Secure Trust Bank Group

Helping more consumers and businesses fulfil their ambitions

Interim Report
for the six months ended 30 June 2024

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Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under IFRS. Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report from page 48.

30 June 2023 results and key performance indicators have been restated to present exceptional items of £0.9 million, which were previously included in operating expenses, consistent with the 2023 Annual Report and Accounts. Further details are provided in Note 5 to the Interim Financial Statements.

'Secure Trust Bank PLC', 'STB' and the 'Group' refer to Secure Trust Bank PLC together with its subsidiaries.

Forward-looking statements

This document contains forward looking statements about the business, strategy and plans of STB and its current objectives, targets and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about STB's or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. STB's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors. These include economic and business conditions, risks from failure of clients, customers and counterparties, market related risks including interest rate risk, risks regarding market conditions outside STB's control, expected credit losses in certain scenarios involving forward looking data, operational risks, legal, regulatory, or governmental developments, and other factors. The forward looking statements contained in this announcement are made as of the date of this document, and (except as required by law or regulation) STB undertakes no obligation to update any of its forward looking statements.

About us

Our vision

To be the most trusted specialist lender in the UK

Purpose

To help more consumers and businesses fulfil their ambitions

Our strategic pillars

Grow	**Sustain**	**Care**

Always act with integrity and transparency, delivering value for all stakeholders

Our strategic priorities

Simplify	**Enhance Customer Experience**	**Leverage Networks**
Focus on core business units and use technology to deliver efficiency and better operational processes	Improve the customer journey to increase retention and attract new customers to gain market share	Take advantage of our strong partnerships with introducers to drive growth

Enabled by technology

Take advantage of recent investments within our technology platforms to automate processes and streamline and enhance customer experience for our business partners via integration, and for our end customers, through self-service

Strengths

Specialist	**Expert**	**Diverse**	**Ambitious**

Values

Customer Focused	**Risk Aware**	**Future Orientated**	**Teamwork**	**Ownership**	**Performance Driven**

Stakeholders

Customers **Shareholders**	**Employees** **Environment**	**Wider society** **Regulators**	**Suppliers**

Chief Executive's statement

"Further progress towards our medium-term targets"

I am pleased with our performance during the first six months of the year. We made further progress towards our medium-term targets, achieving loan book growth and delivering against our strategic priorities, allowing us to scale the Group in line with our ambitions. Project Fusion, our cost optimisation programme, is on track to deliver its target of £5 million[1] in annualised savings by the end of the year and today we have announced we are increasing our cost saving target to £8 million[1] of annualised savings by 2025. We are well placed to deliver further improvement in our profitability in the second half of the year and in 2025.

We have delivered a statutory profit before tax of £17.1 million (30 June 2023: £16.5 million); on an adjusted[2] basis £17.1 million (30 June 2023: £17.4 million), largely driven by net loan book growth of 3.2% to £3.4 billion since 31 December 2023 (£3.3 billion). This has been achieved despite the challenges in the external market for new business due to a subdued economy impacting demand for credit and the high cost of borrowing for our customers. We have remained agile in our approach to managing our balance sheet, ensuring good credit discipline and being selective on new business opportunities.

Net Interest Margin ('NIM') reduced to 5.3% (30 June 2023: 5.4%), due to the impact of the higher interest rate environment on funding costs and the lag effect in asset repricing. We are encouraged that the rate of change in funding costs eased in Q2 2024, which is expected to help bring full year NIM in line with market expectations. Project Fusion has continued to support our progress towards a lower adjusted[2] cost income ratio, improving by 220bps to 53.7% (30 June 2023: 55.9%). Statutory cost income ratio was 53.7% (30 June 2023: 56.9%).

Impairment charges rose to £28.2 million (30 June 2023: £23.0 million), which was primarily driven by a pause in our collections processes in Vehicle Finance (see section on Regulatory initiatives below). Excluding impairment charges, adjusted[2] profit before tax pre impairment rose to £45.2 million (30 June 2023: £40.2 million).

As a result, we saw an improvement in our total return on average equity to 7.3% (30 June 2023: 6.8%).

With our four specialist lending segments all operating in large addressable markets, we are well placed to make further market share gains. This is demonstrated by our strong track record in recent years. We saw gains in Retail Finance's market share of new business, which grew to 17.0%[3]. Vehicle Finance's market share of new business was maintained at 1.2%[4]. This growth contributed to net lending growth in the Consumer Finance businesses of 7.3% (£122.9 million) since 31 December 2023. Business Finance has broadly maintained its net lending position, despite a subdued trading environment.

As announced earlier in the year, we have moved to a progressive dividend policy in direct response to investor feedback. The Board has approved an interim dividend of 11.3 pence per share.

Our key performance indicators are provided below. Further details on our financial performance metrics are included in the Financial review.

	30 June 2024	30 June 2023	31 December 2023
Grow			
Loans and advances to customers (£billion)	**3.4**	3.2	3.3
Why we measure this: Shows the growth in the Group's lending balances, which generate income			
Total return on average equity (%)	**7.3**	6.8	7.3
Why we measure this: Measures the Group's ability to generate profit from the equity available to it			
Net interest margin (%)	**5.3**	5.4	5.4
Why we measure this: Shows the interest margin earned on the Group's lending balances, net of funding costs			

Sustain			
Common Equity Tier 1 ('CET 1') ratio (%)	**12.7**	13.0	12.7
Why we measure this: The CET 1 ratio demonstrates the Group's capital strength			
Adjusted[2] cost to income ratio (%)	**53.7**	55.9	54.0
Why we measure this: Measures how efficiently the Group utilises its cost base, excluding exceptional items to produce income			
Cost to income ratio (%)	**53.7**	56.9	57.5
Why we measure this: Measures how efficiently the Group utilises its cost base to produce income			
Cost of risk (%)	**1.7**	1.5	1.4
Why we measure this: Measures how effectively the Group manages the credit risk of its lending portfolios			

Care			
Customer Feefo ratings (Stars) (mark out of 5 based on star rating from 1,073 reviews, (30 June 2023: 854 reviews, 31 December 2023: 1,989 reviews))	**4.7**	4.6	4.6
Why we measure this: Indicator of customer satisfaction with the Group's products and services			
Employee survey trust index score (%)[5] (based on 2023 all employee survey)	**N/A**	N/A	83
Why we measure this: Indicator of employee engagement and satisfaction			
Environmental intensity indicator[5] (Total Scope 1, 2 and certain Scope 3 emissions per £m Group operating income. See page 61 of 2023 Annual Report and Accounts for further details)	**N/A**	N/A	2.2
Why we measure this: Indicator of the Group's impact on the environment			

All key performance indicators are presented on a continuing basis, unless otherwise stated.

Continuing businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only. Discontinued business includes the Debt Management business, where the loan book was sold in 2022. Further details of discontinued business can be found in Note 7 of the Interim Financial Statements.

Further explanation of the financial key performance indicators is discussed in the narrative within the Financial review on pages 7 to 12, where they are identified by being in bold font. Further explanation of the non-financial key performance indicators is provided in the Managing our business responsibly (pages 41 to 54) and Climate-related financial disclosures sections (pages 55 to 64) of the 2023 Annual Report and Accounts.

Strategic priorities

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

Our Optimising for Growth framework has three core strategic priorities:

Simplify

Our journey to simplify the Group continues with Project Fusion, driving ongoing efforts to identify cost savings through supplier reviews as well as implementing technology enhancements. In Retail Finance we have migrated the e-signing of lending agreements to use in-house developed technology, eliminating the need to use a third party. Project Fusion remains on track to achieve the target of £5 million[1] in annualised savings by the end of 2024, with a sustained focus on cost discipline, we have contained our period-on-period cost growth at 3.6%.

We have completed the consolidation of our IT and Operations teams under the Group's Chief Operating Officer and have recently reviewed and refined our organisational design. This will drive a simpler and more cost-efficient structure, remove duplication and provide clearer career paths and development opportunities. Predominantly as a result of our organisational redesign, we are increasing the cost savings to be delivered by Project Fusion to £8 million[1] by the end of 2025.

Combined, these initiatives give us high confidence in driving our cost income ratio to our target of 44-46% once we achieve our ambition for net lending of £4 billion.

Enhance customer experience

We see continued growth in the use of our digital platforms. More customers than ever (84.5%) have registered with our Retail Finance online account management system (31 December 2023: 80.4%), and having launched the Savings Mobile app in September 2023, 24% of our customers have registered to use the app, with 96% of customers registered with online banking.

Our internal net promoter scores continue to remain high for our Consumer Finance businesses and benchmark well against our industry.

We have been operating in a highly competitive interest rate environment for Savings accounts. We continue to offer competitive rates to depositors, attracting significant levels of new funding (£0.7 billion), as well as retaining matured funds (£0.4 billion). Our deposits are entirely from retail customers and more than 95% of deposits are fully covered by the FSCS.

We continue to focus on customer outcomes and improving customer satisfaction. The Group was accredited with the Customer Service Excellence Standard for the 11th year running, demonstrating our commitment to high standards for all our customers. We continue to score highly with Feefo, scoring 4.7 (30 June 2023: 4.6) for our Consumer Finance businesses. In addition, our Retail Finance business was nominated for Best Consumer Credit Product at the Credit Awards.

Our Commercial Finance business was recognised by the TheBusinessDesk.com North West Rainmakers Award, and was nominated for the ‘Asset- based Lending Team’.

Leverage networks

Our relationships with partners, retailers, car dealers, intermediaries, new business originators and advisers support our growth, and are a critical part of our business model. Our Retail Finance retail partners total over 1,000, gaining new retailers in the lifestyle sector, and securing longer term contracts with a large furniture and a jewellery retailer, supporting a net lending balance of £1.3 billion (31 December 2023: £1.2 billion). Vehicle Finance saw customer numbers increase by 8.3% supporting a net lending balance of £0.50 billion (31 December 2023: £0.47 billion).

Our focus on API integration enables us to work seamlessly with our partners, creating efficient working practices across both partner organisations and internally. This has long been an advantage as part of our Retail Finance offering to retail partners, integrating at speed; and we now have over 93% of our Vehicle Finance Prime partners also utilising API integration.

The power of our relationship model in Real Estate Finance has seen new lending to existing clients increase from 36% in 2021 to 63% in the first half of 2024, with reliance on new lending origination from brokers declining from 42% to 6% over the same period. This retention model has the benefit of reduced cost of customer acquisition and provides greater knowledge of customers’ risk profiles.

Enabled by technology

During the first half of the year, we implemented a series of technology enhancements, including further enhancements to our new digital Savings app, and are evolving our AppToPay proposition to offer a mobile-based service platform for all Retail Finance products. This would allow all our Retail Finance customers already registered for our online account management portal to service their account via their mobile phone. In addition, we will complete the IT development work this year so that our modern Vehicle Finance platform is capable of hosting all new business across products and risk segments, which will enable us to offer loans to more customers.

Regulatory initiatives

As highlighted at year-end, we were working on improving our collections processes, procedures and policies following the FCA’s review of Borrowers in Financial Difficulty (‘BiFD’) across the industry. Customers are now being offered a wider range of forbearance options to support them through financial difficulties. We are still aiming to complete this review by the end of the year, with no further material costs expected to be incurred this year. This review has resulted in a larger stock of defaulted loans within our Vehicle Finance business and increased the associated loan impairment provision. This is not a reflection of the underlying quality of the business, and we are working to restore the performance of the book towards a more normal level by year end. Vehicle Finance arrears levels have reduced from the year end, and we are now seeing these tracking back to levels experienced before the BiFD review.

As previously disclosed, in January 2024, the FCA announced it was to undertake a review of discretionary commission arrangements in the motor finance market. We sometimes operated these arrangements for a low proportion of our agreements until June 2017. The FCA recently confirmed it has deferred communicating its next steps to the industry from September 2024 to May 2025.

Environmental, Social and Governance ('ESG')

Our colleagues continue to support our volunteering programmes, and we see many initiatives being supported across the Group. Alongside this, charitable fundraising continues to grow, with teams involved in a golf day and the Three Peaks Challenge, raising over £55,000 for great causes so far this year.

UK's Best Workplaces™ by Great Place to Work®, the global authority on workplace culture, once again ranked us highly at 26th out of 105 (large organisation category). Further accolades have also included being placed 26th out of 100 for Best Workplace for Development™ and 59th out of 100 for Best Workplace for Wellbeing™. This is supported by colleagues completing employee opinion surveys. The most recent pulse survey showed that 83% of colleagues continue to say that STB is a great place to work. Another fantastic outcome, demonstrating the positive sentiments of our colleagues. I would like to extend my personal thanks for their hard work and commitment.

As part of our ongoing work on Climate Action, we have become members of the Partnership for Carbon Accounting Financials ('PCAF'). Our membership of PCAF underlines our ongoing commitment to monitor and manage our environmental impacts as part of our ESG strategy. We continue to look at internal initiatives to also support the impact we have on the environment, having launched a new employee benefit, a green car scheme, that is enabling our employees to lease brand new electric or plug-in hybrid vehicles.

Welcome to the Chairman

We welcomed Jim Brown to the Board in March and he was appointed as Chairman at the Annual General Meeting. Jim has many years' of experience in the financial sector and his guidance will be a huge asset to the business as it continues its journey.

Outlook

UK inflation appears to have stabilised around the Bank of England's target level and we saw a first reduction in the Base Rate for over four years in August, slightly ahead of market expectations. The new UK Government has outlined its programme of change to deliver growth, and business confidence is at the highest level we have seen in the last two years. We are therefore optimistic that the trading environment for our business and economic environment for our customers is improving. The Group expects to see further loan book growth in the second half and further progress towards the £4 billion net lending target which will support improved profitability.

The Board remains confident in the achievement of the medium-term targets for the Group.

