed the results of management's capital and liquidity stress testing, evaluating key assumptions and methods used in the capital and liquidity stress testing models and tested the mechanical accuracy of the forecasts;
- reading correspondence with regulators to understand the capital and liquidity requirements imposed on the Group by the Prudential Regulation Authority ('PRA'), and evaluating any changes to those requirements;
- meeting with the Group's lead regulator, the PRA, and discussed their views on existing and emerging risks to the Group and we considered whether these were reflected appropriately in management's forecasts and stress tests; and
- assessing the appropriateness of the disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Effective interest rate income recognition

Key audit matter description	The Group recognised interest income of £192.5 million (2019: £191.4 million) against loans and advances to customers during the year. The Group holds loans and advances to customers which meet the criteria of financial assets measured at amortised cost under IFRS 9. The recognition of interest income on loans and advances measured at amortised cost requires the use of the effective interest rate ('EIR') method. Judgement is applied by management to determine key assumptions related to the expected lives, with our specific focus placed on the Motor and Retail Finance portfolios, being the principal income streams for the Group. In addition, during FY20 the impact of COVID-19 and the subsequent uncertainty this creates around the behaviour of customers exacerbates the risk that the historical data sets used to calculate the expected life are no longer reflective of expected customer behaviour. Any changes to such assumptions during the life of the loan can have a significant impact on the amount of interest income recognised during the year. Given the degree of judgement and estimation involved in determining the expected life, as well as the cash flows directly attributable to each loan (namely fee and interest cash flows), we also identified that there is a potential for fraud through possible manipulation of this balance. Interest income is included in Note 4.1 to the financial statements, with management's associated accounting policies detailed within Note 1.4. The corresponding area in the Audit Committee report is on page 76.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over EIR income recognition with particular focus on controls over significant management assumptions and judgements used in the EIR method. We engaged our analytics team to independently rebuild the behavioural life curve based on historical redemption data. As part of this we tested the accuracy and completeness of the historical redemption data. We challenged the expected life of products by reference to both historical and forecast data and comparability with the contractual life under IFRS 9 – this included our challenge over the data set used to calculate the lives and specifically the redemption trends observed since the onset of COVID-19. As part of our wider assessment of EIR income recognition we used our data analytics specialists to perform a full review of the scripts within the clients EIR model and recalculated the EIR output based on these scripts and the input data within the model. We also tested the completeness and accuracy of a sample of inputs into the EIR model. We assessed the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the Group's EIR model.
Key observations	Based on the evidence obtained, we conclude EIR income recognition and the expected lives adopted by management to be appropriate. We consider the underlying methodology used for the calculation of EIR for the Motor and Retail Finance portfolios to be materially compliant in the context of the accounting policies adopted by the Group and the requirements of IFRS 9.

Independent Auditor's report
continued

5.2. Impairment of receivables

Key audit matter description	The Group held allowances for impairment of loans and advances to customers of £82.7 million (2019: £60.6 million) against loans and advances to customers of £2,441.6 million (2019: £2,510.7 million). For financial assets measured at amortised cost, IFRS 9 requires the carrying value to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses ('ECL') is complex and involves a number of judgements and estimates relating to probability of default, exposure at default, loss given default, significant increases in credit risk and macroeconomic scenario modelling. These assumptions are informed using historical behaviour and management's experience. They are also affected by management's consideration of the future economic environment. The most significant assumptions and judgements applied in the impairment model are: • The appropriateness of the macroeconomic scenarios applied within the expected credit loss models; • The determination of the loss given default ('LGD') on the Motor Finance portfolio, in particular the vehicle recovery rate; and • The determination and application of staging criteria for those loans that have been subject to COVID-19 related payment holidays, including any subsequent extensions and the probability of default applied to those accounts. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. There is an increased level of risk since the prior year in light of COVID-19 and its impact on multiple components of management's impairment provisioning methodology. Impairment of receivables is included in Note 16 of the financial statements. Management's associated accounting policies are detailed within Note 1.8. The corresponding area in the Audit Committee report is on page 76.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the impairment provision with particular focus on controls over significant management assumptions and judgements used in the calculation of ECL. For the macroeconomic scenarios we: • assessed the appropriateness of management's scenarios and probability weightings, leveraging our economic specialists to challenge the Group's economic outlook by reference to other available economic outlook data; • performed a benchmarking exercise to compare the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders. The key economic variables were unemployment and the house price index ('HPI'); and • supported by our credit risk and modelling specialists, assessed and challenged the changes made to the model methodology and computer code script in the macroeconomics model which applies the scenarios to the relevant ECL components. For the Motor Finance LGD we assessed and tested both the historical and forecast data used to support the vehicle recovery rate, whilst also re-performing the calculation to assess its mechanical accuracy. We have also considered the impact of COVID-19 on the ability of the Group to collect vehicles during the pandemic and the subsequent impact on the modelled rate. For those accounts which have been subject to a COVID-19 related payment holiday we: • assessed the staging judgements made by management around the determination of 'significant increase in credit risk' and default definitions; • challenged the probability of default applied to payment holiday borrowers, which included assessing the recent performance of borrowers who were granted payment holidays; and • supported by our credit risk and modelling specialists, assessed and challenged the computer code script to determine whether the PD adjustments for accounts which took payment holidays had been implemented within the model correctly. Additionally for the real estate finance ('REF') portfolio we engaged our internal real estate valuation specialists to challenge the collateral valuations utilised by management within the calculation of the LGD. As part of our wider assessment of impairment of receivables we reviewed the accuracy of management's overlay provisions by reference to the supporting calculations and challenged their completeness through our understanding of model enhancements, peer benchmarking and emerging issues. Our credit risk and modelling specialists assessed whether management's overlay provisions had been accurately reflected with the model through review of computer code script changes. Our credit risk and modelling specialists also assessed compliance of the modelling approach and computer code script utilised with the requirements of IFRS 9 and whether the documented modelled approach was implemented in practice. Finally we reconciled the allowances for impairment models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation were complete and accurate.
Key observations	Based on the evidence obtained, we found that the assumptions underpinning the allowances for impairment models were determined and applied appropriately and the recognised provision was materially reasonable.

5.3 Valuation of externally purchased debt !

Key audit matter description	The Group held debt management portfolios valued at £88.8 million (2019: £80.3 million) at the year-end, of which £70.4 million (2019: £72.1 million) was purchased from third parties. Under IFRS 9, these loans are classified as Purchased and Originated Credit Impaired ('POCI') loans. This means that a credit adjusted effective interest rate is determined using estimated future cash flows, including expected credit losses. The portfolio carrying values are calculated based on the present value of expected future collections and as a result of the impact of COVID-19 on the future economic outlook, there is an increased level of judgement required in forecasting future cash collections which has a direct impact on the carrying value of the portfolios. During the reforecasting exercise conducted by management in September 2020, an increase of £6.7 million was recognised in allowances for impairment of loans and advances due to a deterioration in the credit quality of the debt, since the onset of the pandemic. Given the degree of judgement and estimation involved in determining the expected future collections, we also identified that there is a potential for fraud through possible manipulation of this balance. POCI receivables are included in Note 16 to the financial statements, with management's associated accounting policies detailed within Note 1.4. The corresponding area in the Audit Committee report is on page 76.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the valuation of externally purchased debt, including those which relate to the reforecasting exercise undertaken on the debt portfolios. We then specifically considered the subsequent challenge of the output of the reforecasting exercise at the Group's Assumptions Committee, which is a forum for senior management to present analysis, discuss and challenge the key assumptions, such as the valuation of externally purchased debt. We assessed the forecast cash flows, having specific regard to the reforecast which was undertaken by management to support the year end valuation. This included assessing post year end cash collection performance against the revised forecast. We also considered management's historical forecasting accuracy, as well as the methodology applied in order to determine the revised valuation. We assessed whether the models used to calculate the value of the debt portfolios are operating in line with our understanding and tested the completeness and accuracy of key inputs, specifically the cash collection data. As part of our wider procedures we have also tested a sample of credit adjusted EIRs to assess whether these have been calculated correctly.
Key observations	Based on the evidence obtained, we found the valuation of the externally purchased debt portfolios to be appropriate.

Independent Auditor's report
continued

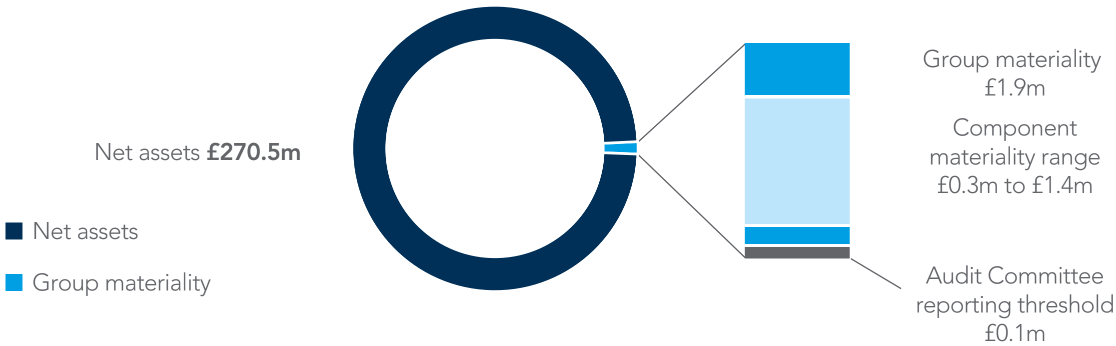
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£1.9 million (2019: £1.9 million)	£1.4 million (2019: £1.4 million)
Basis for determining materiality	0.75% of net assets capped at our prior year materiality level (2019: 5% of profit before tax)	0.75% of net assets capped at our prior year materiality level (2019: 5% of profit before tax)
Rationale for the benchmark applied	We have amended our materiality benchmark for the FY20 audit process. In previous years we have adopted 5% of profit before tax as the basis for determining materiality, however, we have transitioned to using 0.75% of net assets as our materiality benchmark. We expect net assets to provide a more stable benchmark than profit before tax which is subject to current and future volatility as a result of the COVID-19 pandemic. Further, we note net assets is also considered a key metric for users of the financial statements given the capital requirements which arise from being a regulated Bank. As the majority of the Group's operations are carried out by the Company, the same materiality basis was used for both.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2019: 70%) of Group materiality	70% (2019: 70%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors, including: our understanding of the control environment and controls reliance obtained; our understanding of the business; and the number of uncorrected misstatements identified in the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million (2019: £0.09 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group–wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on all entities within the Group and covered all of the material balances in the Statement of Comprehensive Income and Statement of Financial position of the Group.

We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.3 million to £1.4 million (2019: £0.2 million to £1.4 million). These account for 100% (2019: 100%) of the Group's net interest income, 100% (2019: 100%) of the Group's profit before tax and 100% (2019: 100%) of the Group's total assets. At the Company level we have also performed testing over the consolidation process of Group entities.

7.2. Our consideration of the control environment

We identified key IT systems for the Group in respect of the financial reporting system, lending systems for Motor Finance, Real Estate Finance, Commercial Finance, Retail Finance and the deposits system. We utilised our IT specialists to perform operating effectiveness testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We planned to take a controls reliance approach in relation to both the lending and deposits business cycles with the exception of consumer mortgages, debt management and asset finance lending cycles. This is consistent with 2019. We tested the relevant automated and manual controls for these business cycles and were able to adopt a controls reliance approach, as planned. We did not plan or obtain controls reliance over EIR income recognition or impairment of receivables.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's report
continued

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Audit Committee on 23 September 2020;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, share based payments, data analytics, information technology, prudential regulatory and credit risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: EIR income recognition, impairment of receivables and the valuation of externally purchased debt. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, listing rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority and by the Prudential Regulation Authority relating to regulatory capital and liquidity requirements, which are fundamental to the Group's ability to continue as a going concern.

11.2. Audit response to risks identified

As a result of performing the above, we identified EIR income recognition, impairment of receivables and the valuation of externally purchased debt as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Financial Conduct Authority and Prudential Regulation Regulatory Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in Note 42 to the financial statements for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 50;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 50;
- the directors' statement on fair, balanced and understandable set out on page 111;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 69;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 69; and
- the section describing the work of the Audit Committee set out on page 74.

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Report on other legal and regulatory requirements

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 16 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2018 to 31 December 2020.

16.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Perkins, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom

24 March 2021

Consolidated statement of comprehensive income

	Note	2020 £million	2019 £million
Income statement			
Interest income and similar income	4.1	192.5	191.4
Interest expense and similar charges	4.1	(41.6)	(46.0)
Net interest income	4.1	**150.9**	**145.4**
Fee and commission income	4.2	16.0	20.9
Fee and commission expense	4.2	(0.8)	(0.8)
Net fee and commission income	4.2	**15.2**	**20.1**
Operating income		**166.1**	**165.5**
Net impairment charge on loans and advances to customers	14	(51.3)	(32.6)
Losses on modification of financial assets	6	(3.1)	–
Operating expenses	7	(91.6)	(94.2)
Profit before income tax		**20.1**	**38.7**
Income tax expense	9	(3.9)	(7.6)
Profit for the year		**16.2**	**31.1**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Revaluation reserve		(0.2)	0.2
Taxation		–	(0.2)
Other comprehensive income for the year, net of income tax		**(0.2)**	**–**
Total comprehensive income for the year		**16.0**	**31.1**
Profit attributable to:			
Equity holders of the Company		**16.2**	**31.1**
Total comprehensive income attributable to:			
Equity holders of the Company		**16.0**	**31.1**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)			
Basic earnings per share	10	**87.0**	**168.3**
Diluted earnings per share	10	**85.2**	**166.4**

All comprehensive income relates to continuing operations.

The notes on pages 120 to 181 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	2020 £million	2019 £million
ASSETS			
Cash and balances at central banks		181.5	105.8
Loans and advances to banks	12	63.3	48.4
Debt securities	13	–	25.0
Loans and advances to customers	14	2,358.9	2,450.1
Fair value adjustment for portfolio hedged risk	5	5.7	(0.9)
Derivative financial instruments	5	4.8	0.9
Investment property	17	4.3	4.8
Property, plant and equipment	18	9.9	11.3
Right-of-use assets	19	2.9	3.6
Intangible assets	20	7.7	9.0
Deferred tax assets	22	5.9	7.5
Other assets	23	19.2	17.3
Total assets		**2,664.1**	**2,682.8**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	24	276.4	308.5
Deposits from customers	25	1,992.5	2,020.3
Fair value adjustment for portfolio hedged risk	5	4.7	(0.7)
Derivative financial instruments	5	6.1	0.6
Current tax liabilities		1.0	3.3
Lease liabilities	26	3.9	4.5
Other liabilities	27	56.3	40.9
Provisions for liabilities and charges	28	1.9	0.7
Subordinated liabilities	29	50.8	50.6
Total liabilities		**2,393.6**	**2,428.7**
Equity attributable to owners of the parent			
Share capital	31	7.5	7.4
Share premium		82.2	81.2
Revaluation reserve		0.9	1.1
Retained earnings		179.9	164.4
Total equity		**270.5**	**254.1**
Total liabilities and equity		**2,664.1**	**2,682.8**

The financial statements on pages 113 to 181 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf by:

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

The notes on pages 120 to 181 are an integral part of these consolidated financial statements.

Company statement of financial position

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

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

The financial statements on pages 113 to 181 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf by:

Lord Forsyth
Chairman

David McCreadie
Chief Executive Officer

Registered number: 00541132

The notes on pages 120 to 181 are an integral part of these consolidated financial statements.

Financial Statements

Consolidated statement of changes in equity

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

The notes on pages 120 to 181 are an integral part of these consolidated financial statements.

Company statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	**Total £million**
Balance at 1 January 2019	**7.4**	**81.2**	**0.6**	**128.1**	**217.3**
Total comprehensive income for the period					
Profit for 2019	–	–	–	35.9	35.9
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	0.1	–	0.1
Total other comprehensive income	**–**	**–**	**0.1**	**–**	**0.1**
Total comprehensive income for the period	**–**	**–**	**0.1**	**35.9**	**36.0**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends	–	–	–	(15.5)	(15.5)
Share-based payments	–	–	–	1.2	1.2
Tax on share-based payments	–	–	–	0.3	0.3
Total contributions by and distributions to owners	**–**	**–**	**–**	**(14.0)**	**(14.0)**
Balance at 1 January 2020	**7.4**	**81.2**	**0.7**	**150.0**	**239.3**
Total comprehensive income for the period					
Profit for 2020	–	–	–	22.8	22.8
Other comprehensive income, net of income tax					
Tax on revaluation reserve	–	–	–	–	–
Total other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**22.8**	**22.8**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares	0.1	1.0	–	–	1.1
Share-based payments	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**(0.7)**	**0.4**
Balance at 31 December 2020	**7.5**	**82.2**	**0.7**	**172.1**	**262.5**

The notes on pages 120 to 181 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	2020 £million	2019 Restated £million
Cash flows from operating activities			
Profit for the year		16.2	31.1
Adjustments for:			
Income tax expense	9	3.9	7.6
Depreciation of property, plant and equipment	18	1.4	1.2
Depreciation of right-of-use assets	19	0.7	0.9
Loss on disposal of intangible assets		0.5	–
Amortisation of intangible assets	20	2.0	1.9
Impairment charge on loans and advances to customers		51.3	32.6
Losses on modification of financial assets	6	3.1	–
Share-based compensation		(0.3)	1.2
Revaluation loss and impairment		1.1	1.1
Lease interest charged	26	0.1	0.1
Amortisation of subordinated liabilities issue costs	29	0.2	0.2
Provisions for liabilities and charges	28	1.2	–
Cash flows from operating profits before changes in operating assets and liabilities		81.4	77.9
Changes in operating assets and liabilities:			
– loans and advances to customers		37.5	(453.8)
– loans and advances to banks and balances at central banks		(3.5)	(9.2)
– other assets		(1.9)	4.6
– deposits from customers		(27.8)	172.6
– provisions for liabilities and charges		(0.7)	–
– other liabilities		15.4	1.3
Income tax paid		(4.8)	(7.8)
Net cash outflow from operating activities		**95.6**	**(214.4)**
Cash flows from investing activities			
Redemption of debt securities		130.0	320.1
Purchase of debt securities		(105.0)	(195.4)
Purchase of investment property	17	–	(1.6)
Purchase of property, plant and equipment	18	(0.8)	(5.5)
Purchase of intangible assets	20	(1.1)	(1.1)
Net cash inflow from investing activities		**23.1**	**116.5**
Cash flows from financing activities			
Repayment/(drawdown) of amounts due to banks		(31.7)	45.0
Issue of ordinary shares		1.1	–
Dividends paid	11	–	(15.5)
Repayment of lease liabilities	26	(1.0)	(1.1)
Net cash (outflow)/inflow from financing activities		**(31.6)**	**28.4**
Net increase/(decrease) in cash and cash equivalents		**87.1**	**(69.5)**
Cash and cash equivalents at 1 January		145.0	214.5
Cash and cash equivalents at 31 December	33	**232.1**	**145.0**

The notes on pages 120 to 181 are an integral part of these consolidated financial statements.

Company statement of cash flows

	Note	2020 £million	2019 Restated £million
Cash flows from operating activities			
Profit for the year		22.8	35.9
Adjustments for:			
Income tax expense	9	3.0	5.3
Depreciation of property, plant and equipment	18	1.0	0.7
Depreciation of right-of-use assets	19	0.5	0.5
Loss on disposal of intangible assets		0.5	–
Amortisation of intangible assets	20	1.6	1.6
Impairment charge on loans and advances to customers		41.0	37.5
Losses on modification of financial assets	6	3.1	–
Share-based compensation	32	(0.3)	1.0
Revaluation loss and impairment		1.0	1.1
Lease interest charged	26	0.1	0.1
Amortisation of subordinated liabilities issue costs	29	0.2	0.2
Provisions for liabilities and charges	28	1.2	–
Cash flows from operating profits before changes in operating assets and liabilities		75.7	83.9
Changes in operating assets and liabilities:			
– loans and advances to customers		40.4	(410.8)
– loans and advances to banks and balances at central banks		(3.5)	(9.2)
– other assets		(4.2)	(38.7)
– deposits from customers		(27.8)	172.6
– liabilities and charges		(0.7)	–
– other liabilities		19.8	(6.6)
Income tax paid		(3.5)	(6.5)
Net cash inflow/(outflow) from operating activities		**96.2**	**(215.3)**
Cash flows from investing activities			
Redemption of debt securities		130.0	320.1
Purchase of debt securities		(105.0)	(195.4)
Purchase of investment property	17	–	(1.6)
Purchase of property, plant and equipment	18	(0.3)	(5.3)
Purchase of intangible assets	20	(0.9)	(1.0)
Net cash inflow from investing activities		**23.8**	**116.8**
Cash flows from financing activities			
Repayment/(drawdown) of amounts due to banks		(31.7)	45.0
Issue of ordinary shares		1.1	–
Dividends paid	11	–	(15.5)
Repayment of lease liabilities	26	(0.7)	(0.8)
Net cash (outflow)/inflow from financing activities		**(31.3)**	**28.7**
Net increase/(decrease) in cash and cash equivalents		**88.7**	**(69.8)**
Cash and cash equivalents at 1 January		141.8	211.6
Cash and cash equivalents at 31 December	33	**230.5**	**141.8**

The notes on pages 120 to 181 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Accounting policies

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

1.1. Reporting entity

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

1.2. Basis of presentation

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. They have been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments, investment properties and land and buildings at fair value. The consolidated financial statements are presented in pounds sterling, which is the functional and presentational currency of the entities within the Group. There are no IFRS that are issued but not yet effective that will have a material impact on the Group.