David McCreadie
Chief Executive Officer

1. £4.4 million cost savings relative to operating expenses for the 12 months ended December 2021. The remainder of £3.6 million savings (of the £8 million) will be relative to annualised operating expenses for the six months ending 30 June 2024.
2. Adjusted metrics exclude exceptional items of £nil (30 June 2023: £0.9 million). Details can be found in Note 5 to the Interim Financial Statements.
3. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2024 based on January to June.: FLA total and Retail Finance new business of £3,803 million (1 January 2023 to 31 December 2023: £8,810 million) and £645.1 million (1 January 2023 to 31 December 2023: £1,185.4 million) respectively. As published at 30 June 2024.
4. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2024 based on January to June 2024, FLA total and Vehicle Finance total of £11,145 million (1 January 2023 to 31 December 2023: £22,083 million) and £135.9 million (1 January 2023 to 31 December 2023: £260.0 million) respectively. As published at 30 June 2024.
5. Data is only collated on an annual basis.

Financial review

"Continued momentum in operating income growth and effective cost management"

Income statement	30 June 2024 £million	Restated[1] 30 June 2023 £million	Change %	31 December 2023 £million
Continuing operations				
Interest income and similar income	178.6	138.8	28.7	304.0
Interest expense and similar charges	(90.4)	(57.8)	56.4	(136.5)
Net interest income	**88.2**	**81.0**	**8.9**	**167.5**
Fee and commission income	8.0	8.1	(1.2)	17.3
Fee and commission expense	(0.1)	–	–	(0.1)
Net fee and commission income	**7.9**	**8.1**	**(2.5)**	**17.2**
Operating income	**96.1**	**89.1**	**7.9**	**184.7**
Net impairment charge on loans and advances to customers	(28.2)	(23.0)	22.6	(43.2)
Gains on modification of financial assets	0.1	0.2	(50.0)	0.3
Fair value and other gains on financial instruments	0.7	0.9	(22.2)	0.5
Operating expenses	(51.6)	(49.8)	3.6	(99.7)
Profit before income tax from continuing operations before exceptional items	**17.1**	**17.4**	**(1.7)**	**42.6**
Exceptional items	–	(0.9)	(100.0)	(6.5)
Profit before income tax from continuing operations	**17.1**	**16.5**	**3.6**	**36.1**
Income tax expense	(4.3)	(4.2)	2.4	(9.7)
Profit for the period from continuing operations	**12.8**	**12.3**	**4.1**	**26.4**
Discontinued operations:				
Loss before income tax from discontinued operations	–	(1.5)	**(100.0)**	**(2.7)**
Income tax credit	–	0.3	(100.0)	0.6
Loss for the period from discontinued operations	–	**(1.2)**	**(100.0)**	**(2.1)**
Profit for the period	**12.8**	**11.1**	**15.3**	**24.3**
Basic earnings per share (pence) – Adjusted	67.2	70.6	(4.8)	172.3
Basic earnings per share (pence) – Continuing	67.2	65.8	2.1	140.8
Basic earnings per share (pence) – Total	67.2	59.4	13.1	129.6

Selected Key Performance Indicators and performance metrics	£million	£million	Change %	£million
Total profit before tax	17.1	15.0	14.0	33.4
	%	%	Percentage point movement	%
Net Interest Margin ('NIM')	5.3	5.4	(0.1)	5.4
Yield	10.7	9.3	1.4	9.8
Cost of funds	5.4	3.9	1.5	4.4
Adjusted[2] cost to income ratio	53.7	55.9	(2.2)	54.0
Statutory cost to income ratio	53.7	56.9	(3.2)	57.5
Cost of risk	1.7	1.5	0.2	1.4
Adjusted[2] return on average equity	7.3	8.0	(0.7)	9.6
Total return on average equity[1]	7.3	6.8	0.5	7.3
Common Equity Tier 1 ('CET 1') ratio	12.7	13.0	(0.3)	12.7
Total capital ratio[1]	15.0	15.2	(0.2)	15.0

1. Restated to present exceptional items of £0.9 million, which were previously included in operating expenses, consistent with the 2023 Annual Report and Accounts.

Certain key performance indicators and performance metrics represent alternative performance measures that are not defined or specified under IFRS. Definitions of these alternative performance measures, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 48. In the narrative of this Financial review, key performance indicators are identified by being in bold font.

Key performance indicators have been presented in the Financial review on a continuing basis, unless otherwise stated.

Continuing businesses include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only. Discontinued business includes the Debt Management business where the loan book was sold in 2022. Further details of discontinued business can be found in Note 7 of the Interim Financial Statements.

Adjusted metrics exclude exceptional items of £nil million (30 June 2023: £0.9 million, 31 December 2023: £1.8 million). Details can be found in Note 5 to the Interim Financial Statements.

The first half of 2024 saw a continued focus on growth whilst maintaining strong credit discipline and cost management. Growth has been targeting higher credit quality prime lending, particularly within our Consumer Finance business. Balance sheet growth has generated 7.9% increase in operating income, and this has been achieved with an 3.6% increase in costs. The Group achieved a profit before tax of £17.1 million (30 June 2023: £16.5 million), with **CET 1 ratio** remaining strong at 12.7%.

Earnings per share rose from 65.8 pence per share (30 June 2023) to 67.2 pence per share. On an adjusted basis, EPS fell from 70.6 pence per share (30 June 2023) to 67.2 pence per share. **Total return on average equity** increased from 6.8% (30 June 2023) to 7.3%.

Detailed disclosures of earnings per ordinary share are shown in Note 8 to the Interim Financial Statements. The components of the Group's profit for the period are analysed in more detail in the sections below.

Operating income

The Group's operating income increased by 7.9% to £96.1 million (30 June 2023: £89.1 million). Net interest income on the Group's lending assets continues to be the largest component of operating income. This increased by 8.9% to £88.2 million (30 June 2023: £81.0 million), driven by growth in net lending assets, with average balances increasing by 11.8% to £3,360.7 million (30 June 2023: £3,005.6 million).

The Group's **NIM** decreased to 5.3% (30 June 2023: 5.4%), reflecting the strategic shift towards lower yielding, lower risk lending in both our Business Finance and Consumer Finance divisions and the impact of higher cost of funds which have been partially offset as lending markets reprice. During the six months to 30 June 2024, the rate of change in the cost of funds has eased and margins have improved, the Group exited the half year confident that progress will continue towards meeting market expectation for full year NIM.

The Group's other income, which relates to net fee and commission income, decreased slightly by 2.5% to £7.9 million (30 June 2023: £8.1 million).

Impairment charge

Impairment charges increased to £28.2 million (30 June 2023: £23.0 million), and resulted in an increase in **cost of risk** to 1.7% (30 June 2023: 1.5%). The charge in the first half of 2023 was impacted by one material loss of £7.2 million relating to a long-running problem debt case within the Commercial Finance business. Increased expected credit losses associated with the Vehicle Finance business have been the principal reason for the increased cost of risk. The impairment charge for Vehicle Finance reflects increased levels of defaults due to a pause in collections activities as the business has addressed the specific feedback received following the FCA's review of Borrowers in Financial Difficulty ('BiFD'). Overall impairment provisions remain robust at £101.6 million (30 June 2023: £79.5 million) with an aggregate coverage level of 2.9% (30 June 2023: 2.5%). Impairment charges for the Retail Finance business have reduced reflecting the quality of business written, Loss Given Default ('LGD') assumptions (a result of pricing associated with debt sale arrangements) and IFRS 9 model enhancements, which resulted in some one-off provision releases.

During the second quarter of the financial year, the Group refreshed macroeconomic inputs to its IFRS 9 Expected Credit Loss ('ECL') models, incorporating its external economic advisers' latest UK economic outlook. The forecast economic assumptions within each IFRS 9 scenario, and the weighting applied, are set out in more detail in Note 11.1.1 to the Interim Financial Statements.

The Group has applied Expert Credit Judgements ('ECJs') where management believes the IFRS 9 modelled output is not fully reflecting current risks within the loan portfolios. Further details of these ECJs are included in Note 11 to the Interim Financial Statements.

Fair value and other gains on financial instruments

The Group has highly effective hedge accounting relationships, and as a result, recognised a small hedging ineffectiveness gain of £0.1 million (30 June 2023: £0.5 million gain) and £0.4 million (30 June 2023: £nil) relating to hedge accounting inception and amortisation adjustments (See Note 4 to the Interim Financial Statements). The Group also recognised a gain of £0.2 million (30 June 2023: loss £0.8 million) relating to interest rate swaps being entered into ahead of hedge accounting becoming available, which will reverse to the income statement over the remaining life of the swaps. During the period to 30 June 2023 the Group realised a gain of £1.2 million in relation to the buy-back of 2018 Tier 2 debt.

Operating expenses

The Group's cost base increased in the period by 3.6% to £51.6 million (30 June 2023: £49.8 million), with the adjusted **cost income ratio** improving to 53.7% (30 June 2023: 55.9%), despite the impact of inflation on operating expenses. The ratio reflects both the increase in operating income and the ongoing programme of initiatives that seek to achieve more efficient and effective operational processes, including the digitalisation of processes, supplier and procurement reviews, organisational design and property management. The statutory cost income ratio inclusive of exceptional items was 53.7% (30 June 2023: 56.9%).

Taxation

The total effective tax rate on total and continuing activities of 25.1% decreased compared with 2023 (30 June 2023: 26.0% and 25.5%, respectively). The effective rate is aligned with the Corporation Tax rate of 25%.

Exceptional items

In the first half of 2023 the Group recognised charges for exceptional items of £0.9 million in relation to non-recurring corporate activity. No exceptional costs were incurred in the first half of 2024. Further details are included in Note 5 to the Interim Financial Statements.

Discontinued business

In May 2022, the Group disposed of the loan portfolio of Debt Managers (Services) Limited, a further £1.5 million of wind-down costs were incurred during the first half of 2023.

Distributions to shareholders

The Board has approved an interim dividend of 11.3 pence per share (30 June 2023: 16.0 pence per share).

Balance sheet

Summarised balance sheet	30 June 2024 £million	30 June 2023 £million	31 December 2023 £million
Assets			
Cash and balances at central banks	412.2	318.3	351.6
Loans and advances to banks	21.7	33.3	53.7
Loans and advances to customers	3,421.6	3,158.5	3,315.3
Fair value adjustment for portfolio hedged risk	(10.7)	(47.7)	(3.9)
Derivative financial instruments	18.3	50.3	25.5
Other assets	35.8	38.2	35.8
	3,898.9	**3,550.9**	**3,778.0**
Liabilities			
Due to banks	359.1	409.3	402.0
Deposits from customers	3,042.7	2,648.9	2,871.8
Fair value adjustment for portfolio hedged risk	(7.4)	(33.7)	(1.4)
Derivative financial instruments	14.4	36.1	22.0
Tier 2 subordinated liabilities	93.1	92.9	93.1
Other liabilities	41.5	64.2	46.0
	3,543.4	**3,217.7**	**3,433.5**

New business

Loan originations in the period, being the total of new loans and advances to customers entered into during the period, decreased by 7.5% to £1,061.8 million (30 June 2023: £1,147.4 million).

New business volumes	30 June 2024	30 June 2023	Change %
Consumer Finance			
Retail Finance	645.1	613.5	5.2
Vehicle Finance	248.8	250.1	(0.5)
Business Finance			
Real Estate Finance	135.5	252.4	(46.3)
Commercial Finance	32.4	31.4	3.2
Total	**1,061.8**	**1,147.4**	**(7.5)**

Customer lending and deposits

Group lending assets increased by 3.2% to £3,421.6 million (31 December 2023: £3,315.3 million), primarily driven by strong growth in our Consumer Finance and Real Estate Finance business.

Consumer Finance balances grew by £122.9 million or 7.3%, driven by strong demand from strategic partner retailers in the first half of 2024.

Further analysis of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Note 20 to the Interim Financial Statements.

Customer deposits include Fixed term bonds, ISAs, Notice and Access accounts. Customer deposits increased by 6.0% to £3,042.7 million (31 December 2023: £2,871.8 million). Total funding ratio of 112.3% increased slightly from 31 December 2023 (111.7%). As set out on page 12, the mix of the deposit book has continued to change as the Group has adapted to the interest rate environment, with a focus on meeting customer demand for Access products and retaining stable funds, which is reflected in the proportion of ISAs and Fixed term bonds.

Investments and wholesale funding

As at the end of 2023, the Group held no debt securities (31 December 2023: £nil). Amounts due to banks consisted primarily of drawings from the Bank of England Term Funding Scheme with additional incentives for SMEs ('TFSME') facility, of which £50 million was repaid at the end of June 2024, and a further £25.0 million in July 2024. The remaining drawn balance of £340.0 million matures in 2025.

Tier 2 subordinated liabilities

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

Capital

Management of capital

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

Key factors influencing the management of capital include:

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

Capital resources

Capital resources increased over the period from £397.6 million to £409.6 million. CET 1 capital increased by £10.3 million, primarily driven by a total profit for the period of £12.8 million, offset by the 2024 interim dividend of £2.2 million, and the expected reduction in the IFRS 9 transitional adjustment of £2.1 million. The remainder of the increase was from Tier 2 (£1.8 million), as capital eligibility has increased as a consequence of risk weighted asset growth.

Capital	30 June 2024 £million	30 June 2023 £million	31 December 2023 £million
CET 1 capital, excluding IFRS 9 transitional adjustment	348.2	324.4	335.8
IFRS 9 transitional adjustment	–	2.4	2.1
CET 1 capital	348.2	326.8	337.9
Tier 2 capital[1]	61.5	56.7	59.7
Total capital	**409.7**	**383.5**	**397.6**
Total risk exposure	**2,735.3**	**2,518.5**	**2,653.4**
Capital ratios			
CET 1 capital ratio	**12.7**	**13.0**	**12.7**
Total capital ratio	**15.0**	**15.2**	**15.0**
CET 1 capital ratio (excluding IFRS 9 transitional adjustment)	**12.7**	**12.9**	**12.7**
Total capital ratio (excluding IFRS 9 transitional adjustment)	**15.0**	**15.1**	**14.9**
Leverage ratio	**9.9**	**10.1**	**9.7**

1. Tier 2 capital, which is solely subordinated debt net of unamortised issue costs, is capped at 25% of total Pillar 1 and Pillar 2A requirements.