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

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts, as set out in the going concern and viability section of the Strategic Report starting on page 50.

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

1.3. Consolidation

Subsidiaries

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

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

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

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

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

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

Discontinued operations

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

1. Accounting policies continued

1.4. Interest income and expense

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

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

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

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

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

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

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

1.5. Net fee and commission income

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

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

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

1.6. Financial assets and financial liabilities

Derecognition

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

Amortised cost measurement

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

Fair value measurement

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

Notes to the financial statements continued

1. Accounting policies continued

Financial assets (with the exception of derivative financial instruments)

The Group classifies its financial assets at inception into three measurement categories; 'amortised cost', 'fair value through other comprehensive income' ('FVOCI') and 'fair value through profit and loss' ('FVTPL'). A financial asset is measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

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

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

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

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

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

The Group currently has no financial instruments classified as FVOCI.

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

All other assets are classified as FVTPL.

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

Financial liabilities (with the exception of derivative financial instruments)

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

IFRS interest rate benchmark reform

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

1.7. Foreign currencies

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

1. Accounting policies continued

1.8. Impairment of financial assets and loan commitments

The Group recognises loss allowances for Expected Credit Losses ('ECL') on all financial assets carried at amortised cost, including lease receivables and loan commitments.

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12-month ECL:

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

Such assets are classified as stage 1 assets.

Assets which have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Group's cure policy are classified as stage 2 assets. The Group's definitions of a significant increase in credit risk and default are set out below.

A financial asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of 'investment grade' assets. The Group has assessed all its debt securities, which represents UK Treasury bills, and loans held in STB Leasing Limited, for which credit risk is retained by its partner RentSmart, to be low credit risk.

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

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

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

In addition, a loan that is 90 days or more past due is considered credit-impaired for all portfolios. The credit risk of financial assets that become credit-impaired are not expected to improve such that they are no longer considered credit-impaired.

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

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

Significant increase in credit risk (stage 2 loans)

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

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

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

Performing assets which have experienced a significant increase in credit risk since initial recognition are reclassified from stage 1, for which loss allowances are measured at an amount equal to 12-month ECL, to stage 2, for which ECL is measured as lifetime ECL.

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

Notes to the financial statements continued

1. Accounting policies continued

Cure policy

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

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

Calculation of expected credit loss

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

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

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

ECL are calculated by multiplying three main components: the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') discounted at the original effective interest rate of an asset. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information and are discussed in turn further below. Management adjustments are made to modelled output to account for situations where known or expected risk factors have not been considered in the modelling process.

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

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

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

Exposure at default ('EAD')

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

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

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

1. Accounting policies continued

Loss given default ('LGD')

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

Incorporation of forward-looking data

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

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

Presentation of loss allowance

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

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

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

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

Motor voluntary termination provision

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

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

Write off

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

Notes to the financial statements continued

1. Accounting policies continued

Modification of loans

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

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

1.9. Derivative financial instruments

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

The Group does not hold contracts containing embedded derivatives.

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

Hedge accounting

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

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

The Group does not have hedges of net investments.

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

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

Fair value hedge accounting

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

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

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

1. Accounting policies continued

Cash flow hedge accounting

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

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

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

1.10. Intangible assets

(a) Goodwill

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

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

(b) Computer software

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

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

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

(c) Other intangibles

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

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

1.11. Investment property

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

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

1.12. Property, plant and equipment

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

Notes to the financial statements continued

1. Accounting policies continued

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

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

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

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

1.13. Leases

(a) As a lessee

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

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

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

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

(b) As a lessor

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

1.14. Cash and cash equivalents

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

1.15. Equity instruments

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

1. Accounting policies continued

1.16. Employee benefits

(a) Post-retirement obligations

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

(b) Share-based compensation

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

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

1.17. Taxation

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

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

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

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

1.18. Dividends

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

Notes to the financial statements continued

2. Critical accounting judgements and key sources of estimation uncertainty

2.1. Judgements

No critical judgements have been identified.

2.2. Key sources of estimation uncertainty

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

2.2.1. Impairment charge on loans and advances to customers

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

2.2.2. Probability of default ('PD')

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

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

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

2.2.3. Loss given default ('LGD')

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

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

2.2.4. Incorporation of forward-looking data

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

2. Critical accounting judgements and key sources of estimation uncertainty continued

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

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

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

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

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

	Increase in hard case (2019: stressed case) weighting by 10% (2019: 5%) and reduction in low case (2019: base case)		Increase in severe stress case (2019: deeper stress case) weighting by 5% and reduction in medium case (2019: base case)	
	2020 £million	2019 £million	**2020 £million**	2019 £million
Motor Finance	0.4	0.1	0.2	0.4
Retail Finance	0.5	0.2	0.2	0.7

The sensitivity is immaterial for other lending products.

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

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

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

Notes to the financial statements continued

2. Critical accounting judgements and key sources of estimation uncertainty continued

2.2.5. Debt Management forecast collections on POCI debt

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

3. Operating segments

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

Business Finance

1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate
2) Asset Finance: loans to small and medium sized enterprises to acquire commercial assets
3) Commercial Finance: invoice discounting, invoice factoring and Coronavirus Business Interruption Loan Scheme finance, for existing Commercial Finance customers.

Consumer Finance

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

Other

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

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

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

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

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

3. Operating segments continued

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

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

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

4. Operating income

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

4.1 Net interest income

	2020 £million	2019 £million
Loans and advances to customers	193.8	189.6
Cash and balances at central banks	0.4	1.0
Debt securities	0.1	0.7
	194.3	191.3
Expense on financial instruments hedging assets	(1.8)	0.1
Interest income and similar income	**192.5**	**191.4**
Deposits from customers	(39.4)	(40.4)
Due to banks	(0.7)	(2.1)
Subordinated liabilities	(3.4)	(3.4)
	(43.5)	(45.9)
Income on financial instruments hedging liabilities	1.9	(0.1)
Interest expense and similar charges	**(41.6)**	**(46.0)**
Net interest income	**150.9**	**145.4**

Notes to the financial statements continued

4. Operating income continued

4.2 Net fee and commission income

	2020 £million	2019 £million
Fee and disbursement income	14.1	17.5
Commission income	1.3	1.9
Other income	0.6	1.5
Fee and commission income	**16.0**	**20.9**
Other expenses	(0.8)	(0.8)
Fee and commission expense	**(0.8)**	**(0.8)**
Net fee and commission income	**15.2**	**20.1**

Fees and commissions income consists principally of the following:

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

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

5. Derivatives and hedge accounting

Group and Company

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

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

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

5. Derivatives and hedge accounting continued

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

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

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

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

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

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

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item			
	Assets £million	Liabilities £million	Assets £million	Liabilities £million	Balance Sheet line item	Change in fair value of hedged item for ineffectiveness assessment in the period £million
31 December 2020						
Interest rate fair value hedges						
Fixed rate Real Estate Finance loans	300.0	–	4.3	–	Loans and advances to customers	–
Fixed rate Motor Finance loans	97.2	–	0.7	–	Loans and advances to customers	–
Fixed rate Retail Finance loans	116.2	–	0.5	–	Loans and advances to customers	–
Fixed rate Consumer Mortgage loans	9.9	–	0.2	–	Loans and advances to customers	–
Fixed rate customer deposits	–	(570.2)	–	(4.7)	Deposits from customers	–
Interest rate fair value hedges	**523.3**	**(570.2)**	**5.7**	**(4.7)**		**–**
Interest rate cash flow hedge – Bank of England deposits	4.7	–	–	–	Cash and balances at Central banks	–
Total	**528.0**	**(570.2)**	**5.7**	**(4.7)**		**–**

Financial Statements

Notes to the financial statements continued

5. Gains/losses from derivatives and hedge accounting continued

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

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

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

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

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

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

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

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

	Gross amount reported on balance sheet £million	Master netting arrangements £million	Financial collateral £million	Net amounts after offsetting £million
31 December 2020				
Derivative financial assets	4.8	(4.8)	–	–
Derivative financial liabilities	(6.1)	4.8	1.3	–

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

5. Gains/losses from derivatives and hedge accounting continued

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

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

6. Losses on modification of financial assets

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

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

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

7. Operating expenses

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

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

Notes to the financial statements continued

7. Operating expenses continued

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

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

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

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

8. Average number of employees

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

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

9. Income tax expense

	2020 £million	2019 £million
Current taxation		
Corporation tax charge – current year	3.0	7.0
Corporation tax charge – adjustments in respect of prior years	(0.5)	(0.1)
	2.5	6.9
Deferred taxation		
Deferred tax charge – current year	0.9	0.7
Deferred tax charge – adjustments in respect of prior years	0.5	–
	1.4	0.7
Income tax expense	**3.9**	**7.6**

Tax reconciliation		
Profit before tax	20.1	38.7
Tax at 19.00% (2019: 19.00%)	3.8	7.4
Banking surcharge	–	0.1
Rate change on deferred tax assets	(0.1)	0.2
Prior period adjustments	–	(0.1)
Other	0.2	–
Income tax expense for the year	**3.9**	**7.6**

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

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

10. Earnings per ordinary share

10.1 Basic

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

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

Notes to the financial statements continued

10. Earnings per ordinary share continued

10.2 Diluted

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

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

11. Dividends

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

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

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

12. Loans and advances to banks

Moody's long-term ratings are as follows:

	Group 2020 £million	Group 2019 Restated £million	**Company 2020 £million**	Company 2019 Restated £million
A1	12.2	3.6	12.2	3.6
A1*/A2	44.7	39.7	43.1	36.5
A3	1.3	–	1.3	–
Arbuthnot Latham & Co., Limited – No rating	5.1	5.1	5.1	5.1
	63.3	**48.4**	**61.7**	**45.2**

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

Loans and advances to banks includes £12.7 million (2019: £9.2 million) in relation to collateral held under credit support and similar agreements, with a corresponding payable included within other liabilities. See Note 33 for a reconciliation to cash and cash equivalents. The comparatives as at December 2019 have been restated in order to correctly reflect the credit rating for 2019.

13. Debt securities

Group and Company

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

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

14. Loans and advances to customers

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

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

Group and Company

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

The following loans are secured upon real estate:

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

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

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

Group

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

15. Finance lease receivables

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

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

Notes to the financial statements continued

16. Allowances for impairment of loans and advances

Group

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

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2019						
Business Finance:						
Real Estate Finance	0.5	–	0.1	0.6	962.8	0.1%
Asset Finance	–	0.1	1.7	1.8	29.5	6.1%
Commercial Finance	0.3	–	0.6	0.9	252.6	0.4%
Consumer Finance:						
Retail Finance	10.0	11.1	4.4	25.5	714.4	3.6%
Motor Finance:						
Voluntary termination provision	6.8	–	–	6.8		
Other impairment	3.7	12.9	10.2	26.8		
	10.5	12.9	10.2	33.6	357.3	9.4%
Debt Management	–	–	(2.1)	(2.1)	80.3	(2.6%)
Consumer Mortgages	0.3	–	–	0.3	106.2	0.3%
Other	–	–	–	–	7.6	0.0%
	21.6	**24.1**	**14.9**	**60.6**	**2,510.7**	**2.4%**

16. Allowances for impairment of loans and advances continued

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

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

Total provisions above include expert credit judgements as follows:

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

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

POCI adjustment

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

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

Notes to the financial statements continued

16. Allowances for impairment of loans and advances continued

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

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2020	21.6	24.1	14.9	60.6
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.4)	33.8	–	28.4
– Transfer to stage 3	–	(20.7)	28.3	7.6
– Transfer to stage 1	3.1	(6.6)	–	(3.5)
Passage of time	(10.9)	(10.5)	3.7	(17.7)
New loans originated	11.9	–	–	11.9
Matured and derecognised loans	(2.5)	(2.9)	–	(5.4)
Changes to credit risk parameters	11.4	10.1	7.4	28.9
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.7	3.2	39.4	50.3
Allowance utilised in respect of write-offs	(2.2)	–	(26.0)	(28.2)
31 December 2020	**27.1**	**27.3**	**28.3**	**82.7**

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

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

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

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

16. Allowances for impairment of loans and advances continued

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

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

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

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

	31 December 2020				31 December 2019			
	Stage 1 £million	Stage 2 £million	Stage 3 £million	Total £million	Stage 1 £million	Stage 2 £million	Stage 3 £million	Total £million
Business Finance:								
Strong	521.8	26.9	10.4	559.1	272.1	4.1	–	276.2
Good	156.2	138.3	–	294.5	770.4	4.7	10.1	785.2
Satisfactory	391.0	14.4	0.1	405.5	126.3	23.5	0.3	150.1
Weak	4.5	22.8	15.3	42.6	10.2	15.1	8.1	33.4
	1,073.5	**202.4**	**25.8**	**1,301.7**	**1,179.0**	**47.4**	**18.5**	**1,244.9**
Consumer Finance:								
Good	288.2	76.8	5.5	370.5	317.1	58.3	3.1	378.5
Satisfactory	302.0	55.4	7.4	364.8	317.7	54.8	5.9	378.4
Weak	172.6	47.7	13.5	233.8	229.8	71.3	13.3	314.4
Consumer mortgages	77.9	–	–	77.9	105.6	0.3	0.3	106.2
Debt management	–	–	88.8	88.8	–	–	80.7	80.7
	840.7	**179.9**	**115.2**	**1,135.8**	**970.2**	**184.7**	**103.3**	**1,258.2**

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

Company

	Not credit-impaired		Credit-impaired			
	Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and receivables £million	Provision cover %
31 December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%
Consumer Finance:						
Retail Finance	13.8	8.2	3.6	25.6	683.0	3.7%
Motor Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.6	17.4	16.6	40.6		
	11.4	17.4	16.6	45.4	286.6	15.8%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	0.5	0.0%
	28.1	**28.9**	**22.9**	**79.9**	**2,349.7**	**3.4%**

Notes to the financial statements
continued

16. Allowances for impairment of loans and advances continued

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

Total provisions above include expert credit judgements as follows:

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

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

16. Allowances for impairment of loans and advances continued

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

	Not credit-impaired		Credit-impaired	
	Stage 1: Subject to 12-month ECL £million	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total £million**
At 1 January 2020	22.8	26.9	19.0	68.7
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(5.7)	36.2	–	30.5
– Transfer to stage 3	–	(22.5)	30.5	8.0
– Transfer to stage 1	3.2	(6.5)	–	(3.3)
Passage of time	(11.3)	(12.0)	1.2	(22.1)
New loans originated	12.6	–	–	12.6
Mature and derecognised loans	(2.7)	(3.2)	–	(5.9)
Changes to model methodology	–	–	–	–
Changes to credit risk parameters	11.4	10.1	(1.7)	19.8
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.6	2.1	30.0	39.7
Allowance utilised in respect of write-offs	(2.2)	–	(26.3)	(28.5)
31 December 2020	**28.2**	**29.0**	**22.7**	**79.9**

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

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

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

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

Notes to the financial statements continued

16. Allowances for impairment of loans and advances continued

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

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

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

17. Investment property

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

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

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

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

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

18. Property, plant and equipment

Group

	Freehold land and buildings £million	Leasehold property	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2019	8.2	0.1	10.7	19.0
Additions	3.5	–	2.0	5.5
Disposals	–	–	(4.5)	(4.5)
Revaluation	(1.1)	–	–	(1.1)
Transfer from intangible assets	–	–	0.2	0.2
Transfer to investment property	(3.2)	–	–	(3.2)
At 31 December 2019	**7.4**	**0.1**	**8.4**	**15.9**
Additions	–	–	0.8	0.8
Revaluation	(0.8)	–	–	(0.8)
Transfer to intangible assets	–	–	(0.1)	(0.1)
At 31 December 2020	**6.6**	**0.1**	**9.1**	**15.8**
Accumulated depreciation				
At 1 January 2019	–	–	(8.0)	(8.0)
Depreciation charge	(0.2)	–	(1.0)	(1.2)
Disposals	–	–	4.5	4.5
Revaluation	0.2	–	–	0.2
Transfer from intangible assets	–	–	(0.1)	(0.1)
At 31 December 2019	**–**	**–**	**(4.6)**	**(4.6)**
Depreciation charge	(0.1)	–	(1.3)	(1.4)
Revaluation	0.1	–	–	0.1
At 31 December 2020	**–**	**–**	**(5.9)**	**(5.9)**
Net book amount				
At 31 December 2019	**7.4**	**0.1**	**3.8**	**11.3**
At 31 December 2020	**6.6**	**0.1**	**3.2**	**9.9**

Notes to the financial statements continued

18. Property, plant and equipment continued

Company

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

The Company's freehold properties comprise:

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

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

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

18. Property, plant and equipment continued

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

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

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

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

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

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

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

19. Leasing right-of-use assets

Group

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

Notes to the financial statements continued

19. Leasing right-of-use assets continued

Company

	Leasehold property £million	Leased motor vehicles £million	Total £million
Cost			
On transition at 1 January 2019	2.9	0.2	3.1
At 31 December 2019	**2.9**	**0.2**	**3.1**
Additions	0.2	–	0.2
At 31 December 2020	**3.1**	**0.2**	**3.3**
Accumulated depreciation			
Depreciation charge	(0.5)	(0.1)	(0.6)
At 31 December 2019	**(0.5)**	**(0.1)**	**(0.6)**
Depreciation charge	(0.4)	(0.1)	(0.5)
Impairment	(0.2)	–	(0.2)
At 31 December 2020	**(1.1)**	**(0.2)**	**(1.3)**
Net book amount			
At 31 December 2019	**2.4**	**0.1**	**2.5**
At 31 December 2020	**2.0**	**–**	**2.0**

20. Intangible assets

Group

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

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

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

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

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

	Years
Distribution channel	10

Notes to the financial statements continued

20. Intangible assets continued

Company

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

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

21. Investments in group undertakings

Company

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

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

Details are as follows:

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

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

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

Notes to the financial statements
continued

22. Deferred taxation

	Group 2020 £million	Group 2019 £million	Company 2020 £million	Company 2019 £million
Deferred tax assets:				
Other short-term timing differences	5.9	7.5	6.4	8.1
Deferred tax assets	**5.9**	**7.5**	**6.4**	**8.1**
Deferred tax assets:				
Prior period closing	7.5	7.9	8.1	7.8
Tax on IFRS 16 transition adjustment	–	0.2	–	0.2
At 1 January	7.5	8.1	8.1	8.0
Income statement	(1.4)	(0.7)	(1.3)	(0.2)
Other comprehensive income	(0.2)	0.1	(0.4)	0.3
At 31 December	**5.9**	**7.5**	**6.4**	**8.1**

23. Other assets

	Group 2020 £million	Group 2019 £million	Company 2020 £million	Company 2019 £million
Other receivables	3.3	5.2	2.3	4.5
Amounts due from related companies	–	–	90.9	88.5
Cloud software development prepayment	8.2	6.4	8.2	6.4
Other prepayments and accrued income	7.7	5.7	6.6	4.4
	19.2	**17.3**	**108.0**	**103.8**

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

24. Due to banks

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

25. Deposits from customers

Group and Company

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

26. Lease liabilities

Group

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

Notes to the financial statements continued

26. Lease liabilities continued

Company

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

27. Other liabilities

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

28. Provisions for liabilities and charges

Group and Company

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

Customer redress provision

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

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

ECL allowance on loan commitments

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

Other

Other includes provision for fraud, which relates to cases where the Bank has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately, restructuring provision and s75 Consumer Credit Act 1974 provision.