Capital requirements

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

	30 June 2024 £million	30 June 2023 £million	31 December 2023 £million
Total Capital Requirement	**246.2**	226.7	238.8
Capital conservation buffer	**68.4**	63.0	66.3
Countercyclical buffer	**54.7**	25.2	53.1
Total	**369.3**	**314.9**	**358.2**

The increase in lending balances through the first six months of the year resulted in an increase in risk weighted assets over the period, bringing the total risk exposure up from £2,653.4 million to £2,735.3 million. The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The countercyclical capital buffer rose from 0% to 1% of relevant risk exposures in December 2022 and remained at this level until 5 July 2023 when it rose again to 2%.

Liquidity

Management of liquidity

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

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

The Group met the LCR minimum threshold throughout the year, with the Group’s average LCR being 216.3% (30 June 2023: 217.0%), based on a rolling 12 month-end average.

Liquid assets

We continued to hold significant surplus liquidity over the minimum requirements throughout the first six months of the year, managing liquidity by holding HQLA and utilising predominantly retail funding to support lending. The Group held additional levels of liquidity at the end of June 2024: £433.9 million (31 December 2023: £400.2 million) to support funding planned for Business Finance drawdowns in the coming months.

The Group is a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework and has £340.0 million of funding under the TFSME (31 December 2023: £390.0 million). The Group has no liquid asset exposures outside of the United Kingdom and no amounts that are either past due or impaired.

Liquid assets	30 June 2024 £million	30 June 2023 £million	31 December 2023 £million
Aaa – Aa3	**412.2**	318.3	356.4
A1 – A2	**21.7**	29.0	43.8
Total	**433.9**	**347.3**	**400.2**

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

Customer deposits	30 June 2024 %	30 June 2023 %	31 December 2023 %
Fixed term bonds	**50**	54	54
Notice accounts	**3**	12	6
ISAs	**23**	19	22
Access accounts	**24**	15	18
Total	**100**	**100**	**100**

Business review

Consumer Finance

Retail Finance

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

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

	30 June 2024	30 June 2023	31 December 2023
New business (£million)	**645.1**	613.5	1,185.4
Loans and advances to customers (£million)	**1,315.4**	1,179.9	1,223.2
Net interest margin (%)	**6.6**	6.3	6.4
Risk adjusted margin (%)	**6.1**	4.9	5.3

What we do

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

H1 2024 performance

- Lending and revenue growth has come mainly from interest-free lending into the furniture and jewellery sectors. We achieved record new lending in the period and increased our lending balances by 7.5% on December 2023, resulting from an increase in our market share of the retail store and online credit new business market to 17.0%[1] (31 December 2023: 13.5%).
- Leveraging our networks through the extension of our footprint with key retail partners, as well as the introduction of new retailer relationships supported by our efficient onboarding technology. We have further strengthened our position as one of the major lenders in the point of sale credit market.
- Net interest margin ('NIM') has increased by 0.3% compared to 30 June 2023 as a result of the impact of pricing changes over time. The cost of risk (0.7%) has also decreased compared to 30 June 2023 (1.6%) as a result of benefits from refinements to IFRS 9 model assumptions, and due to a growing lower credit risk lending book. NIM and cost of risk reflect the success of our strategy of focussing on prime sectors.
- At the end of June 2024, 86.8% (31 December 2023: 86.3%) of the lending book related to interest-free lending, and 84.5% (31 December 2023: 80.4%) of customers have signed up to online account management allowing self-service of their account.

Outlook

- We anticipate continued lending growth from our existing retail partners and new retail partners. Our operational plans remain focused on digitalising all key processes to improve our customers' and retail partners' experience.

1. Source: Finance & Leasing Association ('FLA'): New business values within retail store and online credit: 2024 based on January to June. FLA total and Retail Finance new business of £3,803 million (1 January 2023 to 31 December 2023: £8,810 million) and £645.1 million ((1 January 2023 to 31 December 2023: £1,185.4 million) respectively. As published at 30 June 2024.

Vehicle Finance

We help to drive more business in UK car dealerships:

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

	30 June 2024	30 June 2023	31 December 2023
New business (£million)	**248.8**	250.1	471.2
Loans and advances to customers (£million)	**497.9**	440.4	467.2
Net interest margin (%)	**9.5**	10.9	10.3
Risk adjusted margin (%)	**1.1**	9.1	7.3

What we do

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

H1 2024 performance

- New business lending remained stable, despite the market for used cars bought on point-of-sale finance shrinking by 4.7%[1] year-on-year by value up to June 2024. Our market share remained 1.2% over the same period.
- Our Prime lending products, launched in 2021, delivered £69.2 million of new lending during the first half of 2024 and represent 27.8% (30 June 2023: 25.2%) of new business.
- 38.1% (30 June 2023: 29.9%) of the lending portfolio relates to better quality Prime products.
- The Stock Funding product launched in 2019 now has 286 active dealers (30 June 2023: 233), with credit lines of £54.2 million (30 June 2023: £45.3 million).
- The cost of risk has been impacted adversely because of a temporary pause in collection activities, following formal discussions with the FCA relating to its Borrowers in Financial Difficulty ('BiFD') review. This has resulted in delays in collection activities and subsequently higher volumes of loans reaching default status. Arrears have reduced since year end, and are tracking towards pre-BiFD review levels. The improvement in quality of new business written continues to reflect improvement over time. Cost of risk was 8.8% (30 June 2023: 2.4%).
- Risk adjusted margin has been adversely impacted by the increased mix of Prime lending, and the elevated level of defaults described above.

Outlook

- We have begun implementing the actions arising from the BiFD review and have recommenced collections activities. We therefore expect a reduction in default volumes in the second half of 2024 and cost of risk to become more normalised in 2025.
- In January 2024, the FCA announced it was to undertake a review of discretionary commission arrangements in the motor finance market. We sometimes operated these arrangements until June 2017. The FCA has recently announced that it plans to set out its next steps in May 2025, when the implications for the industry should become clearer. (See Note 16.1.2 to the Interim Financial Statements.)
- The final phase of our Motor Transformation Project is to transfer Near Prime originations onto the new platform, with the implementation of a new rate for risk module, which will allow us to price lending based on the risk profile of the borrower. We will complete the IT development work by the end of this year.

1. Source: FLA. Cars bought on finance by consumers through the point of sale: New business values: Used cars: 2024 based on January to June 2024, FLA total and Vehicle Finance total of £11,145 million (1 January 2023 to 31 December 2023: £22,083 million) and £135.9 million (1 January 2023 to 31 December 2023: £260.0 million) respectively. FLA total business January to June 2023: £11,701 million. As published at 30 June 2024.

Business Finance
Real Estate Finance

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

- Providing mortgage-style borrowing to professional landlords to allow them to improve and grow their portfolio.
- Providing development facilities to property developers and SME housebuilders to help build new homes for sale or letting.

	30 June 2024	30 June 2023	31 December 2023
New business (£million)	**135.5**	252.4	434.0
Loans and advances to customers (£million)	**1,271.5**	1,221.8	1,243.8
Net revenue margin (%)	**2.6**	2.6	2.6
Risk adjusted margin (%)	**2.2**	2.2	2.2

What we do

- We provide new lending secured against property assets to a maximum 70% loan-to-value ratio, on fixed or variable rates over a term of up to five years.
- Finance opportunities are sourced and supported on a relationship basis directly and via introducers and brokers.
- We have an experienced specialist team, with many years of property expertise, who are nimble and responsive within the market.
- We maintain a strong risk management framework for existing and prospective customers.

H1 2024 performance

- The real estate market has been more subdued in the first half of 2024 than in 2023, with fewer opportunities for new lending. Despite this, net lending at 30 June 2024 is 4.1% higher year-on-year and average lending balances in the first six months in 2024 are 9.7% higher than in 2023.
- Whilst new business volumes are lower, we have retained more clients' loans at maturity on new product terms.
- The portfolio mix is consistent period-on-period, with lower risk Residential Investment lending comprising 82.6% of net lending balances (30 June 2023: 82.2%). The remainder of the book relates to development and commercial investment lending.
- 2024 net revenue margin remained in line with 2023. The cost of risk is 0.5%, 0.1% higher than the same period last year, leaving the risk adjusted margin steady at 2.2%.
- Secured loan book with an average loan-to-value of 57.1% (30 June 2023: 57.2%), reducing the level of inherent risk to credit losses.

Outlook

- Positive sentiment is returning to our market and with our specialist, relationship-led approach, we expect to grow lending balances and profitability.

Commercial Finance

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

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

	30 June 2024	30 June 2023	31 December 2023
New business (£million)	**32.4**	31.4	214.8
Loans and advances to customers (£million)	**336.8**	316.4	381.1
Net revenue margin (%)	**6.3**	7.3	7.0
Risk adjusted margin (%)	**6.3**	3.2	4.7

What we do

- Our lending remains predominantly against receivables, releasing funds up to 90% of qualifying invoices under invoice discounting facilities. Facilities can also be secured against other assets, such as inventory, plant and machinery and property either short or long-term and for a range of loan-to-value ratios alongside invoice discounting facilities.
- Business is sourced and supported directly from clients via private equity houses and professional introducers, but is not reliant on the broker market.
- The Commercial Finance team has a strong reputation across the ABL market. The experienced specialist team works effectively with its partners across private equity and tier 1 and 2 accountancy practices.
- Partners and clients have direct access to decision-makers.

H1 2024 performance

- The ABL market has been quiet with fewer private equity backed buyouts suppressing new business activity.
- Loans and advances to customers decreased by 11.6% compared to 31 December 2023, reflecting challenging market conditions, whilst average balances were 4.7% higher than the first half of 2023.
- Net revenue margin has reduced from 7.3% to 6.3% due to the higher cost of funding and slightly reduced fee income. Risk adjusted margin increased primarily due to the one-off impairment charge incurred in the first half of 2023.
- Our customers are still feeling the impact of the economic headwinds, but the current attrition is not causing any impairment as a result of our strong risk management controls. Consequently, there are nil impairment charges in the first half, leading to an increase in the risk adjusted margin from 3.2% to 6.3%.
- The Group continues to administer UK Government CBILs, CLBILs and RLS[1], however we will not be participating in the new Growth Guarantee Scheme loans recently launched by the British Business Bank. At 30 June 2024, the outstanding lending balances under these schemes totalled £8.3 million (31 December 2023: £15.5 million).

Outlook

- We expect the market conditions to improve as reductions in the UK Base Rate reduce borrowing costs for investors and clients.

1. CBIL - Coronavirus Business Interruption Loan, CLBIL - Coronavirus Large Business Interruption Loan and RLS - Recovery Loan Scheme.

Savings

Customers trust us to look after their savings and provide a competitive return:

- Helping our customers secure and grow their savings.
- Helping our lending businesses fund their product to enable them to lend in the market we compete in.

	30 June 2024 £million	30 June 2023 £million	31 December 2023 £million
Total funds raised	**741.9**	714.1	1,719.1
Product split			
Fixed term bonds	**1,518.1**	1,410.0	1,546.6
Notice accounts	**104.7**	324.3	174.3
ISAs	**689.2**	505.2	629.6
Access accounts	**730.7**	409.4	521.3
	3,042.7	2,648.9	2,871.8

What we do

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

H1 2024 performance

- The first half of 2024 saw the Bank of England Base rate remain at 5.25%, but with markets fully pricing reductions from the second half of 2024. This has impacted the rates offered within the savings market and customer product preferences. During the period, we have raised over £0.7 billion of new deposits and retained £0.4 billion at maturity.
- We have continued to grow Access balances since introducing the product last year, with it proving a popular customer choice given the recent level of the Bank of England Base Rate. We have seen a corresponding decrease in demand for Notice products.
- The higher rate market environment has demonstrated the importance of competitive ISA products for those with higher balances looking to maximise returns, with plans to continue growing these balances during the second half of 2024.
- We continue to look at ways of delivering self-service options for customers, and in May deployed a change to enable customers to perform internal transfers via internet banking. This was followed in June by the automation of the Bond maturity process, meaning that for straightforward maturities, there won’t need to be any manual intervention from Operational teams.
- Our deposit base is made up of retail customers and 95.3% of total deposits are fully covered by FSCS.
- We further developed our digital proposition in April with the upgrade of the mobile app we launched in 2023, making it compliant with the App Store.
- Customers have continued to adopt a more digital-first approach, with over 96% registered for internet banking, of which 24% are also registered for the mobile app.
- We continued to prioritise Savings’ highest volume correspondence and convert from paper to digital.

Outlook

- The savings market has started to see product pricing adjustments in anticipation of a falling interest rate environment. Customers will seek to optimise returns, and we have a product set designed to meet these needs.

Market review

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

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

Economic review

Economic growth, measured in quarterly UK Gross Domestic Product ('GDP'), increased in the first quarter of 2024 by 0.7%[1] following a decline of 0.3%[1] in the final quarter of 2023. Economists' base case forecasts indicate GDP growth will continue in 2024, with full year growth in GDP expected to be 0.9%.

Inflation has continued to fall in the first half of 2024 with the rate as at June 2024 in line with the Bank of England 2.0% target[1]. Reflecting this fall in inflation the Bank of England reduced the Base Rate from 5.25% to 5.00% in August 2024. Financial markets have responded to the Bank of England reducing rates, pricing in additional interest rate cuts in the second half of 2024.

Employment levels in June 2024 are 74.5%[1] which represents a decrease during the period from 75.0%[1] in December 2023. In line with this fall unemployment has risen from 3.8%[1] in December 2023 to 4.2%[1] at June 2024. Vacancies in the labour market also fell to circa 0.9 million in July as employers hold back on recruitment to control costs in an uncertain economic environment. Although unemployment levels have risen during the period, wage growth remained strong, at 5.4%[1]. The latest forecasts suggest that unemployment peaked in May 2024 and will remain near its current level of 4.2% for most of 2024.

Following the expectation that Base Rate cuts will be later and slower in 2024, mortgage rates increased in the first half of this year. In turn, this has impacted mortgage approval rates with lenders reporting lower approvals. As a consequence of lower approvals, net lending is expected to fall when approvals flow through to actual lending in 2024. Higher mortgage rates are also expected to impact house prices, with the latest expectation that prices will remain largely flat in the year.

The response to the change in UK government has largely been flat to positive, with markets appearing to have priced in the change well in advance. The Group has conducted its own analysis of pledges in the Labour Party manifesto and potential impact they may have on its business plans.

Outlook

Interest rates are expected to fall further in 2024 with the market expecting rates to end the year at below 5.00%. This reflects the Bank of England achieving its target of holding inflation below 2.0%. The UK economy is expected to grow modestly through 2024 by 0.9%. House prices are expected to remain flat with mortgage rates pricing in later and lower Base Rate cuts. Unemployment is expected to remain near its current level of 4.2%[1] for most of 2024. The longer-term expectation is that unemployment will recover towards a long run level of 3.8% by 2027.

1. Source: Office for National Statistics, data as at 30 June 2024, unless otherwise stated.

Government and regulatory

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

Prudential regulation

In November 2022, the PRA issued CP16/22 'The PRA consults on proposals for implementation of the Basel 3.1 standards' setting out its proposed changes to regulatory requirements, which are expected to become effective from 1 July 2025. The proposals set out changes to the regulatory environment, including significant changes to the capital requirements for credit risk and operational risk. In PS17/23 issued in December 2023, the PRA issued the near final approach for several areas, including operational risk. Confirmation of the remaining areas, including credit risk, is now expected during Q3 2024, the announcement having been delayed by the general election.

The Group undertook an impact analysis of the CP16/22 proposals to understand the potential impact under the proposed full rules and expects them to be broadly neutral in terms of risk-weighted assets.

During 2023, the PRA set out their initial proposals for a strong and simple prudential liquidity framework, as well as the Phase 1 proposed liquidity and Pillar 3 disclosure-related rules for the new regime. In December 2023 in PS15/23, the PRA confirmed the final eligibility criteria for the regime, the renaming of the regime to the Small Domestic Deposit Takers ('SDDT') regime and confirmed the Phase 1 implementation date as 1 July 2024. It also confirmed the associated liquidity and Pillar 3 rules for SDDT firms.

The SDDT capital rules are subject to further consultation, which is expected during the second half of 2024. The PRA has indicated that the Basel 3.1 rules will be the starting point for designing the SDDT regime capital requirements. The implementation date of the SDDT capital regime is still to be announced but is expected to be during the first half of 2026.

PS17/23 also confirmed that firms that are eligible for and have applied to join the SDDT regime do not need to adopt Basel 3.1 and can instead remain on interim rules equivalent to the current UK Capital Requirements Regulation regime until the capital rules applicable to the SDDT regime are launched. The Group has recently had confirmation of its successful application to join the SDDT regime.

During March 2024, the PRA issued PS5/24 'Solvent exit planning for non-systemic banks and building societies'. This is intended to provide an alternative to resolution and creates a new requirement for non-systemic banks to perform a Solvent Exit Analysis to develop an understanding of how firms would exit from PRA-regulated activities while remaining solvent, the main barriers and risks faced in doing so, and how they would make timely and effective decisions during the process. The Group is in the process of assessing the requirements ahead of the implementation date of 1 October 2025.

Conduct regulation

In the first half of 2024, FCA publications have focused on Consumer Duty, including the findings from their review of implementation, which highlighted good practice and areas of improvement. Dear CEO letters and speeches have reiterated the focus on ensuring firms prioritise areas where there is the greatest risk of consumer harm, setting and testing higher standards, and promoting competition and positive change. Communications have reminded firms about the application of the Duty to closed products by 31 July 2024. Additionally, the FCA is conducting a review of firms' treatment of vulnerable customers and how they act to understand and respond to their needs and will share the findings by the end of 2024. The Group has taken action to embed the Consumer Duty across the consumer business, including assessing its position against the various publications and communications.

In January 2024, the FCA introduced temporary changes to the rules for handling motor finance complaints. This was to allow time for its review of historical discretionary commission arrangements ('DCAs'), information requests for which were sent to motor finance firms in the period. The FCA has delayed its original deadline of Q3 2024 to May 2025 to outline its next steps. The FCA is monitoring the outcome of the Barclays Partner Finance judicial review proceedings relating to the Financial Ombudsman Services upheld complaint against their use of a DCA, and other court cases. They also issued a Dear CEO letter directing firms to maintain adequate financial resources, with a view to the implications for firms of any potential remedial activities arising from DCAs.

In March 2024, the FCA sent a Dear CEO letter on action needed in response to common control failings identified in anti-money laundering frameworks across the industry. They identified common weaknesses in business model, risk assessment, due diligence, ongoing monitoring, policies and procedures, governance, management information and training. As requested in the letter, the Group is conducting a gap analysis against these common weaknesses.

In April 2024, the FCA published two policy statements. One on protections for Borrowers in Financial Difficulty, incorporating aspects of the Tailored Support Guidance into the FCA's sourcebooks with effect from November 2024. The other bringing Consumer Credit product sales data reporting into force in Q4 2025. The Group has analysed both policy statements and identified where actions are required.

Principal risks and uncertainties

Risk management

The effective management of risk is a key part of the Group's strategy and is underpinned by our Risk Aware value. This helps to protect the Group's customers and generate sustainable returns for shareholders. The Group is focused on ensuring that it maintains sufficient levels of capital, liquidity and operational control, and acts in a reputable way.

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

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

Changes to the Group's risk profile

Changes in the assessment of the Group's risk profile since the position reported in the 2023 Annual Report and Accounts are set out below.

Credit risk: Stable

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

Consumer Finance Credit risk

Retail Finance continues to show strong performance with arrears remaining materially below historical levels. Vehicle Finance has maintained the higher level of new business quality seen post pandemic, supported by more lower risk Prime HP and PCP business and a tightening of lending parameters within Near Prime originations. Vehicle Finance collections activity showed some improvement during the period as additional resource came on board and the Group embedded enhancements to its end-to-end processes in this area. Activity levels, however, remain suppressed, and as a result of reduced overall activity, both the level of defaults and the stock of arrears cases is currently elevated. Plans are in place to improve both of these aspects over the second half of the year.

Business Finance Credit risk

Whilst Business Finance customers have been impacted by inflation, high interest rates and suppressed consumer demand, credit performance remains robust across both Business Finance portfolios.

Real Estate Finance at a portfolio level is performing well, with continued strong rental demand supporting valuations across the book. The business has worked closely with borrowers experiencing difficultly as a result of higher interest rates. Only a very small number of clients are in an active workout situation and where appropriate specific provisions have been taken to cover the risk of loss on these files. Individual provisions are reviewed regularly and updated to reflect latest information and our expectation of the outcome.

Commercial Finance is similarly performing well at a portfolio level, and whilst it does have customers who have been materially impacted by suppressed consumer demand and high inflation, the secured and highly structured nature of facilities means that, in most cases, these exposures can be managed down without loss to the Group.

Liquidity and Funding risk: Stable

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

The Group has maintained its liquidity and funding ratios in excess of regulatory and internal risk appetite requirements throughout the first half of the year. The Group continues to hold significant levels of high-quality liquid assets, principally cash, and there is no material risk that liabilities cannot be met as they fall due. The Group has reviewed funding requirements ahead of upcoming TFSME maturities in 2025 to manage the associated refinancing risk and has repaid £50.0 million in June 2024, and a further £25.0 million in July 2024.

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 levels of growth.

The Group's balance sheet and total risk exposure has increased since the beginning of the year as the Group continues to grow its core businesses organically. Despite the growth in its balance sheet, the Group has continued to maintain adequate capital, and all capital ratio measures have been exceeded throughout the period.

The Group continues to adopt the capital relief that has been provided by the Prudential Regulation Authority ('PRA') in respect of IFRS 9 COVID-19 related 'quick-fix' relief, which tapers off at the end of the year.

The Group manages its capital requirements on a forward-looking basis against minimum regulatory requirements and Board risk appetite. It assesses the adequacy of the quantum and quality of capital held under stress through the annual Internal Capital Adequacy Assessment Process ('ICAAP'). The Group will take opportunities to increase overall levels of capital and optimise its capital stack, as and when appropriate.

Market risk: Stable

Description: Market risk is the risk to the Group's earnings and/or economic value from unfavourable market movements, such as interest rates and foreign exchange rates.

The Group hedges any significant residual fixed rate positions after internal matching of assets and liability profiles, using interest rate swaps. These are hedge accounted for through fair value or cash flow hedges which are deemed highly effective.

Interest Rate Risk in the Banking Book ('IRRBB') is monitored by a range of Board risk appetite measures, including Earnings at Risk ('EAR'), Market Value Sensitivity ('MVS') and Economic Value of Equity ('EVE'). The Group has remained within these risk appetite thresholds throughout the first half of the year and continues to enhance its risk identification, measurement and mitigation for IRRBB.

The Group has a small exposure to foreign exchange risk through its Commercial Finance clients, all exposures are appropriately hedged. The Group does not operate a trading book.

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 Group's operational risk processes and standards are defined in a formal Operational Risk Management Framework, which is aligned to the Basel Committee on Banking Supervision criteria for the sound management of operational risk.

The Group continues to enhance and further embed its approach to achieving Operational Resilience for all its important business services, in line with regulatory requirements, with scenario testing being a key area of focus in 2024.

Technological developments, including Artificial Intelligence ('AI'), continue to accelerate, and the Group has taken a holistic approach to managing AI risk; ensuring associated risks and opportunities are fully understood, with the management of AI risk being integrated into existing risk frameworks.

Model risk: Stable

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

Model risk has been a key focus for the Group and it has enhanced its Model Risk Management Framework.

Whilst the Group is not subject to regulatory expectations under SS1/23 Model risk management practices for banks, the new framework is aligned to this best practice

Conduct and Compliance risk: Stable

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

The Group has engaged with its regulators on information requests, reflective of the regulatory focus on key priority areas across the industry. As already stated at the end of 2023, in relation to the FCA review of motor finance discretionary commission arrangements, the overall proportion of loans where we used discretionary commission arrangements was small, and for a shorter period, relative to the industry in general. The Group continues to track developments in order to respond when the implications for the industry become clearer.

In the period, the Group has taken action to embed the Consumer Duty across the Consumer Finance businesses. The Group has further enhanced its collections processes, procedures and policies in Vehicle Finance, following its formal discussions with the FCA on its Borrowers in Financial Difficulty review, to enable good outcomes to be delivered in line with the Group's purpose and values.

Financial Crime risk: Stable

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

The Group's financial crime control environment continues to mature following strategic investment delivery with a focus on capabilities, systems and controls. We are closely monitoring changes to fraud and financial crime regulation and guidance and responding to them, even where there remain elements of uncertainty across the industry, such as the Failure to Prevent Fraud Corporate Offence guidance and Faster Payment Service Authorised Push Payment scam reimbursement policy. These external factors means that our Financial Crime Risk Management Framework will continue to evolve at a corresponding pace.

Climate Change risk: Stable

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

The Group continues to assess its risk exposure to both the potential 'physical' effects of climate change and the 'transitional' risks from the UK's target to bring all greenhouse gas ('GHG') emissions to net zero by 2050.

The Group has complied with the requirements of the Listing Rules by including climate-related financial disclosures consistent with the recommendations and recommended disclosures of the Task Force for Climate-related Financial Disclosures' ('TCFD') within its 2023 Annual Report and Accounts. Two recommendations were assessed as partially aligned at the year end, relating to Strategy, and Metrics and thresholds. The Group has made good progress in these areas during the first half of 2024 and is expecting to have closed these gaps by the year end.

In May 2024, the Group joined the Partnership for Carbon Accounting Financial ('PCAF') to assist with the development of a consistent and transparent way of assessing and disclosing its Scope 3 emissions.

Condensed consolidated statement of comprehensive income

For the period ended	Note	Unaudited 30 June 2024 £million	Restated[1] Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Continuing operations:				
Income statement				
Interest income and similar income	3	178.6	138.8	304.0
Interest expense and similar charges	3	(90.4)	(57.8)	(136.5)
Net interest income	3	**88.2**	**81.0**	**167.5**
Fee and commission income		8.0	8.1	17.3
Fee and commission expense		(0.1)	–	(0.1)
Net fee and commission income	3	**7.9**	**8.1**	**17.2**
Operating income	3	**96.1**	**89.1**	**184.7**
Net impairment charge on loans and advances to customers	11	(28.2)	(23.0)	(43.2)
Gains on modification of financial assets		0.1	0.2	0.3
Fair value and other gains on financial instruments	4	0.7	0.9	0.5
Operating expenses		(51.6)	(49.8)	(99.7)
Profit before income tax from continuing operations before exceptional items		**17.1**	**17.4**	**42.6**
Exceptional items	5	–	(0.9)	(6.5)
Profit before income tax from continuing operations		**17.1**	**16.5**	**36.1**
Income tax expense	6	(4.3)	(4.2)	(9.7)
Profit for the period from continuing operations		**12.8**	**12.3**	**26.4**
Discontinued operations:				
Loss before income tax from discontinued operations	7	–	**(1.5)**	**(2.7)**
Income tax credit	7	–	0.3	0.6
Loss for the period from discontinued operations	7	–	**(1.2)**	**(2.1)**
Profit for the period		**12.8**	**11.1**	**24.3**
Other comprehensive income/(loss)				
Items that will be reclassified to the income statement				
Cash flow hedge reserve movements		(0.8)	(0.3)	–
Reclassification to the income statement		1.0	0.2	0.6
Taxation		(0.1)	–	(0.1)
Other comprehensive income/(loss) for the period, net of income tax		**0.1**	**(0.1)**	**0.5**
Total comprehensive income for the period		**12.9**	**11.0**	**24.8**
Profit attributable to the equity holders of the Company		**12.8**	**11.1**	**24.3**
Total comprehensive income attributable to the equity holders of the Company		**12.9**	**11.0**	**24.8**
Earnings per share for profit attributable to the equity holders of the Company during the year (pence per share)				
Basic earnings per ordinary share	8	**67.2**	**59.4**	**129.6**
Diluted earnings per ordinary share	8	**65.1**	**57.9**	**126.1**
Basic earnings per ordinary share – continuing operations		**67.2**	**65.8**	**140.8**
Diluted earnings per ordinary share – continuing operations		**65.1**	**64.1**	**137.0**

[1] Restated to present exceptional items of £0.9 million, which were previously included in operating expenses.