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

29. Subordinated liabilities

Group and Company

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

Notes to the financial statements
continued

29. Subordinated liabilities continued

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

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

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

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

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

30. Contingent liabilities and commitments

30.1 Contingent liabilities

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

30.2 Capital commitments

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

30.3 Credit commitments

Group and Company

Commitments to extend credit to customers were as follows:

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

31. Share capital

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

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

32. Share-based payments

At 31 December 2020 and 31 December 2019, the Group had five share-based payment schemes in operation:

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

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

	Outstanding at 1 January 2020 Number	Granted during the year Number	Forfeited lapsed and cancelled during the year Number	Exercised during the year Number	Outstanding at 31 December 2020 Number	Vested and exercisable at 31 December 2020 Number	Vesting dates	Weighted average exercise price of options outstanding at 31 December 2019 £	Weighted average exercise price of options outstanding at 31 December 2020 £
Equity settled									
Share option scheme	141,667	–	–	(141,667)	–	–	2016	–	7.20
2017 long term incentive plan	263,094	267,602	(54,951)	(2,649)	473,096	6,128	2021–2023	0.40	0.40
2017 sharesave plan	163,642	486,254	(77,432)	–	572,464	57,724	2021–2023	6.42	12.28
2017 deferred bonus plan	29,662	35,040	–	(13,383)	51,319	–	2021–2023	0.40	0.40
	598,065	**788,896**	**(132,283)**	**(157,699)**	**1,096,879**	**63,852**		**4.22**	**5.26**
Cash settled									
'Phantom' share option scheme	**281,667**	**–**	**–**	**–**	**281,667**	**281,667**	**2019**	**25.00**	**25.00**

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

32.1. Share option scheme

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

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

32.2. Long term incentive plan

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

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

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

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

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

Notes to the financial statements continued

32. Share-based payments continued

32.2. Long term incentive plan continued

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

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

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

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

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

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

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

32. Share-based payments continued

32.3. Sharesave plan

The sharesave plan was established on 3 May 2017.

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

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

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

32.4. Deferred bonus plan

The deferred bonus plan was established on 3 May 2017.

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

	Awards granted Vesting after one year Number	Awards granted Vesting after two years Number	Awards granted Vesting after three years Number	Awards granted Total
At 1 January 2019	4,896	4,896	4,898	14,690
Granted	9,591	9,591	9,593	28,775
Exercised	(1,399)	–	–	(1,399)
Cancelled	(3,202)	(4,601)	(4,601)	(12,404)
At 31 December 2019	**9,886**	**9,886**	**9,890**	**29,662**
Granted	11,679	11,679	11,682	35,040
Exercised	(9,886)	(3,497)	–	(13,383)
At 1 December 2020	**11,679**	**18,068**	**21,572**	**51,319**
Vested and exercisable	–	–	–	–

Notes to the financial statements continued

32. Share-based payments continued

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

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

32.5. Cash settled share-based payments

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

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

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

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

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

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

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

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

33. Cash flow statement

33.1. Cash and cash equivalents

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

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

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

33.2. Changes in liabilities arising from financing activities

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

34. Financial risk management strategy

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

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

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

35. Credit risk

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

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

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

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

Notes to the financial statements continued

35. Credit risk continued

For Real Estate Finance and Commercial Finance, lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in the lending policies. Asset Finance lending is outsourced to Haydock, who operate in line with the Group's credit policies and risk appetite, and is currently closed to new business. The loans are secured against the assets lent against (real estate, trade receivables and commercial plant and equipment. Disclosures relating to collateral on loans and advances to customers are disclosed in Note 14.

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

Group

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

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

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

35. Credit risk continued

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2019								
Business Finance								
Real Estate Finance	910.2	33.7	2.8	36.5	16.1	–	16.1	962.8
Asset Finance	23.8	3.6	0.3	3.9	1.8	–	1.8	29.5
Commercial Finance	245.0	7.0	–	7.0	0.6	–	0.6	252.6
Consumer Finance								
Retail Finance	624.1	80.3	4.5	84.8	5.5	–	5.5	714.4
Motor Finance	240.5	96.9	2.7	99.6	17.2	–	17.2	357.3
Debt Management	–	–	–	–	10.3	70.0	80.3	80.3
Consumer Mortgages	105.6	–	0.3	0.3	0.3	–	0.3	106.2
Other	7.6	–	–	–	–	–	–	7.6
Total drawn exposure	**2,156.8**	**221.5**	**10.6**	**232.1**	**51.8**	**70.0**	**121.8**	**2,510.7**
Off balance sheet								
Loan commitments	203.3	–	–	–	–	–	–	203.3
Total gross exposure	**2,360.1**	**221.5**	**10.6**	**232.1**	**51.8**	**70.0**	**121.8**	**2,714.0**
Less:								
Impairment allowance	(21.6)	(19.8)	(4.3)	(24.1)	(17.0)	2.1	(14.9)	(60.6)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,338.1**	**201.7**	**6.3**	**208.0**	**34.8**	**72.1**	**106.9**	**2,653.0**

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

Notes to the financial statements continued

35. Credit risk continued

Company

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

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								
Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Motor Finance	174.0	87.5	2.6	90.1	22.5	–	22.5	286.6
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	0.5	–	–	–	–	–	–	0.5
Total drawn exposure	**1,912.0**	**338.8**	**45.6**	**384.4**	**53.3**	**–**	**53.3**	**2,349.7**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,173.5**	**338.8**	**45.6**	**384.4**	**53.3**	**–**	**53.3**	**2,611.2**
Less:								
Impairment allowance	(28.1)	(24.2)	(4.7)	(28.9)	(22.9)	–	(22.9)	(79.9)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,144.3**	**314.6**	**40.9**	**355.5**	**30.4**	**–**	**30.4**	**2,530.2**

35. Credit risk continued

	Stage 1	Stage 2			Stage 3			Total
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit-impaired £million	Purchased credit-impaired £million	Total £million	£million
31 December 2019								
Business Finance								
Real Estate Finance	910.2	33.7	2.8	36.5	16.1	–	16.1	962.8
Asset Finance	23.8	3.6	0.3	3.9	1.8	–	1.8	29.5
Commercial Finance	244.0	7.0	–	7.0	0.6	–	0.6	251.6
Consumer Finance								
Retail Finance	624.1	80.3	4.5	84.8	5.5	–	5.5	714.4
Motor Finance	240.5	96.9	2.7	99.6	17.2	–	17.2	357.3
Consumer Mortgages	105.6	–	0.3	0.3	0.3	–	0.3	106.2
Other	0.5	–	–	–	–	–		0.5
Total drawn exposure	**2,148.7**	**221.5**	**10.6**	**232.1**	**41.5**	**–**	**41.5**	**2,422.3**
Off balance sheet								
Loan commitments	203.3	–	–	–	–	–	–	203.3
Total gross exposure	**2,352.0**	**221.5**	**10.6**	**232.1**	**41.5**	**–**	**41.5**	**2,625.6**
Less:								
Impairment allowance	(22.8)	(22.1)	(4.8)	(26.9)	(19.0)	–	(19.0)	(68.7)
Provision for loan commitments	(0.4)	–	–	–	–	–	–	(0.4)
Total net exposure	**2,328.8**	**199.4**	**5.8**	**205.2**	**22.5**	**–**	**22.5**	**2,556.5**

35.1. Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations the Directors consider the lending operations of the Group as a whole to be well diversified. Details of the Group's loans and advances to customers and loan commitments by product is provided in Notes 3 and 30 respectively.

Geographical concentration

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

Group and Company

	Real Estate Finance £million	Consumer Mortgages £million
31 December 2020		
Central England	139.7	14.6
Greater London	638.4	10.2
Northern England	65.8	16.2
South East England (excl. Greater London)	171.3	25.6
South West England	18.1	7.3
Scotland, Wales and Northern Ireland	24.0	4.0
Gross loans and receivables	1,057.3	77.9
Allowance for impairment	(5.4)	(0.2)
Total	**1,051.9**	**77.7**

Notes to the financial statements continued

35. Credit risk continued

	Real Estate Finance £million	Consumer Mortgages £million
31 December 2019		
Central England	127.1	19.9
Greater London	601.8	13.5
Northern England	48.5	21.2
South East England (excl. Greater London)	160.8	35.3
South West England	12.8	11.0
Scotland, Wales and Northern Ireland	11.8	5.3
Gross loans and receivables	962.8	106.2
Allowance for impairment	(0.6)	(0.3)
Total	**962.2**	**105.9**

35.2. Forbearance

During the year Business Finance and Consumer Finance offered payment holidays to customers to manage the impact of COVID-19.

Business Finance

- Real Estate Finance: Where clients provided evidence of payment difficulties, the business supported clients by providing one, or both of extensions to maturity dates and altered payment profiles to provide short-term payment holidays for all or part of rentals due. In total, 15% of customers by volume had been granted a form of payment holiday during the year. As at 31 December 2020 this fell to 1%, falling to nil shortly after year end.
- Asset Finance: The Group agreed to support its customers with short-term payment reductions and/or payment holidays where requested. During the year, the volume of customers who were granted payment holidays was around 65%, falling to 2% as at 31 December 2020.

Consumer Finance

- Retail Finance: Approximately 2.1% of customers were granted payment holidays, with only 0.5% remaining on a payment holiday as at 31 December 2020
- Motor Finance: Approximately 15.6% of customers were granted payment holidays, with only 1.2% remaining on a payment holiday as at 31 December 2020
- Consumer Mortgages A significant proportion of customers were granted payment holidays during 2020. The majority of these had returned to regular payments, with just 3% of customers remaining on a payment holiday as at 31 December 2020

Where consumer customers have come to the end of their payment holiday, under COVID-19 arrangements, and have been unable to return to regular payments, they have been provided with a reduced payment arrangement. In addition, a limited number of mortgage customers have been provided with a temporary switch to interest only (5 accounts).

Other than Consumer Mortgages, throughout 2020 the Group did not routinely reschedule contractual arrangements where customers default on their repayments. In cases where it offered the customer the option to reduce or defer payments for a short period, the loans retained the normal contractual payment due dates and were treated the same as any other defaulting cases for impairment purposes. Arrears tracking would continue on the account with any impairment charge being based on the original contractual due dates for all products.