The notes on pages 28 to 47 form an integral part of these Interim Financial Statements.

Condensed consolidated statement of financial position

As at the period ended	Note	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
ASSETS				
Cash and Bank of England reserve account		412.2	318.3	351.6
Loans and advances to banks		21.7	33.3	53.7
Loans and advances to customers	10	3,421.6	3,158.5	3,315.3
Fair value adjustment for portfolio hedged risk		(10.7)	(47.7)	(3.9)
Derivative financial instruments		18.3	50.3	25.5
Property, plant and equipment		10.7	11.4	10.8
Right-of-use assets		1.9	1.9	1.8
Intangible assets		5.3	6.5	5.9
Current tax assets		2.5	1.4	0.1
Deferred tax assets		4.0	5.0	4.3
Other assets		11.4	12.0	12.9
Total assets		**3,898.9**	**3,550.9**	**3,778.0**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	12	359.1	409.3	402.0
Deposits from customers	13	3,042.7	2,648.9	2,871.8
Fair value adjustment for portfolio hedged risk		(7.4)	(33.7)	(1.4)
Derivative financial instruments		14.4	36.1	22.0
Lease liabilities		2.2	2.3	2.3
Other liabilities		34.9	59.1	37.7
Provisions for liabilities and charges	14	4.4	2.8	6.0
Subordinated liabilities	15	93.1	92.9	93.1
Total liabilities		**3,543.4**	**3,217.7**	**3,433.5**
Equity attributable to owners of the parent				
Share capital		7.6	7.5	7.6
Share premium		84.0	82.3	83.8
Other reserves		(1.4)	(1.2)	(1.7)
Retained earnings		265.3	244.6	254.8
Total equity		**355.5**	**333.2**	**344.5**
Total liabilities and equity		**3,898.9**	**3,550.9**	**3,778.0**

The notes on pages 28 to 47 form an integral part of these Interim Financial Statements.

Condensed consolidated statement of changes in equity

Unaudited	Share capital £million	Share premium £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2024	**7.6**	**83.8**	**(0.3)**	**(1.4)**	**254.8**	**344.5**
Total comprehensive income for the period						
Profit for the six months to 30 June 2024	–	–	–	–	12.8	12.8
Cash flow hedge reserve movements	–	–	0.2	–	–	0.2
Tax on cash flow hedge reserve movements	–	–	(0.1)	–	–	(0.1)
Total comprehensive income for the period	**–**	**–**	**0.1**	**–**	**12.8**	**12.9**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Purchase of own shares	–	–	–	(0.4)	–	(0.4)
Sale of own shares	–	–	–	0.6	–	0.6
Loss on sale of own shares	–	–	–	–	(0.6)	(0.6)
Issue of shares	–	0.2	–	–	–	0.2
Dividends	–	–	–	–	(3.1)	(3.1)
Share-based payments	–	–	–	–	1.4	1.4
Total contributions by and distributions to owners	**–**	**0.2**	**–**	**0.2**	**(2.3)**	**(1.9)**
Balance at 30 June 2024	**7.6**	**84.0**	**(0.2)**	**(1.2)**	**265.3**	**355.5**

Unaudited	Share premium £million	Cash flow hedge reserve £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2023	**7.5**	**82.2**	**(0.8)**	**(0.3)**	**237.8**	**326.4**
Total comprehensive income for the period						
Profit for the six months to 30 June 2023	–	–	–	–	11.1	11.1
Cash flow hedge reserve movements	–	–	(0.1)	–	–	(0.1)
Total comprehensive income for the period	**–**	**–**	**(0.1)**	**–**	**11.1**	**11.0**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares	–	0.1	–	–	–	0.1
Dividends	–	–	–	–	(5.4)	(5.4)
Share-based payments	–	–	–	–	1.1	1.1
Total contributions by and distributions to owners	**–**	**0.1**	**–**	**–**	**(4.3)**	**(4.2)**
Balance at 30 June 2023	**7.5**	**82.3**	**(0.9)**	**(0.3)**	**244.6**	**333.2**

The notes on pages 28 to 47 form an integral part of these Interim Financial Statements.

Audited	Share capital £million	Share premium £million	Other reserves: Cash flow hedge reserve £million	Other reserves: Own shares £million	Retained earnings £million	Total £million
Balance at 1 January 2023	**7.5**	**82.2**	**(0.8)**	**(0.3)**	**237.8**	**326.4**
Total comprehensive income for the year						
Profit for the year to 31 December 2023	–	–	–	–	24.3	24.3
Cash flow hedge reserve movements	–	–	0.6	–	–	0.6
Tax on cash flow hedge reserve movements	–	–	(0.1)	–	–	(0.1)
Total comprehensive income for the period	**–**	**–**	**0.5**	**–**	**24.3**	**24.8**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Purchase of own shares	–	–	–	(1.2)	–	(1.2)
Sale of own shares	–	–	–	0.1	–	0.1
Issue of shares	0.1	1.6	–	–	–	1.7
Dividends paid	–	–	–	–	(8.4)	(8.4)
Share-based payments	–	–	–	–	1.1	1.1
Total contributions by and distributions to owners	**0.1**	**1.6**	**–**	**(1.1)**	**(7.3)**	**(6.7)**
Balance at 31 December 2023	**7.6**	**83.8**	**(0.3)**	**(1.4)**	**254.8**	**344.5**

The notes on pages 28 to 47 form an integral part of these Interim Financial Statements.

Condensed consolidated statement of cash flows

For the period ended	Note	Unaudited 30 June 2024 £million	Restated[1] Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Cash flows from operating activities				
Profit for the year		12.8	11.1	24.3
Adjustments for:				
Income tax expense	6	4.3	3.9	9.1
Depreciation of property, plant and equipment		0.5	0.5	0.9
Depreciation of right-of-use assets		0.5	0.3	0.7
Amortisation of intangible assets		0.7	0.6	1.2
Loss on disposal of property, plant and equipment, right of use assets and intangible assets		–	–	0.2
Impairment charge on loans and advances to customers	11	28.2	23.0	43.2
Share-based compensation		1.4	1.1	1.1
Provision for liabilities and charges	14	0.5	–	8.5
Other non-cash items included in profit before tax		(0.7)	1.2	(0.8)
Cash flows from operating profits before changes in operating assets and liabilities		48.2	41.7	88.4
Changes in operating assets and liabilities:				
– loans and advances to customers		(134.4)	(262.1)	(439.0)
– loans and advances to banks and balances at central banks		5.0	(0.6)	(1.3)
– other assets		1.4	1.4	0.4
– deposits from customers		170.9	134.3	357.2
– provisions for liabilities and charges		(2.1)	(1.6)	(4.7)
– other liabilities		(1.7)	(17.2)	(37.8)
Income tax paid		(6.3)	(5.5)	(8.6)
Net cash inflow/(outflow) from operating activities		**81.0**	**(109.6)**	**(45.4)**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(0.5)	(2.7)	(2.7)
Net cash outflow from investing activities		**(0.5)**	**(2.7)**	**(2.7)**
Cash flows from financing activities				
Issue of subordinated debt		–	70.0	70.0
Redemption of subordinated debt		–	(28.8)	(28.8)
Drawdown/(repayment) of amounts due to banks		2.1	7.3	(0.9)
Drawdown of Index Long-Term Repos		5.0	–	–
Repayment of Term Funding Scheme with additional incentives for SMEs		(50.0)	–	–
Purchase of own shares		(0.4)	–	(1.2)
Issue of shares		0.2	0.1	1.7
Dividends paid		(3.1)	(5.4)	(8.4)
Repayment of lease liabilities		(0.7)	(0.5)	(0.9)
Net cash (outflow)/inflow from financing activities		**(46.9)**	**42.7**	**31.5**
Net increase/(decrease) in cash and cash equivalents		**33.6**	**(69.6)**	**(16.6)**
Cash and cash equivalents at 1 January		400.3	416.9	416.9
Cash and cash equivalents at end of period	18	**433.9**	**347.3**	**400.3**

[1] Issue of subordinated debt has been restated from £90.0 million to £70.0 million and Redemption of subordinated debt has been restated from £48.8 million to £28.8 million to reflect a £20 million set off between the two items.

The notes on pages 28 to 47 form an integral part of these Interim Financial Statements.

Notes to the interim financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these Interim Condensed Consolidated Financial Statements (the ‘Interim Financial Statements’) are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

1.1. Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as ‘the Company’) and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is Yorke House, Arleston Way, Shirley, Solihull, West Midlands B90 4LH. The Interim Financial Statements, as at, and for the period ended 30 June 2024, comprises Secure Trust Bank PLC and its subsidiaries (together referred to as ‘the Group’ and individually as ‘subsidiaries’). The Group is primarily involved in banking and financial services.

1.2. Basis of presentation

The Interim Financial Statements do not constitute statutory accounts, as defined in section 434 of the Companies Act 2006, and have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, United Kingdom-adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority. These Interim Financial Statements should be read in conjunction with the annual statutory consolidated financial statements (the 'Annual Report and Accounts') for the year ended 31 December 2023.

A copy of the statutory accounts for the year ended 31 December 2023 has been delivered to the Registrar of Companies. The auditor’s report on those accounts was not qualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006. The results for the periods ending 30 June 2024 and 30 June 2023 are unaudited.

The Interim Financial Statements have been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments. The Interim Financial Statements are presented in pounds sterling, which is the functional and presentational currency of the entities within the Group. The Group has historically chosen to present additional comparatives for the prior financial year on a voluntary basis.

The preparation of the Interim 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 Interim Financial Statements, are disclosed in Note 2.

1.2.1 Going concern

The Interim Financial Statements are prepared on a going concern basis as the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. The Directors have assessed the Group’s ability to continue to adopt the going concern basis of accounting, as required by accounting standards.

As disclosed in the 2023 Annual Report and Accounts (pages 39 and 40), the Group considers a number of factors in making this assessment. This includes reviewing current and past performance, changes in the economic and regulatory environment, the risk profile of the business, operational resilience and possible future events that will impact the business. The Group also undertakes stress testing to ensure the adequacy of capital and liquidity under severe, but plausible stresses. The Board sets risk appetites designed to enable the Group to withstand stress and tail risk events.

Since the year-end, the Group has reviewed its principal risks to ensure they remain appropriate and relevant (for further details see Principal risks and uncertainties on pages 20 to 22). There has been no significant deterioration in the risk profile of the Group and no new principal risks have arisen in the six-month period.

In addition, the Group has reviewed its five-year profit and loss, net assets and capital forecasts to reflect actual performance in the year-to-date, strategic changes in the business plan and the impact of changes in the macroeconomic environment on its loan loss provisioning and business activities (the ‘Reforecast’). Macroeconomic inputs to the Reforecast reflect increases in the forecast Base Rate of interest, which impact customer pricing and funding costs, and revised forecast economic variables, which impact IFRS 9 loan loss provisioning. The Group has no material direct exposure to recent changes in global geo-political risks, the indirect impact of which is taken into account in the macroeconomic inputs referred to above. Under the Reforecast, the Board is satisfied that the Group can continue to operate within its capital and liquidity risk appetites.

The 2024 Internal Capital Adequacy Assessment Process ('ICAAP') was approved by the Board in August 2024. Details of the Group's 2023 ICAAP are included in the 2023 Annual Report and Accounts. For the 2024 ICAAP, macroeconomic stress testing scenarios were based on information published by the Prudential Regulation Authority ('PRA') for small banks, and a combined idiosyncratic and macroeconomic (whole of market) stress was enhanced and used as the basis for assessing the Group's PRA buffer requirement.

The Board approved the Internal Liquidity Adequacy Assessment Process ('ILAAP') in June 2024. This provides assurance that the Group can maintain liquidity resources that are adequate, both as to amount and quality, to ensure there is no significant risk that its liabilities cannot be met as they fall due. As part of the ILAAP, the Group reviews the liquidity risks to which it is exposed and assesses the quantum of liquid resources required to survive, and remain viable, under a severe, but plausible combined idiosyncratic and whole of market 90-day stress. The Group maintained liquidity levels in excess of its liquidity risk appetite and regulatory requirements throughout the year, and is forecast to continue to do so over the ILAAP planning horizon and going concern assessment period.

The Group has received confirmation that it will be eligible for the Small Domestic Deposit Taker ('SDDT') regime, which means that Basel 3.1 will not apply, and instead a transitional regime will apply until SDDT capital rules become effective, which is likely to be in the first half of 2026. The SDDT liquidity rules came into effect on 1 July 2024.

Taking into account the updates noted above, the Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

1.3. Accounting policies

The accounting policies applied in preparing the unaudited Interim Financial Statements are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2023.

1.3.3 Taxation

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

1.3.4 Standards in issue but not yet effective

There are no new standards in issue that are not yet effective and have a material effect on the Group.

2. Critical accounting judgements and key sources of estimation uncertainty

2.1 Judgements

A critical judgement relating to discretionary motor finance commissions is disclosed in Note 16.1.2. No other critical judgements were identified.

2.2. Key sources of estimation uncertainty

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

- Note 11.1 Allowances for impairment of loans and advances to customers
- Note 14 Provisions for liabilities and charges

3. Operating segments

The Group is organised into four lending segments, which consists of the different products available, as disclosed below:

Consumer Finance

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

Business Finance

- Real Estate Finance: lending secured against property assets to a maximum 70% loan-to-value ratio on fixed or variable rates over a term of up to five years.
- Commercial Finance: our asset-based lending facilities are predominantly against trade receivables, releasing up to 90% of qualifying invoices under invoice discounting facilities. Facilities can also be secured against other assets, such as inventory, plant and machinery and property either short or long-term and for a range of loan-to-value ratios alongside invoice discounting facilities.

Other

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

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

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

Operating expenses are not aligned to operating segments for 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. Additionally, no balance sheet items are allocated to segments other than loans and advances to customers.