For mortgage customers, should they face financial difficulties, the Group may, depending on individual circumstances, offer customers one of a number of forbearance options. The types of forbearance the Group was prepared to offer included the following:

- Temporary interest-only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. Where payments are made, the arrears status will not increase
- Arrangement payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment
- Payment concessions can be agreed on a temporary basis whereby the customer may pay less than the contractual monthly payment, in line with their individual affordability. If a customer is within this type of concession, their arrears position will increase
- In exceptional circumstances, capitalisations of arrears may occur or an interest rate adjustment may be applied. These are used under strict controls, explicitly where the customer circumstances offer no other option

All forbearance arrangements are formally discussed and agreed with the customer. By offering customers in financial difficulty the option of forbearance the Group potentially exposes itself to an increased level of risk through prolonging the period of noncontractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period. All forbearance arrangements are reviewed and monitored regularly to assess the ongoing potential risk, suitability and sustainability to the Group.

Where forbearance measures are not possible or are considered not to be in the customer's best interests, or where such measures have been tried and the customer has not adhered to the forbearance terms that have been agreed, the Group will consider realising its security and taking possession of the property in order to sell it and clear the outstanding debt.

36. Market risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. There are no significant exposures to foreign currencies and therefore there is no significant currency risk. The Group does not operate a trading book.

Interest rate risk

Group and Company

Interest rate risk is the risk of potential loss through unhedged or mismatched asset and liability positions, which are sensitive to changes in interest rates. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Group's assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect the Group's earnings by altering interest sensitive income and expenses, affecting its net interest income.

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

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

	2020 £million	2019 £million
Market value sensitivity		
+200bps parallel shift in yield curve	2.2	2.6
-200bps parallel shift in yield curve	0.1	(1.0)
Earnings at risk sensitivity		
+100bps parallel shift in yield curve	1.0	0.6
-100bps parallel shift in yield curve	(0.1)	N/A

The Directors consider that 200bps in the case of Market value sensitivity and 100bps in the case of Earnings at risk are a reasonable approximation of possible changes.

A zero percent interest rate floor is applied to the above metrics. In addition to these floored metrics, the senior management team also monitors the Group's exposure to a possible negative rate environment.

The Group maintained such exposures within the risk appetite set by the Board throughout the year.

Interest rate risks inherent in new products or through changes to the terms and conditions of existing products were assessed over the course of the year.

This potential exposure is managed by the Group Treasury function and overseen by ALCO. The policy is not to take significant unmatched positions.

Notes to the financial statements
continued

37. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The Group has a formal governance structure in place to manage and mitigate liquidity risk on a day-to-day basis. The Board sets and approves the Group's liquidity risk management strategy. The ALCO, comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. government securities in the liquidity asset buffer), and it maintains a conservative funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities as they fall due, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The Group operates a Board approved ILAAP, which requires the Group to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with the risk appetite as established by the Board. The ILAAP seeks to document the Group's approach to liquidity and funding, and demonstrate that it complies with the Overall Liquidity Adequacy Rule ('OLAR'). The PRA's approach to liquidity supervision is based on the principle that a firm must have adequate levels of liquidity resources and a conservative funding profile, and that it comprehensively manages and controls liquidity and funding risks. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The primary measure used by management to assess the adequacy of liquidity is the OLAR, which is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP. The Group maintained liquidity in excess of the OLAR throughout the year ended 31 December 2020.

The LCR regime has applied to the Group from 1 October 2016, requiring management of net 30-day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more conservative internal limit. The actual LCR has significantly exceeded both limits throughout the year.

The Group is subject to daily calls on its available cash resources from maturing deposits and loan draw-downs and maintains significant resources to meet all of these needs as they fall due.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

37. Liquidity risk continued

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

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2020						
Non-derivative financial liabilities						
Due to banks	276.4	276.7	13.4	113.3	150.0	–
Deposits from customers	1,992.5	2,029.3	919.4	496.5	609.7	3.7
Subordinated liabilities	50.8	59.2	0.8	2.5	55.9	–
Other financial liabilities	46.2	46.2	46.2	–	–	–
	2,365.9	**2,411.4**	**979.8**	**612.3**	**815.6**	**3.7**
Derivative financial liabilities						
Derivative financial instruments	6.1	4.6	0.5	1.5	2.6	–
	2,372.0	**2,416.0**	**980.3**	**613.8**	**818.2**	**3.7**

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2019						
Non-derivative financial liabilities						
Due to banks	308.5	312.1	0.5	46.7	264.9	–
Deposits from customers	2,020.3	2,086.4	292.3	1,055.0	706.8	32.3
Subordinated liabilities	50.6	61.8	0.9	2.5	58.4	–
Other financial liabilities	27.2	27.2	27.2	–	–	–
	2,406.6	**2,487.5**	**320.9**	**1,104.2**	**1,030.1**	**32.3**
Derivative financial liabilities						
Derivative financial instruments	0.6	0.7	0.1	0.2	0.4	–
	2,407.2	**2,488.2**	**321.0**	**1,104.4**	**1,030.5**	**32.3**

Notes to the financial statements continued

37. Liquidity risk continued

Company

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2020						
Non-derivative financial liabilities						
Due to banks	276.4	276.7	13.4	113.3	150.0	–
Deposits from customers	1,992.5	2029.3	919.4	496.5	609.7	3.7
Subordinated liabilities	50.8	59.2	0.8	2.5	55.9	–
Other financial liabilities	41.1	41.1	41.1	–	–	–
	2,360.8	**2,406.3**	**974.7**	**612.3**	**815.6**	**3.7**
Derivative financial liabilities						
Derivative financial instruments	6.1	4.6	0.5	1.5	2.6	–
	2,366.9	**2,410.9**	**975.2**	**613.8**	**818.2**	**3.7**

	Carrying amount £million	Gross nominal outflow £million	Not more than three months £million	More than three months but less than one year £million	More than one year but less than five years £million	More than five years £million
At 31 December 2019						
Non-derivative financial liabilities						
Due to banks	308.5	312.1	0.5	46.7	264.9	–
Deposits from customers	2,020.3	2,086.4	292.3	1,055.0	706.8	32.3
Subordinated liabilities	50.6	61.8	0.9	2.5	58.4	–
Other financial liabilities	31.0	31.0	31.0	–	–	–
	2,410.4	**2,491.3**	**324.7**	**1,104.2**	**1,030.1**	**32.3**
Derivative financial liabilities						
Derivative financial instruments	0.6	0.7	0.1	0.2	0.4	–
	2,411.0	**2,492.0**	**324.8**	**1,104.4**	**1,030.5**	**32.3**

Other financial liabilities, as shown above, do not include non-interest accruals as these are not classed as financial liabilities.

38. Capital risk

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

In accordance with CRD IV and the required parameters set out in the Capital Requirements Regulation, the Group's ICAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, as a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

The PRA sets a Total Capital Requirement ('TCR') for each UK bank, consisting of Pillar 1 and Pillar 2. Pillar 1 capital is calculated using standardised risk weights for credit, market and operational risk. Where it is considered that the Pillar 1 calculations do not reflect the risk, an additional capital add-on, Pillar 2, is added.

The Group ICAAP includes a summary of the capital required to mitigate the identified risks and the amount of capital that the Group has available. The ICAAP is a key input into the PRA's supervisory review which addresses the additional capital requirements of Pillar 2 of the Basel II framework. The PRA's approach is to monitor the available capital resources in relation to the TCR.

The Group maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to. The PRA reviewed the Group's ICAAP in 2018 and issued its updated TCR in March 2019.

Further information on capital is included within our Pillar 3 disclosures, which can be found on the Group's website.

The following table, which is unaudited and therefore not in scope of the independent auditor's report, shows the regulatory capital resources for the Group. The Group has adopted the IFRS 9 transitional rules. As a response to COVID-19 the Basel Committee proposed a number of mitigation measures for the capital regime in response to the pandemic. These were enacted by the EU on 24 June 2020 as Directive EU/2020/873. This allows for any increase in IFRS 9 provisions recognised in 2020 (net of attributable deferred tax) to be added back to eligible Tier 1 capital, in addition to 70% (2018: 85%) of the initial IFRS 9 transition adjustment, and movements since IFRS 9 adoption and 31 December 2019 (net of attributable deferred tax) to be added back to eligible Tier 1 capital.

Tier 2 capital comprises solely subordinated debt, excluding accrued interest, capped at 25% of the capital requirement.

Notes to the financial statements continued

38. Capital risk continued

	2020 £million (unaudited)	2019 £million (unaudited)
Tier 1		
Share capital	7.5	7.4
Share premium	82.2	81.2
Retained earnings	179.9	164.4
Revaluation reserve	0.9	1.1
IFRS 9 transition adjustment	26.9	22.8
Goodwill	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(4.5)	(7.9)
CET1 capital before foreseen dividend	**291.9**	**268.0**
Proposed dividend	(8.2)	–
CET1 capital	**283.7**	**268.0**
Tier 2		
Subordinated liabilities	50.8	50.6
Less ineligible portion	(5.7)	(0.6)
Total Tier 2 capital	**45.1**	**50.0**
Own Funds	**328.8**	**318.0**
Reconciliation to total equity:		
IFRS 9 transition adjustment	(26.9)	(22.8)
Eligible subordinated liabilities	(45.1)	(50.0)
Goodwill and other intangible assets net of attributable deferred tax	5.5	8.9
Proposed dividend	8.2	–
Total equity	**270.5**	**254.1**

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

The Group raised Tier 2 capital in 2018. Further details of the capital issuance are given in Note 29.