Unaudited 30 June 2024	Interest income and similar income £million	Interest expense and similar charges £million	Net interest income £million	Net fee and commission income £million	Operating Income from external customers £million	Net impairment charge on loans and advances to customers £million	Loans and advances to customers £million
Retail Finance	66.5	(25.3)	**41.2**	1.5	**42.7**	4.4	1,315.4
Vehicle Finance	32.4	(9.9)	**22.5**	0.9	**23.4**	20.9	497.9
Consumer Finance	98.9	(35.2)	**63.7**	2.4	**66.1**	25.3	1,813.3
Real Estate Finance	42.9	(26.7)	**16.2**	0.3	**16.5**	2.9	1,271.5
Commercial Finance	15.6	(9.4)	**6.2**	5.2	**11.4**	–	336.8
Business Finance	58.5	(36.1)	**22.4**	5.5	**27.9**	2.9	1,608.3
Other	21.2	(19.1)	**2.1**	–	**2.1**	–	–
	178.6	**(90.4)**	**88.2**	**7.9**	**96.1**	**28.2**	**3,421.6**

Unaudited 30 June 2023	Interest income and similar income £million	Interest expense and similar charges £million	Net interest income £million	Net fee and commission income £million	Operating Income from external customers £million	Net impairment charge on loans and advances to customers £million	Loans and advances to customers £million
Retail Finance	47.9	(13.5)	**34.4**	1.3	**35.7**	8.9	1,179.9
Vehicle Finance	28.0	(6.2)	**21.8**	1.0	**22.8**	4.9	440.4
Consumer Finance	75.9	(19.7)	**56.2**	2.3	**58.5**	13.8	1,620.3
Real Estate Finance	34.6	(20.3)	**14.3**	0.5	**14.8**	2.2	1,221.8
Commercial Finance	12.9	(5.6)	**7.3**	5.3	**12.6**	7.0	316.4
Business Finance	47.5	(25.9)	**21.6**	5.8	**27.4**	9.2	1,538.2
Other	15.4	(12.2)	**3.2**	–	**3.2**	–	–
	138.8	**(57.8)**	**81.0**	**8.1**	**89.1**	**23.0**	**3,158.5**

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

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

4. Fair value and other gains on financial instruments

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Fair value movement during the period – interest rate derivatives	1.3	5.7	(6.1)
Fair value movement during the period – hedged items	(1.2)	(5.2)	6.2
Hedge ineffectiveness recognised in the income statement	0.1	0.5	0.1
Inception and amortisation adjustment[1]	0.4	–	–
Gains/(losses) recognised on derivatives not in hedge relationships	0.2	(0.8)	(0.8)
Extinguishment gain on redemption of subordinated debt	–	1.2	1.2
	0.7	**0.9**	**0.5**

1. The inception and amortisation adjustment relates to amortisation of macro fair value hedge accounting relationships derecognised and the amortisation of the fair value adjustment of underlying hedged items at the time hedge accounting relationships commenced or were redesignated. Over the life of the hedged items these adjustments are expected to off-set gains/losses on derivatives taken for hedging purposes before and after they are designated in hedge relationships.

5. Exceptional items

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

Following the Financial Conduct Authority's review of BiFD across the industry, and in response to the specific feedback we received on our own collection activities, we engaged external support to assist us and, where necessary, are enhancing our approach, which includes offering a wider range of forbearance options to our customers. At 31 December 2023, we incurred or provided for costs of £4.7 million (comprising £2.7 million costs and £2.0 million potential redress/goodwill) (30 June 2023: £nil) relating to processes, procedures and policies in our Vehicle Finance collections operations. Costs associated with these activities were outside the normal course of business and were treated as exceptional.

Corporate activity

Corporate activities undertaken outside the normal course of business and amounted to £nil million (30 June 2023: £0.9 million, 31 December 2023: £1.8 million).

Income tax on exceptional items

Income tax on exceptional items amount to £nil million credit (30 June 2023: £nil, 31 December 2023: £0.6 million).

6. Income tax expense

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Current taxation			
Corporation tax charge – current year	3.9	3.2	8.0
Corporation tax charge – adjustments in respect of prior years	0.2	–	(0.1)
	4.1	3.2	7.9
Deferred taxation			
Deferred tax charge – current year	0.4	0.7	1.3
Deferred tax credit – adjustments in respect of prior years	(0.2)	–	(0.1)
	0.2	0.7	1.2
Income tax expense	**4.3**	**3.9**	**9.1**
Of which:			
Continuing	4.3	4.2	9.7
Discontinued (Note 7)	–	(0.3)	(0.6)
Total	**4.3**	**3.9**	**9.1**

The tax for all of the periods above has been calculated at the current statutory rate, which is 25.0% for the six months ended 30 June 2024, and 23.5% for the six months ended 30 June 2023 and year ended 31 December 2023.

For the year ended 31 December 2023, the Corporation Tax rate increased from 19% to 25%, with effect from 1 April 2023, giving a rate of 23.5% for the year to 31 December 2023. At the same time, the banking surcharge reduced from 8% to 3% and the surcharge allowance available to a banking group increased from £25 million to £100 million. These changes were enacted prior to the start of 2023, and so opening and closing deferred asset values were calculated from expected future tax relief based on these enacted rates

7. Discontinued operations

Discontinued operations includes the Debt Management business, which sold its loan portfolio in 2022. Employees were retained for a period of time, with the eventual aim to wind down the entity in line with regulatory requirements.

Income statement	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Operating expenses	–	(1.5)	(2.7)
Loss before income tax from discontinued operations	–	**(1.5)**	**(2.7)**
Income tax credit	–	0.3	0.6
Loss for the period from discontinued operations	–	**(1.2)**	**(2.1)**
Basic earnings per ordinary share – discontinued operations	–	**(6.4)**	**(11.2)**
Diluted earnings per ordinary share – discontinued operations	–	**(6.3)**	**(10.9)**

Net cash flows	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Operating	–	(1.5)	(2.7)
Net cash outflow	–	**(1.5)**	**(2.7)**

8. Earnings per ordinary share

8.1 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:

	Unaudited 30 June 2024	Unaudited 30 June 2023	Audited 31 December 2023
Profit attributable to equity holders of the parent (£million)	12.8	11.1	24.3
Weighted average number of ordinary shares (number)	19,043,402	18,699,341	18,751,059
Earnings per share (pence)	**67.2**	**59.4**	**129.6**

8.2 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 period, as follows:

	Unaudited 30 June 2024	Unaudited 30 June 2023	Audited 31 December 2023
Weighted average number of ordinary shares	19,043,402	18,699,341	18,751,059
Number of dilutive shares in issue at the period end	632,062	485,520	515,782
Fully diluted weighted average number of ordinary shares	**19,675,464**	**19,184,861**	**19,266,841**
Dilutive shares being based on:			
Number of options outstanding at the period end	1,346,654	1,506,219	1,210,544
Weighted average exercise price (pence)	179	246	225
Average share price during the period (pence)	740	685	719
Diluted earnings per share (pence)	**65.1**	**57.9**	**126.1**

9. Dividends

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
2023 final dividend – 16.2 pence per share (paid May 2024)	3.1	–	–
2023 interim dividend – 16.0 pence per share (paid September 2023)	–	–	3.0
2022 final dividend – 29.1 pence per share (paid May 2023)	–	5.4	5.4
	3.1	**5.4**	**8.4**

The Directors have approved an interim dividend of 11.3 pence per share (2023: 16.0 pence per share). This will be paid on 26 September 2024 with an associated record date of 30 August 2024.

10. Loans and advances to customers

	Unaudited 30 June 2024	Unaudited 30 June 2023	Audited 31 December 2023
Gross loans and advances	3,523.2	3,238.0	3,403.4
Less: allowances for impairment of loans and advances	(101.6)	(79.5)	(88.1)
	3,421.6	**3,158.5**	**3,315.3**

11. Allowances for impairment of loans and advances

Expected Credit Losses ('ECL') by stage and by business are disclosed below:

	Not credit-impaired		Credit-impaired			
Unaudited 30 June 2024	**Stage 1: Subject to 12-month ECL £million**	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total provision £million**	**Gross loans and advances to customers £million**	**Provision cover %**
Consumer Finance:						
Retail Finance	13.6	6.9	9.8	30.3	1,345.7	2.3
Vehicle Finance:						
Voluntary termination provision	5.9	0.9	–	6.8		
Other impairment	9.6	6.3	36.7	52.6		
	15.5	7.2	36.7	59.4	557.3	10.7
Business Finance:						
Real Estate Finance	0.5	0.4	10.4	11.3	1,282.8	0.9
Commercial Finance	0.6	–	–	0.6	337.4	0.2
	30.2	**14.5**	**56.9**	**101.6**	**3,523.2**	**2.9**

	Not credit-impaired		Credit-impaired			
Unaudited 30 June 2023	**Stage 1: Subject to 12-month ECL £million**	**Stage 2: Subject to lifetime ECL £million**	**Stage 3: Subject to lifetime ECL £million**	**Total provision £million**	**Gross loans and advances to customers £million**	**Provision cover %**
Consumer Finance:						
Retail Finance	13.8	11.3	6.8	31.9	1,211.8	2.6
Vehicle Finance:						
Voluntary termination provision	5.0	–	–	5.0		
Other impairment	6.7	12.6	17.9	37.2		
	11.7	12.6	17.9	42.2	482.6	8.7
Business Finance:						
Real Estate Finance	0.3	0.5	3.6	4.4	1,226.2	0.4
Commercial Finance	0.2	0.2	0.6	1.0	317.4	0.3
	26.0	**24.6**	**28.9**	**79.5**	**3,238.0**	**2.5**

Audited 31 December 2023	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision cover %
Consumer Finance:						
Retail Finance	12.0	11.8	8.3	32.1	1,255.3	2.6
Vehicle Finance:						
Voluntary termination provision	6.7	–	–	6.7		
Other impairment	10.0	5.6	23.6	39.2		
	16.7	5.6	23.6	45.9	513.1	8.9
Business Finance:						
Real Estate Finance	0.3	0.7	7.0	8.0	1,251.8	0.6
Commercial Finance	0.5	0.1	1.5	2.1	383.2	0.5
	29.5	**18.2**	**40.4**	**88.1**	**3,403.4**	**2.6**

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

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Expected credit losses: impairment charge	28.2	17.1	37.3
Credit in respect of off-balance sheet loan commitments	–	(0.4)	(0.3)
Loans written off/(recovered) directly to the income statement[1]	–	6.3	6.2
	28.2	**23.0**	**43.2**

1. The impairment charge for the period ending 30 June 2023 and 31 December 2023 includes a £7.2 million charge relating to a single long-running problem debt case, of which £6.3 million was written off-directly to the income statement.

Total allowance for impairment above include expert credit judgements (post-model adjustments) as follows:

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Specific underlays held against credit-impaired secured assets held within the Business Finance portfolio	(0.6)	(2.4)	(1.0)
Management judgement in respect of:			
Consumer Finance affordability	–	2.8	–
Vehicle Finance used car valuations	–	0.9	–
Vehicle Finance LGD on Stage 3 balances	(3.2)	–	(2.1)
Vehicle Finance PD on Stage 2 and 3 balances	5.8	1.5	3.2
Other	(0.8)	(1.3)	(1.3)
Expert credit judgements applied to the IFRS 9 model results	**1.2**	**1.5**	**(1.2)**

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

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

Unaudited	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Not credit-impaired Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2024	29.5	18.2	40.4	88.1
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(6.0)	20.3	–	14.3
– Transfer to stage 3	(0.1)	(12.7)	25.5	12.7
– Transfer to stage 1	4.2	(12.9)	–	(8.7)
Passage of time	(1.8)	0.4	2.9	1.5
New loans originated	7.3	–	–	7.3
Matured and derecognised loans	(1.3)	(1.0)	(0.9)	(3.2)
Changes to credit risk parameters	(0.8)	1.3	1.2	1.7
Other adjustments	1.7	0.9	–	2.6
Charge/(credit) to income statement	3.2	(3.7)	28.7	28.2
Allowance utilised in respect of write-offs	(2.5)	–	(12.2)	(14.7)
30 June 2024	**30.2**	**14.5**	**56.9**	**101.6**

Unaudited	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Not credit-impaired Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2023	24.3	28.6	25.1	78.0
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(4.8)	25.7	–	20.9
– Transfer to stage 3	–	(13.9)	21.8	7.9
– Transfer to stage 1	4.9	(16.8)	–	(11.9)
Passage of time	(6.6)	(0.2)	(0.3)	(7.1)
New loans originated	11.6	–	–	11.6
Matured and derecognised loans	(1.4)	(2.4)	(1.9)	(5.7)
Changes to credit risk parameters	(1.5)	3.6	(1.0)	1.1
Other adjustments	0.3	–	–	0.3
Charge to income statement	2.5	(4.0)	18.6	17.1
Allowance utilised in respect of write-offs	(0.8)	–	(14.8)	(15.6)
30 June 2023	**26.0**	**24.6**	**28.9**	**79.5**

Audited	Not credit-impaired Stage 1: Subject to 12-month ECL £million	Stage 2: Subject to lifetime ECL £million	Credit-impaired Stage 3: Subject to lifetime ECL £million	Total £million
At 1 January 2023	24.3	28.6	25.1	78.0
(Decrease)/increase due to change in credit risk				
– Transfer to stage 2	(10.4)	56.1	–	45.7
– Transfer to stage 3	(0.1)	(30.6)	41.9	11.2
– Transfer to stage 1	10.2	(35.3)	–	(25.1)
Passage of time	(9.1)	3.5	3.7	(1.9)
New loans originated	20.5	–	–	20.5
Matured and derecognised loans	(2.3)	(4.6)	(4.7)	(11.6)
Changes to credit risk parameters	(5.3)	0.5	0.3	(4.5)
Other adjustments	3.0	–	–	3.0
Charge to income statement	6.5	(10.4)	41.2	37.3
Allowance utilised in respect of write-offs	(1.3)	–	(25.9)	(27.2)
31 December 2023	**29.5**	**18.2**	**40.4**	**88.1**

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

Transfers between stages 1 to 2 or 1 to 3 relate to changes from 12-month PD to lifetime PD, and vice versa.

Passage of time represents the impact of accounts maturing through their contractual life, the associated reduction in Probability of Defaults ('PD') and the unwind of the discount applied in calculating the ECL.

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

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

Stage 1 'Allowance utilised in respect of write-offs' arise on Vehicle Finance accounts where borrowers have exercised their right to voluntarily terminate their agreements.