39. Classification of financial assets and liabilities

Group

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2020			
Cash and balances at central banks	181.5	181.5	Level 1
Loans and advances to banks	63.3	63.3	Level 2
Debt securities	–	–	–
Loans and advances to customers	2,358.9	2,420.6	Level 3
Fair value adjustment for portfolio hedged risk	5.7	5.7	Level 3
Derivative financial instruments	4.8	4.8	Level 2
Other financial assets	3.3	3.3	Level 3
	2,617.5	**2,679.2**	
Due to banks	276.4	276.4	Level 2
Deposits from customers	1,992.5	2,010.2	Level 3
Fair value adjustment for portfolio hedged risk	4.7	4.7	Level 3
Derivative financial instruments	6.1	6.1	Level 2
Other financial liabilities	46.2	46.2	Level 3
Subordinated liabilities	50.8	50.6	Level 2
	2,376.7	**2,394.2**	

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2019			
Cash and balances at central banks	105.8	105.8	Level 1
Loans and advances to banks	48.4	48.4	Level 2
Debt securities	25.0	25.0	Level 1
Loans and advances to customers	2,450.1	2,416.2	Level 3
Fair value adjustment for portfolio hedged risk	(0.9)	(0.9)	Level 3
Derivative financial instruments	0.9	0.9	Level 2
Other financial assets	5.2	5.2	Level 3
	2,634.5	**2,600.6**	
Due to banks	308.5	308.5	Level 2
Deposits from customers	2,020.3	2,016.9	Level 3
Fair value adjustment for portfolio hedged risk	(0.7)	(0.7)	Level 3
Derivative financial instruments	0.6	0.6	Level 2
Other financial liabilities	27.2	27.2	Level 3
Subordinated liabilities	50.6	50.6	Level 2
	2,406.5	**2,403.1**	

All financial assets and liabilities at 31 December 2020 and 31 December 2019 were carried at amortised cost, except for derivative financial instruments which are value at fair value through profit and loss. Therefore, for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

Notes to the financial statements continued

39. Classification of financial assets and liabilities continued

Company

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2020			
Cash and balances at central banks	181.5	181.5	Level 1
Loans and advances to banks	61.7	61.7	Level 2
Debt securities	–	–	–
Loans and advances to customers	2,269.8	2,331.3	Level 3
Fair value adjustment for portfolio hedged risk	5.7	5.7	Level 3
Derivative financial instruments	4.8	4.8	Level 2
Other financial assets	2.3	2.3	Level 3
	2,525.8	**2,587.3**	
Due to banks	276.4	276.4	Level 2
Deposits from customers	1,992.5	2,010.2	Level 3
Fair value adjustment for portfolio hedged risk	4.7	4.7	Level 3
Derivative financial instruments	6.1	6.1	Level 2
Other financial liabilities	41.1	41.1	Level 3
Subordinated liabilities	50.8	50.6	Level 2
	2,371.6	**2,389.1**	

	Total carrying amount £million	Fair value £million	Fair value hierarchy level
At 31 December 2019			
Cash and balances at central banks	105.8	105.8	Level 1
Loans and advances to banks	45.2	45.2	Level 2
Debt securities	25.0	25.0	Level 1
Loans and advances to customers	2,353.6	2,319.7	Level 3
Fair value adjustment for portfolio hedged risk	(0.9)	(0.9)	Level 3
Derivative financial instruments	0.9	0.9	Level 2
Other financial assets	93.0	93.0	Level 3
	2,622.6	**2,588.7**	
Due to banks	308.5	308.5	Level 2
Deposits from customers	2,020.3	2,016.9	Level 3
Fair value adjustment for portfolio hedged risk	(0.7)	(0.7)	Level 3
Derivative financial instruments	0.6	0.6	Level 2
Other financial liabilities	31.0	31.0	Level 3
Subordinated liabilities	50.6	50.6	Level 2
	2,410.3	**2,406.9**	

All financial assets and liabilities at 31 December 2020 and 31 December 2019 were carried at amortised cost except for derivative financial instruments which are valued at fair value through profit and loss. Therefore, for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Fair value classification

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

39. Classification of financial assets and liabilities continued

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

Loans and advances to customers and Deposits from customers

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

Debt securities

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

Derivative financial instruments

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

Subordinated liabilities

The fair value subordinated liabilities is calculated based on quoted market prices where available, or where an active market quote is not available, a proxy is used from similar issuances.

For all remaining financial assets and liabilities, the fair value of financial assets and liabilities is calculated to be equivalent to their carrying value, due to their short maturity dates.

Notes to the financial statements
continued

40. Related party transactions

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

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits as set out below. The tables that follow relate to Key Management Personnel, members of their close family and related entities as described above:

	2020 £million	2019 £million
Loans		
Loans outstanding at 1 January	4.4	4.2
Loans advanced	–	1.3
Loan repayments	–	(1.3)
Interest applied	–	0.2
Change in related parties during the year	**(4.0)**	–
Loans outstanding at 31 December	**0.4**	**4.4**
Deposits		
Deposits outstanding at 1 January	0.2	0.4
Change in related parties during the year	–	(0.2)
Deposits outstanding at 31 December	**0.2**	**0.2**

The loans outstanding above comprise the following:

- A £0.4 million advance (2019: £0.4 million) as part of a refinanced £0.4 million facility agreed with a company in which a member of the Key Management Personnel of the Company holds 50% of the voting shares, which is secured by property and personal guarantees
- In the prior year, a £4.0 million advance as part of a revised £4.1 million facility agreed with a member of the Key Management Personnel of the Company, who left the Group during the current year, which is secured by property and certain other undertakings

Both of these transactions were agreed by the Group's Real Estate Finance business and arose during the normal course of business. Both loans were subject to the usual Board governance and Credit Committee approval procedures and are on substantially the same terms as for comparable transactions with third parties.

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

	2020 £million	2019 £million
Interest income and similar income	(18.8)	(22.2)
Gain on sale of defaulted debt	0.2	0.2
Operating expenses	(0.8)	(1.0)
Investment income	5.7	15.1
	(13.7)	**(7.9)**

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

	Company 2020 £million	Company 2019 £million
Amounts receivable from subsidiary undertakings	86.7	88.5
Amounts due to subsidiary undertakings	(12.6)	(5.5)
	74.1	**83.0**

All amounts above are repayable on demand and the Company charged interest at a variable rate on amounts outstanding.

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Directors' Remuneration Report beginning on page 83.

At the year-end the ordinary shares held by the Directors are disclosed in the Directors' report beginning on page 98. Details of the Directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' report.

41. Immediate parent company and ultimate controlling party

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

42. Country-by-Country reporting

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

The Country-by-Country Information is set out below:

Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
31 December 2020						
Secure Trust Bank PLC	Banking services	UK	208.5	1,021	20.1	4.8

Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
31 December 2019						
Secure Trust Bank PLC	Banking services	UK	212.3	979	38.7	7.6

43. Post balance sheet events

Since 31 December 2020, in response to the COVID-19 pandemic, the government has announced an extension of the furlough scheme until September 2021. This intervention is likely to impact UK unemployment and other economic variables. A further lockdown period was also put into place in 2021. The Group has concluded that neither of these events impacted the Group's results as at 31 December 2020, and both therefore are non-adjusting events.

Further information on expected Corporation Tax changes announced in the Budget in March 2021 are included in Note 9.

Five year summary (unaudited)

	2020 £million	2019 £million	2018 £million	2017 £million	2016 £million
Profit for the year					
Interest and similar income	192.5	191.4	169.2	149.3	141.1
Interest expense and similar charges	(41.6)	(46.0)	(35.5)	(26.7)	(26.3)
Net interest income	**150.9**	**145.4**	**133.7**	**122.6**	**114.8**
Net fee and commission income	15.2	20.1	17.9	14.9	14.5
Operating income	**166.1**	**165.5**	**151.6**	**137.5**	**129.3**
Impairment charge on loans and advances to customers	(51.3)	(32.6)	(32.4)	(36.9)	(30.3)
Losses on modification of financial assets	(3.1)	–	–	–	–
Operating expenses	(91.6)	(94.2)	(84.5)	(71.6)	(71.5)
Profit on sale of equity instruments available-for-sale	–	–	–	0.3	–
Profit before income tax	**20.1**	**38.7**	**34.7**	**29.3**	**27.5**

	2020 £million	2019 £million	2018 £million	2017 £million	2016 £million
Earnings per share for profit attributable to the equity holders of the Group during the year					
(expressed in pence per share) – basic	87.0	168.3	153.2	128.8	754.1

	2020 £million	2019 £million	2018 £million	2017 £million	2016 £million
Financial position					
Cash and balances at central banks	181.5	105.8	169.7	226.1	112.0
Loans and advances to banks	63.3	48.4	44.8	34.3	18.2
Debt securities	–	25.0	149.7	5.0	20.0
Loans and advances to customers	2,358.9	2,450.1	2,028.9	1,598.3	1,321.0
Fair value adjustment for portfolio hedged risk	5.7	(0.9)	–	–	–
Derivative financial instruments	4.8	0.9	–	–	–
Other assets	49.9	53.5	51.2	27.9	38.8
Total assets	**2,664.1**	**2,682.8**	**2,444.3**	**1,891.6**	**1,510.0**
Due to banks	276.4	308.5	263.5	113.0	70.0
Deposits from customers	1,992.5	2,020.3	1,847.7	1,483.2	1,151.8
Fair value adjustment for portfolio hedged risk	4.7	(0.7)	–	–	–
Derivative financial instruments	6.1	0.6	–	–	–
Subordinated liabilities	50.8	50.6	50.4	–	–
Other liabilities	63.1	49.4	45.6	46.3	52.2
Total shareholders’ equity	270.5	254.1	237.1	249.1	236.0
Total liabilities and shareholders’ equity	**2,664.1**	**2,682.8**	**2,444.3**	**1,891.6**	**1,510.0**

Appendix to the Annual Report (unaudited)

Key performance indicators

(i) Margin ratios

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book; net revenue margin is calculated as operating income for the financial period as a percentage of the average loan book and gross revenue margin is calculated as interest income and similar income plus fee and commission income for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over 13 months:

	2020 £million	2019 £million
Net interest margin		
Interest income and similar income	192.5	191.4
Interest expense and similar charges	(41.6)	(46.0)
Net interest income	150.9	145.4
Net revenue margin		
Net interest income	150.9	145.4
Net fee and commission income	15.2	20.1
Operating income	166.1	165.5
Gross revenue margin		
Interest income and similar income	192.5	191.4
Fee and commission income	16.0	20.9
Gross revenue	208.5	212.3
Opening loan book	2,450.1	2,028.9
Closing loan book	2,358.9	2,450.1
Average loan book	2,406.0	2,252.4
Net interest margin	**6.3%**	**6.5%**
Net revenue margin	**6.9%**	**7.3%**
Gross revenue margin	**8.7%**	**9.4%**

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

(ii) Cost ratios

Cost of risk is calculated as the impairment charge on loans and advances to customers for the financial period as a percentage of the average loan book; cost of funds is calculated at interest expense for the financial period as a percentage of average loan book and cost to income ratio is calculated as operating expenses for the financial period as a percentage of operating income for the financial period:

Appendix to the Annual Report (unaudited) continued

	2020 £million	2019 £million
Net impairment charge on loans and advances to customers	51.3	32.6
Losses on modification of financial assets	3.1	–
Total loan impairment charges	54.4	32.6
Average loan book	2,406.0	2,252.4
Cost of risk	**2.3%**	**1.4%**
Interest expense	41.6	46.0
Average loan book	2,406.0	2,252.4
Cost of funds	**1.7%**	**2.0%**
Operating expenses	91.6	94.2
Operating income	166.1	165.5
Cost to income ratio	**55.1%**	**56.9%**

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

(iii) Return ratios

Adjustments to profit have been removed for 2020. Return metrics for both 2020 and 2019 are now stated on a statutory rather than adjusted basis.