11.1 Key sources of estimation uncertainty

Estimations that could have a material impact on the Group's financial results, and are therefore considered to be key sources of estimation uncertainty, all relate to the impairment charge on loans and advances to customers and are therefore set out below.

The potential impact of the current macroeconomic environment has been considered in determining reasonably possible changes in key sources of estimation uncertainty, which may occur in the next 12 months.

The determination of both the PD and Loss Given Default ('LGD') require estimation, which is discussed further below.

11.1.1 Incorporation of forward-looking data

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

The macroeconomic scenarios used were provided by external economic advisers. The scenarios and weightings applied are summarised below:

Unaudited 30 June 2024		UK Unemployment Rate – Annual Average				UK HPI – movement from H1 2024			
Scenario	Weightings	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %
Upside	20%	4.0	3.7	3.6	3.7	3.4	8.7	16.6	4.6
Base	50%	4.3	3.9	3.8	3.9	1.7	4.8	9.9	3.4
Downside	25%	5.2	6.2	6.8	6.3	(7.0)	(9.0)	(9.3)	(0.3)
Severe	5%	5.5	6.7	7.4	6.8	(12.7)	(18.5)	(23.1)	(3.2)

Unaudited 30 June 2023		UK Unemployment Rate – Annual Average				UK HPI – movement from H1 2023			
Scenario	Weightings	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %
Upside	20%	3.8	3.7	3.7	3.7	(2.7)	(3.8)	0.8	2.3
Base	50%	4.0	4.2	3.9	3.9	(6.0)	(9.0)	(6.7)	0.7
Downside	25%	4.9	6.3	6.9	6.3	(12.3)	(19.2)	(21.0)	(2.3)
Severe	5%	5.2	6.8	7.5	6.8	(17.1)	(26.9)	(32.0)	(4.8)

Audited 31 December 2023		UK Unemployment Rate – Annual Average				UK HPI – movement from December 2023			
Scenario	Weightings	2024 %	2025 %	2026 %	5 Yr Average %	2024 %	2025 %	2026 %	5 Yr Average %
Upside	20%	4.2	3.9	3.8	3.9	(0.7)	2.4	9.4	3.7
Base	50%	4.5	4.4	4.1	4.1	(4.3)	(3.3)	0.9	2.1
Downside	25%	5.4	6.5	7.1	6.5	(10.4)	(13.8)	(14.3)	(0.9)
Severe	5%	5.7	7.0	7.6	7.0	(15.1)	(21.8)	(26.0)	(3.5)

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

The Group recognised an impairment charge of £28.2 million (30 June 2023: £23.0 million, 31 December 2023: £43.2 million). Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the increase/(decrease) on ECL provisions would be as follows:

Unaudited 30 June 2024 Scenario	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(0.3)	(0.2)	(0.6)	(1.1)
Base	(0.2)	(0.1)	(0.4)	(0.7)
Downside	0.5	0.4	1.1	2.0
Severe	0.6	0.5	2.7	3.8

Unaudited 30 June 2023 Scenario	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(0.9)	(1.4)	(0.6)	(2.9)
Base	(0.4)	(0.7)	(0.3)	(1.4)
Downside	1.3	2.0	0.7	4.0
Severe	1.8	2.8	1.7	6.3

Audited 31 December 2023 Scenario	Vehicle Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
Upside	(0.4)	(1.2)	(0.3)	(1.9)
Base	(0.2)	(0.5)	(0.2)	(0.9)
Downside	0.5	1.5	0.4	2.4
Severe	0.6	2.2	1.1	3.9

11.1.2 ECL-modelled output: Estimation of PDs

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

A 15% (30 June 2023: 15%, 31 December 2023: 15%) change in the PD for Vehicle Finance would immediately impact the ECL allowance by £2.5 million (30 June 2023: £4.4 million, 31 December 2023: £2.5 million).

A 15% (30 June 2023: 15%, 31 December 2023: 15%) change in the PD for Retail Finance would immediately impact the ECL allowance by £3.3 million (30 June 2023: £5.8 million, 31 December 2023: £4.4 million).

These sensitivities reflect the levels of defaults observed with business as usual collection activities operating.

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

11.1.3. ECL-modelled output: Vehicle Finance recovery rates

With the exception of the Vehicle Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. The Vehicle Finance portfolio is particularly sensitive to changes in LGD due to the range of outcomes that could crystallise, depending on whether the Group is able to recover the vehicle as security. For the Vehicle Finance portfolio, a 20% (30 June 2023: 20%, 31 December 2023: 20%) change in the LGD is considered reasonably possible due to delays in the vehicle collection process. A 20% (30 June 2023: 20%, 31 December 2023: 20%) reduction in the vehicle recovery rate assumption element of the LGD for Vehicle Finance would increase the ECL by £0.8 million (30 June 2023: £1.5 million, 31 December 2023 £0.9 million). There has been no change in the vehicle recovery rate assumption in the ECL model, in either the current or prior periods.

11.1.4 Climate risk impact

The Group considers the impact of climate-related risks on the financial statements on a quarterly basis in, particular, climate change negatively impacting the value of the Group's Real Estate Finance business' security due to the increased risk of flooding associated with climate change.

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

12. Due to banks

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Amounts due under the Bank of England's liquidity support operations (Term Funding Scheme with additional incentives for SMEs and Index Long-Term Repos)	345.0	390.0	390.0
Amounts due to other credit institutions	8.9	15.0	6.8
Accrued interest	5.2	4.3	5.2
	359.1	**409.3**	**402.0**

13. Deposits from customers

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Fixed term bonds	1,518.1	1,410.0	1,546.6
Notice accounts	104.7	324.3	174.3
ISAs	689.2	505.2	629.6
Access accounts	730.7	409.4	521.3
	3,042.7	**2,648.9**	**2,871.8**

14. Provisions for liabilities and charges

	ECL allowance on off-balance sheet loan commitments £million	Other £million	Total £million
Balance at 1 January 2023	**1.1**	**1.4**	**2.5**
(Release)/charge to income statement	(0.4)	2.6	2.2
Utilised	–	(1.9)	(1.9)
Balance at 30 June 2023 (Unaudited)	**0.7**	**2.1**	**2.8**
Charge to income statement	0.1	5.9	6.0
Utilised	–	(2.8)	(2.8)
Balance at 31 December 2023 (Audited)	**0.8**	**5.2**	**6.0**
Charge to income statement	–	0.5	0.5
Utilised	–	(2.1)	(2.1)
Balance at 30 June 2024 (Unaudited)	**0.8**	**3.6**	**4.4**

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 30 June 2024, 30 June 2023 and 31 December 2023, no provision was held for losses in excess of drawn amounts.

Other

Other includes:

- provision for fraud, which relates to cases where the Group has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately;
- s75 Consumer Credit Act 1974 provision;
- costs and redress relating to the BiFD Vehicle Finance collections review (see Note 5 for further details and key sources of estimation uncertainty below); and
- costs and redress relating to further customer redress initiatives.

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

14.1 Key sources of estimation uncertainty

No further provision relating to costs and goodwill/redress relating to the BiFD Vehicle Finance collections review have been recognised during the period (31 December 2023: £4.7 million). As at 30 June 2024, the amounts of potential redress/goodwill are not yet finalised. Increasing trace and contact rates for impacted customers by 10% would increase the provision by £0.8 million and increasing the potential redress/goodwill amounts by 50% would increase the provision by £0.1 million. Increasing the costs to manage the redress/goodwill programme by 50% would increase the provision by £0.2 million.

15. Subordinated liabilities

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Notes at face value	90.0	90.0	90.0
Unamortised issue costs	(0.8)	(1.0)	(0.9)
Accrued interest	3.9	3.9	4.0
	93.1	**92.9**	**93.1**

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

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

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

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

The notes are treated as Tier 2 regulatory capital, which is used to support the continuing growth of the business, taking into account increases in regulatory capital buffers. The issue of the notes is consistent with the Group's capital management policy.

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

The Group paid interest of £5.9 million on subordinated liabilities during the period (June 2023: £0.8 million, December 2023: £6.7 million), which is included in Net cash inflow/(outflow) from operating activities in the Condensed consolidated statement of cash flows.

16. Contingent liabilities and commitments

16.1 Contingent liabilities

16.1.1 Laws and regulations

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

16.1.2 Discretionary motor finance commissions

On 11 January 2024, the FCA announced a review of historical motor finance commission arrangements. The Group operated some discretionary commission arrangements from 2009 until June 2017. While it is possible that certain charges may be incurred in the future, the Directors do not consider that a legal or constructive obligation exists that would require a provision to be recognised at this stage. There is also significant uncertainty about the outcome of the FCA's review, the timing and scope, and therefore the quantum of any potential financial impact cannot be reliably estimated at present. The FCA plans to set out its next steps in May 2025 when the implications for the industry should become clearer.

16.1.2.1 Critical accounting judgement

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

16.2 Credit commitments

Commitments to extend credit to customers were as follows:

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Consumer Finance			
Retail Finance	88.4	72.5	91.6
Vehicle Finance	3.2	2.0	1.3
Business Finance			
Real Estate Finance	41.5	54.2	58.9
Commercial Finance	148.3	165.3	149.5
	281.4	**294.0**	**301.3**

17. Share-based payments

Movements in the share options outstanding during the period are set out below:

	Outstanding at 1 January 2024 Number	Granted Number	Forfeited, lapsed and cancelled Number	Exercised Number	Outstanding at 30 June 2024 Number
Long term incentive plan	718,098	422,799	(157,026)	(57,855)	**926,016**
Deferred bonus plan	88,533	43,162	–	(45,771)	**85,924**
Sharesave plan	403,913	–	(28,242)	(40,957)	**334,714**
	1,210,544	**465,961**	**(185,268)**	**(144,583)**	**1,346,654**

	Outstanding at 1 January 2023 Number	Granted Number	Forfeited, lapsed and cancelled Number	Exercised Number	Outstanding at 30 June 2023 Number
Long term incentive plan	611,353	281,282	(36,723)	(3,249)	852,663
Deferred bonus plan	49,807	39,953	–	(1,227)	88,533
Sharesave plan	545,479	–	–	(17,179)	528,300
	1,206,639	**321,235**	**(36,723)**	**(21,655)**	**1,469,496**

	Outstanding at 1 January 2023 Number	Granted Number	Forfeited, lapsed and cancelled Number	Exercised Number	Outstanding at 31 December 2023 Number
Long term incentive plan	611,353	281,282	(161,233)	(13,304)	718,098
Deferred bonus plan	49,807	39,953	–	(1,227)	88,533
Sharesave plan	545,479	303,937	(123,809)	(321,694)	403,913
	1,206,639	**625,172**	**(285,042)**	**(336,225)**	**1,210,544**

18. Cash flow statement

18.1 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.

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Cash and Bank of England reserve account	412.2	318.3	351.6
Loans and advances to banks	21.7	33.3	53.7
Less:			
Cash ratio deposit	–	(4.3)	(4.8)
Collateral margin account	–	–	(0.2)
	–	(4.3)	(5.0)
	433.9	**347.3**	**400.3**

The cash ratio deposit was a mandatory non-interest-bearing deposit that was required to be maintained with the Bank of England based on the value of the Bank's eligible liabilities, however the scheme was terminated by the Bank of England during the period and will be replaced by a levy going forward. The Group had no access to the cash ratio deposit, so this amount did not meet the definition of cash and cash equivalents, and accordingly, it was excluded from cash and cash equivalents.

18.2 Changes in liabilities arising from financing activities

All changes in liabilities arising from financing activities arise from changes in cash flows, apart from £nil (June 2023: £nil, December 2023: £0.1 million) of lease liabilities interest expense.

19. Related party transactions

There were no changes to the nature of the related party transactions during the period to June 2024 that would materially affect the position or performance of the Group. The nature and relative quantum of related party transactions has not changed in the six months ended 30 June 2024 in comparison to the year ended 31 December 2023. Details of the transactions for the year ended December 2023 can be found in the 2023 Annual Report and Accounts.

20. Management of credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Details of the management of credit risk can be found in the 2023 Annual Report and Accounts.

	Stage 1			Stage 2	Stage 3	Total
Unaudited 30 June 2024	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Total £million	£million
Consumer Finance						
Retail Finance	1,294.2	35.5	4.8	40.3	11.2	1,345.7
Vehicle Finance	449.5	29.5	21.3	50.8	57.0	557.3
Business Finance						
Real Estate Finance	1,040.7	151.3	13.1	164.4	77.7	1,282.8
Commercial Finance	324.2	–	–	–	13.2	337.4
Total drawn exposure	**3,108.6**	**216.3**	**39.2**	**255.5**	**159.1**	**3,523.2**
Off balance sheet						
Loan commitments	280.8	0.6	–	0.6	–	281.4
Total gross exposure	**3,389.4**	**216.9**	**39.2**	**256.1**	**159.1**	**3,804.6**
Less:						
Impairment allowance	(30.2)	(7.6)	(6.9)	(14.5)	(56.9)	(101.6)
Provision for loan commitments	(0.8)	–	–	–	–	(0.8)
Total net exposure	**3,358.4**	**209.3**	**32.3**	**241.6**	**102.2**	**3,702.2**

Unaudited 30 June 2023	Stage 1 £million	<= 30 days past due £million	> 30 days past due £million	Stage 2 Total £million	Stage 3 Total £million	Total £million
Consumer Finance						
Retail Finance	1,111.5	89.0	4.0	93.0	7.3	1,211.8
Vehicle Finance	385.1	68.7	3.4	72.1	25.4	482.6
Business Finance						
Real Estate Finance	1,023.1	142.1	20.8	162.9	40.2	1,226.2
Commercial Finance	276.9	19.9	–	19.9	20.6	317.4
Total drawn exposure	**2,796.6**	**319.7**	**28.2**	**347.9**	**93.5**	**3,238.0**
Off balance sheet						
Loan commitments	260.9	32.8	–	32.8	0.3	294.0
Total gross exposure	**3,057.5**	**352.5**	**28.2**	**380.7**	**93.8**	**3,532.0**
Less:						
Impairment allowance	(26.0)	(19.5)	(5.1)	(24.6)	(28.9)	(79.5)
Provision for loan commitments	(0.7)	–	–	–	–	(0.7)
Total net exposure	**3,030.8**	**333.0**	**23.1**	**356.1**	**64.9**	**3,451.8**

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

20.1 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 16.2 respectively.

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

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Audited 31 December 2023 £million
Central England	102.0	100.4	99.5
Greater London	722.8	749.6	709.5
Northern England	98.1	66.3	89.2
South East England (excl. Greater London)	240.5	194.9	233.3
South West England	39.8	41.0	40.7
Scotland, Wales and Northern Ireland	79.6	74.0	79.6
Gross loans and advances to customers	**1,282.8**	**1,226.2**	**1,251.8**
Allowance for impairment	(11.3)	(4.4)	(8.0)
Total	**1,271.5**	**1,221.8**	**1,243.8**
Loan-to-value	**57%**	**56%**	**57%**

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

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

* Based on gross development value.

21. Capital risk

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

The following table shows the regulatory capital resources for the Group:

	Unaudited 30 June 2024 £million	Unaudited 30 June 2023 £million	Unaudited 31 December 2023 £million
Tier 1			
Share capital	7.6	7.5	7.6
Share premium	84.0	82.3	83.8
Retained earnings	265.3	244.6	254.8
Own shares	(1.2)	(0.3)	(1.4)
IFRS 9 transition adjustment (See below for further details)	–	2.4	2.1
Goodwill	(1.0)	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(4.3)	(5.5)	(4.9)
Prudential adjustments	–	(0.2)	–
Common Equity Tier 1 ('CET 1') capital before foreseeable dividend	**350.4**	**329.8**	**341.0**
Foreseeable dividend	(2.2)	(3.0)	(3.1)
CET 1 capital	**348.2**	**326.8**	**337.9**
Tier 2			
Subordinated liabilities	89.2	89.0	89.1
Less ineligible portion	(27.7)	(32.3)	(29.4)
Total Tier 2 capital	**61.5**	**56.7**	**59.7**
Total own funds/Total capital	**409.7**	**383.5**	**397.6**
Reconciliation to total equity:			
Total own funds/Total capital	409.7	383.5	397.6
IFRS 9 transition adjustment	–	(2.4)	(2.1)
Prudential adjustments	–	0.2	–
Eligible subordinated liabilities	(61.5)	(56.7)	(59.7)
Cash flow hedge reserve	(0.2)	(0.9)	(0.3)
Goodwill and other intangible assets net of attributable deferred tax	5.3	6.5	5.9
Foreseeable dividend	2.2	3.0	3.1
Total equity	**355.5**	**333.2**	**344.5**

The Group has elected to adopt the IFRS 9 transitional rules. The initial IFRS 9 transitional adjustment ended in 2022. The 'quick fix' part of the relief, for increases in provisions since 1 January 2020, except where these provisions relate to defaulted accounts, are added back to eligible capital (net of attributable deferred tax) continues to apply at 25% in 2024 (2023: 50%). This relief will taper off by 31 December 2024.

The Group's regulatory capital is divided into:

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

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

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.

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

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

	Unaudited Carrying amount 30 June 2024 £million	**Unaudited Fair value 30 June 2024 £million**	Unaudited Carrying amount 30 June 2023 £million	Unaudited Fair value 30 June 2023 £million	Audited Carrying amount 31 December 2023 £million	Audited Fair value 31 December 2023 £million
Total loans and advances to customers	**3,421.6**	**3,385.3**	3,158.5	3,077.4	3,315.3	3,279.7
Deposits from customers	**3,042.7**	**3,033.6**	2,648.9	2,631.7	2,871.8	2,850.1

Derivatives are carried at fair value. All other assets and liabilities are carried at amortised cost.

23. Events after the end of the reporting period

In August 2024, as part of our cost optimisation strategy, the Group commenced a consultation process with some employees relating to proposed organisational design changes. This consultation process is expected to be completed in the second half of the year and may result in a reduction in employee headcount.

There have been no other material events after the end of the reporting period that require disclosure.

Appendix to the Interim Report (unaudited)

Key performance indicators and other alternative performance measures

All key performance indicators are based on continuing operations, unless otherwise stated.

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

Net interest margin is calculated as net interest income for the financial period as a percentage of the average loan book. Risk adjusted margin is calculated as risk adjusted income 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. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over seven or 13 months. The resulting ratios for June 2024 are multiplied by 366/182, and June 2023 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

Group	June 2024 £million	June 2023 £million	December 2023 £million
Net interest income	88.2	81.0	167.5
Opening loan book	3,315.3	2,919.5	2,919.5
Closing loan book	3,421.6	3,158.5	3,315.3
Average loan book	3,360.7	3,005.6	3,099.4
Net interest margin	**5.3%**	**5.4%**	**5.4%**

Retail Finance	June 2024 £million	June 2023 £million	December 2023 £million
Net interest income	41.2	34.4	73.1
Average loan book	1,255.1	1,102.3	1,143.4
Net interest margin	**6.6%**	**6.3%**	**6.4%**
Net interest income	41.2	34.4	73.1
Net fee and commission income	1.5	1.3	3.2
Net impairment charge on loans and advances to customers	(4.4)	(8.9)	(15.9)
Risk adjusted income	38.3	26.8	60.4
Risk adjusted margin	**6.1%**	**4.9%**	**5.3%**

Vehicle Finance	June 2024 £million	June 2023 £million	December 2023 £million
Net interest income	22.5	21.8	44.1
Average loan book	478.0	403.3	429.6
Net interest margin	**9.5%**	**10.9%**	**10.3%**
Net interest income	22.5	21.8	44.1
Net fee and commission income	0.9	1.0	1.8
Net impairment charge on loans and advances to customers	(20.9)	(4.9)	(14.8)
Gains on modification of financial assets	0.1	0.2	0.3
Risk adjusted income	2.6	18.1	31.4
Risk adjusted margin	**1.1%**	**9.1%**	**7.3%**

Real Estate Finance	June 2024 £million	June 2023 £million	December 2023 £million
Net interest income	16.2	14.3	29.7
Net fee and commission income	0.3	0.5	0.9
Operating income	16.5	14.8	30.6
Net impairment charge on loans and advances to customers	(2.9)	(2.2)	(4.5)
Risk adjusted income	13.6	12.6	26.1
Average loan book	1,263.7	1,152.4	1,177.7
Net revenue margin	**2.6%**	**2.6%**	**2.6%**
Risk adjusted margin	**2.2%**	**2.2%**	**2.2%**

Commercial Finance	June 2024 £million	June 2023 £million	December 2023 £million
Net interest income	6.2	7.3	13.2
Net fee and commission income	5.2	5.3	11.3
Operating income	11.4	12.6	24.5
Net impairment charge on loans and advances to customers	–	(7.0)	(8.0)
Risk adjusted income	11.4	5.6	16.5
Average loan book	364.1	347.7	348.8
Net revenue margin	**6.3%**	**7.3%**	**7.0%**
Risk adjusted margin	**6.3%**	**3.2%**	**4.7%**

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

(ii) Yield

Yield is calculated as interest income and similar 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 seven or 13 months. The resulting ratios for June 2024 are multiplied by 366/182, and June 2023 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2024 £million	June 2023 £million	December 2023 £million
Interest income and similar income	178.6	138.8	304.0
Average loan book	3,360.7	3,005.6	3,099.4
Yield	**10.7%**	**9.3%**	**9.8%**

The yield measures the gross return on the loan book.

(iii) Return on average equity

Total return on average equity is calculated as the total profit after tax for the financial period as a percentage of average equity. Adjusted return on average equity is calculated as the adjusted profit after tax for the financial period as a percentage of average equity. Average equity is calculated as the average of the monthly equity balances. The resulting ratios for June 2024 are multiplied by 366/182, and June 2023 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2024 £million	June 2023 £million	December 2023 £million
Total profit after tax	12.8	11.1	24.3
Less:			
Loss for the period from discontinued operations	–	1.2	2.1
Exceptional items after tax	–	0.9	5.9
Adjusted profit after tax	12.8	13.2	32.3
Opening equity	344.5	326.4	326.4
Closing equity	355.5	333.2	344.5
Average equity	350.9	331.4	334.9
Total return on average equity	**7.3%**	**6.8%**	**7.3%**
Adjusted return on average equity	**7.3%**	**8.0%**	**9.6%**

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

(iv) Cost to income ratio

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

	June 2024 £million	June 2023 £million	December 2023 £million
Total operating expenses	51.6	50.7	106.2
Less: Exceptional items	–	(0.9)	(6.5)
Adjusted operating expenses	51.6	49.8	99.7
Operating income	96.1	89.1	184.7
Statutory cost to income ratio	**53.7%**	**56.9%**	**57.5%**
Adjusted cost to income ratio	**53.7%**	**55.9%**	**54.0%**

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

(v) Cost of risk

Cost of risk is calculated as the net impairment charge on loans and advances to customers and gains and losses on modification of financial assets for the financial period as a percentage of the average loan book. The resulting ratios for June 2024 are multiplied by 366/182, and June 2023 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2024 £million	June 2023 £million	December 2023 £million
Net impairment charge on loans and advances to customers	28.2	23.0	43.2
Gains on modification of financial assets	(0.1)	(0.2)	(0.3)
Total	28.1	22.8	42.9
Average loan book	3,360.7	3,005.6	3,099.4
Cost of risk	**1.7%**	**1.5%**	**1.4%**

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

(vi) Cost of funds

Cost of funds is calculated as the interest expense for the financial period expressed as a percentage of average loan book. The resulting ratios for June 2024 are multiplied by 366/182, and June 2023 are multiplied by 365/181 to give an annual equivalent comparable to the annual results:

	June 2024 £million	June 2023 £million	December 2023 £million
Interest expense and similar charges	90.4	57.8	136.5
Average loan book	3,360.7	3,005.6	3,099.4
Cost of funds	**5.4%**	**3.9%**	**4.4%**

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

(vii) Funding ratio and loan to deposit ratio

The funding ratio is calculated as the total funding at the end of the period, divided by the loan book at the end of the period. The loans to deposit ratio is calculated as loans and advances to customers at the end of the period divided by deposits from customers at the end of the period:

	June 2024 £million	June 2023 £million	December 2023 £million
Deposits from customers	3,042.7	2,648.9	2,871.8
Borrowings under the Bank of England's liquidity support operations (including accrued interest)	350.2	394.3	395.1
Tier 2 capital (including accrued interest)	93.1	92.9	93.1
Equity	355.5	333.2	344.5
Total funding	3,841.5	3,469.3	3,704.5
Loans and advances to customers	3,421.6	3,158.5	3,315.3
Funding ratio	**112.3%**	**109.8%**	**111.7%**
Loan to deposit ratio	**112.5%**	**119.2%**	**115.4%**

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

(viii) Profit before tax pre impairments

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

	June 2024 £million	June 2023 £million	December 2023 £million
Profit before income tax	17.1	16.5	36.1
Excluding: net impairment charge on loans and advances to customers	28.2	23.0	43.2
Excluding: gains on modification of financial assets	(0.1)	(0.2)	(0.3)
Profit before tax pre impairments	**45.2**	**39.3**	**79.0**
Exceptional items	–	0.9	6.5
Adjusted profit before tax pre impairments	**45.2**	**40.2**	**85.5**

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

(ix) Tangible book value per share

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

	June 2024 £million	June 2023 £million	December 2023 £million
Total equity	355.5	333.2	344.5
Less: Intangible assets	(5.3)	(6.5)	(5.9)
Tangible book value	350.2	326.7	338.6
Number of shares in issue at the end of the period	19,068,915	18,713,089	19,017,795
Tangible book value per share	**£18.36**	**£17.46**	**£17.80**

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

Directors' responsibility statement

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

- the Interim Financial Statements have been prepared in accordance with United Kingdom-adopted International Accounting Standard 34 – 'Interim Financial Reporting', issued by the IASB and give a true and fair view of the assets, liabilities, financial position and profit of the undertakings included in the consolidation as a whole;

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

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

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

Jim Brown
Chairman

David McCreadie
Chief Executive Officer

13 August 2024

Independent review report to Secure Trust Bank PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the Interim Financial Statements for the six months ended 30 June 2024, which comprises the: condensed consolidated statement of comprehensive income; condensed consolidated statement of financial position; condensed consolidated statement of changes in equity; condensed consolidated statement of cash flows and related Notes 1 to 23.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Statements for the six months ended 30 June 2024 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ('ISRE (UK) 2410'). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in Note 1.2, the annual financial statements of the Group are prepared in accordance with United Kingdom-adopted international accounting standards. The condensed set of financial statements included within this Interim Financial Statements has been prepared in accordance with United Kingdom-adopted International Accounting Standard 34, 'Interim Financial Reporting'.

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit, as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the Directors have inappropriately adopted the going concern basis of accounting or that the Directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The Directors are responsible for preparing the Interim Financial Statements in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the Interim Financial Statements, the Directors are responsible for assessing the Group'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the Interim Financial Statements, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the Interim Financial Statements. Our conclusion, including our conclusion relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor
Birmingham

13 August 2024

Board of Directors

Jim Brown

Non-Executive Chairman

Ann Berresford ACA

Independent Non-Executive Director (Senior Independent Director)

Rachel Lawrence ACMA

Chief Financial Officer

David McCreadie FCBI

Chief Executive Officer

Victoria Mitchell

Independent Non-Executive Director

Paul Myers ACIB

Independent Non-Executive Director

Victoria Stewart

Independent Non-Executive Director

Finlay Williamson CA FCIBS

Independent Non-Executive Director

Corporate contacts and advisers

Secretary and Registered Office

Lisa Daniels ACIS
Yorke House
Arleston Way
Shirley
Solihull
West Midlands
B90 4LH
T 0121 693 9100
F 0121 693 9124

Independent Auditor

Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ

Principal Bankers

Barclays Bank PLC

National Westminster Bank Plc

Stockbrokers

Investec
30 Gresham Street
London
EC2V 7QN

Shore Capital Stockbrokers
57 St James's Street
London
SW1A 1LD

Registrar

Link Group
Central Square
29 Wellington Street
Leeds
LS1 4DL