Annualised return on average assets is calculated as the profit after tax for the previous 12 months as a percentage of average assets, annualised return on average equity is calculated as the profit after tax for the previous 12 months as a percentage of average equity and annualised return on required equity is calculated as the profit after tax for the previous 12 months as a percentage of average required equity.

Average assets is calculated as the average of the monthly assets balances, average equity is calculated as the average of the monthly equity balances and average required equity is calculated as the average of the monthly balances of total required equity. Total required equity is calculated as the equity required to achieve a CET1 ratio of 12%.

	2020 £million	2019 £million
Profit after tax	16.2	33.0
Opening assets	2,682.8	2,448.6
Closing assets	2,664.1	2,682.8
Average assets	2,692.5	2,554.9
Opening equity	254.1	237.0
Closing equity	270.5	254.1
Average equity	263.6	243.6
Opening required equity	251.8	217.8
Closing required equity	240.2	251.8
Average required equity	250.2	234.5
Return on average assets	**0.6%**	**1.3%**
Return on average equity	**6.1%**	**13.5%**
Return on required equity	**6.5%**	**14.1%**

Return on average assets demonstrates how profitable the Group's assets are in generating revenue. Return on average equity is a measure of the Group's ability to generate profit from the equity available to it. Return on required equity relates profitability to the capital that the Group is required to hold.

(iv) Funding ratios

The loan to deposit ratio is calculated as the loan book at the year-end, divided by deposits from customers at the year-end, and the total funding ratio is calculated as the total funding at the year-end, being the sum of deposits from customers, borrowings under liquidity support operations and the Term Funding Scheme, and equity, divided by the loan book at the year-end:

	2020 £million	2019 £million
Loan book	2,358.9	2,450.1
Deposits from customers	1,992.5	2,020.3
Borrowings under liquidity support operations and the Term Funding Scheme	273.1	308.5
Tier 2 capital (including accrued interest)	50.8	50.6
Equity	270.5	254.1
Total funding	2,586.9	2,633.5
Loan to deposit ratio	**118.4%**	**121.3%**
Total funding ratio	**109.7%**	**107.5%**

The funding ratios measure the Group's liquidity.

(v) Adjusted earnings per share

Adjustments to profit have been removed for 2020, however information on the 2019 adjusted earnings per share has been provided below for the purposes of Director's Remuneration.

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

	2020	2019
Adjusted profit attributable to equity holders of the parent (£million)	16.2	33.0
Weighted average number of ordinary shares (number)	18,615,480	18,476,280
Adjusted earnings per share (pence)	**87.0**	**178.6**

Appendix to the Annual Report (unaudited) continued

(vi) Adjusted profit

Adjustments to profit have been removed for 2020, however information on the 2019 adjusted profit has been provided below for the purposes of Director's Remuneration.

Adjusted profit before tax was £20.1 million (2019: £41.1 million). Adjusted profit after tax was £16.2 million (2019: £33.0 million).

	2020 £million	2019 £million
Statutory profit before tax	20.1	38.7
Adjustments to profit before tax		
Fair value amortisation	–	0.2
Transformation costs	–	1.0
Bonus payments	–	0.1
Revaluation deficit	–	1.1
Adjustments to profit before tax	–	2.4
Adjusted profit before tax	**20.1**	**41.1**
Statutory income tax expense	(3.9)	(7.6)
Income tax expense on adjustments to profit	–	(0.5)
Adjusted income tax expense	(3.9)	(8.1)
Adjusted profit after tax	**16.2**	**33.0**
Statutory profit after tax	16.2	31.1

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

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

Transformation costs comprised principally costs of the Motor Transformation Programme and treasury development.

Bonus payments related to a long-term incentive plan that was set up for a small number of employees on the creation of the Commercial Finance business. The scheme is based on profits earned by that business up to the end of 2019, and was payable in 2020.

The revaluation deficit related to stamp duty and irrecoverable VAT incurred on the acquisition of a freehold property during the year.

Glossary

Term	Explanation
ALCO	The Assets and Liabilities Committee. The remit of the Committee can be found on the Group's website: www.securetrustbank.com/our-corporate-information/risk-management.
Bank of England	The Bank of England promotes the good of the people of the United Kingdom by maintaining monetary and financial stability. It also performs a supervisory role of the banking system via the Prudential Regulation Authority.
CET1 capital	Common Equity Tier 1 capital comprises of share capital, share premium, retained earnings, revaluation reserve and regulatory adjustments.
CET1 capital ratio	The Common Equity Tier 1 capital ratio is the ratio of the bank's CET1 capital to its Total Risk Exposure. This signifies a bank's financial strength. The CET1 capital ratio is monitored by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent.
CRD IV	CRD IV is EU legislation (Capital Requirement Regulation and Capital Requirements Directive) and implemented the Basel III agreement in the EU. This included enhanced requirements for the quality and quantity of capital; a basis for new liquidity and leverage requirements; new rules for counterparty risk; and new macroprudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions.
Credit-impaired assets	Financial assets that are considered to be in default or 'stage 3' assets. There are no material differences in the Group's definition of 'stage 3', credit-impaired or default assets. Financial assets are considered to be stage 3 when an event or events have occurred that have a detrimental impact on estimated future cash flows. Evidence may include initiation of bankruptcy proceedings, notification of bereavement, loans meeting debt sale criteria, or initiation of repossessions proceedings. As a backstop a loan that is 90 days or more past due is considered credit-impaired for all portfolios.
Capital Requirement Regulation	See CRD IV.
DBP	Deferred Bonus Plan.
Default	Refer to definition of credit-impaired assets above.
DMS	Debt Managers (Services) Limited is the Group's debt collection business. DMS collects debt on behalf of a range of clients as well as for Group companies. It also selectively invests in purchased debt portfolios from fellow subsidiary undertakings and external third parties.
Expected credit loss ('ECL')	ECL are probability weighted estimates of credit losses which are measured as the present value of all cash shortfalls. Specifically this is the difference between the contractual cash flows due and the cash flows expected to be received, discounted at the original effective interest rate or, for portfolios purchased outside of the Group by DMS, the credit adjusted effective interest rate.
EU	European Union.
Feefo	Feefo collects independent reviews from the customers of businesses across many sectors, including financial services.
Financial Conduct Authority	The Financial Conduct Authority is the conduct regulator for financial services firms and financial markets in the UK. Its aims are to protect consumers, enhance market integrity and promote competition.
Financial Services Compensation Scheme	The Financial Services Compensation Scheme ('FSCS') is the UK's compensation 'safety net' for customers of regulated financial businesses. They pay compensation if a firm is unable, or likely to be unable, to pay claims against it. This is usually because it has stopped trading or has been declared in default.
High Quality Liquid Assets	High Quality Liquid Assets are assets with a high potential to be converted easily and quickly into cash. This is comprised of cash and balances at central banks and Treasury Bills.
IAS	International Accounting Standard.

Glossary
continued

Term	Explanation
ICAAP	Internal Capital Adequacy Assessment Process. A firm must carry out an ICAAP in accordance with the PRA's rules. These include requirements on the firm to undertake a regular assessment of the amounts, types and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed.
IFRS	International Financial Reporting Standard.
ILAAP	The Internal Liquidity Adequacy Assessment Process allows firms to assess the level of liquidity and funding that adequately supports all relevant current and future liquidity risks in their business. In undertaking this process, a firm should be able to ensure that it has appropriate processes in place to ensure compliance with the CRD IV. This requires firms to develop and use appropriate risk and liquidity management techniques.
ILTR	The Bank of England's Indexed Long Term Repo is a regular market-wide sterling operation. ILTRs allow market participants to borrow central bank reserves (cash) for a six-month period in exchange for other, less liquid assets (collateral).
LCR	The Liquidity Coverage Ratio regime requires management of net 30-day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more prudent internal limit than that set by the regulator.
LTIP	Long term incentive plan.
OLAR	The Overall Liquidity Adequacy Rule is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP.
Pillar 1, Pillar 2 and Pillar 3	Basel III uses a 'three pillars' concept – (1) Pillar 1 – minimum capital requirements (addressing risk) using a standardised approach for credit, market and operational risk, (2) Pillar 2 – supervisory review process and (3) Pillar 3 – market discipline and enhanced disclosures.
PRA	The Prudential Regulation Authority is a part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm. The PRA's objectives are set out in the Financial Services and Markets Act 2000, but the main objective is to promote the safety and soundness of the firms it regulates.
SME	Small to medium sized enterprises.
Stage 1 assets	Financial assets which have: • been determined to be low credit risk at the reporting date • not experienced a significant increase in credit risk since their initial recognition; or • have experienced a significant increase in credit risk since initial recognition but have since met the Group's cure policy (refer to Note 1 to the financial statements for the Group's cure policy) Credit losses for such assets are measured as an amount equal to 12 months' ECL.
Stage 2 assets	Financial assets that have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Group's cure policy (refer to Note 1 to the financial statements for further details). As a backstop, the Group considers a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for all portfolios. Credit losses for such assets are measured as an amount equal to lifetime ECL, as defined in Note 1 to the financial statements.
Stage 3 assets	Refer to definition of credit-impaired assets above.

Term	Explanation
Term Funding Scheme ('TFS')/Term Funding Scheme with additional incentives for SMEs ('TFSME')	The TFS was introduced in August 2016, and was designed to reinforce the transmission of Bank of England Base Rate cuts to those interest rates actually faced by households and businesses. The TFS closed to new lending in February 2018. The TFSME was launched in March 2020 as part of measures to respond to the economic shock from COVID-19. The scheme is designed to incentivise eligible participants to provide credit to businesses and households to bridge through the current period of economic disruption, with additional incentives to provide credit to SMEs. Both schemes allowed access to four year funding at rates very close to Bank of England Base Rate, allowing eligible participants to borrow central bank reserves in exchange for eligible collateral.
Tier 2 capital	Tier 2 capital is the secondary component of bank capital, in addition to Tier 1 capital, and is composed of subordinated liabilities, net of issue costs.
Total Capital Requirement	Guidance given to a firm about the amount and quality of capital resources that the PRA considers that firm should hold at all times under the overall financial adequacy rule as it applies on a solo level or a consolidated level.
Total Risk Exposure	Total Risk Exposure is the total of the Group's risk-weighted assets.

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